



Republic of Bulgaria
ECONOMIC
AND SOCIAL COUNCIL

RESOLUTION
on
Communication from the Commission - The Annual Growth
Survey (AGS) for 2015

(own-initiative resolution)

Sofia, 2015

The 2015 action plan of the Economic and Social Council envisions the elaboration of a resolution on:

Communication from the Commission - The Annual Growth Survey for 2015

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

At its meeting, held on 6 March 2015, the Plenary Session adopted the resolution.

1. GENERAL CONCLUSIONS AND RECOMMENDATIONS

- 1.1. The Economic and Social Council (ESC) welcomes the Annual Growth Survey (AGS) 2015 as well as the accompanying three documents - Report on Early Warning Mechanism (DMP) for 2015 Project of the Joint Employment Report of the Commission and the Council and Investment Plan for Europe - presented by the European Commission (EC). Noting the importance and complementarity of these documents, the ESC shares the expectation that after the 2014 elections and the "inauguration of the new Commission, which has an ambitious programme for jobs, growth, justice and democratic change, it is the right time for a new start in Europe".
- 1.2. ESC supports the Commission's approach of continuity and commitment to the main priorities in both the previous and the new European semesters, the successful implementation of which in major areas can create opportunities for sustainable, smart and inclusive growth as well as increased competitiveness. At the same time, ESC draws attention to the national specificity reported by the Commission, which requires a differentiated approach and a set of concrete measures for direct impact on growth and jobs, while the results of its application and progress can be achieved in different degree and at different stages in different countries in the EU.
- 1.3. ESC notes that in general AGS 2015 contains a number of guidelines and recommendations on economic governance, which show no difference from the 2014 survey. This is due to the fact that most of the outstanding issues and crisis-induced imbalances have remained unaddressed - a sign of the unsuccessful overcoming the tension and effects of the crisis, as well as the insufficient implementation of specific national recommendations - the result of a lack of the necessary consensus and political will to implement the recommendations in certain Member States. ESC finds that this is also a signal of slow structural reforms in several Member States as well as of serious lags in achieving the main objectives of the Europe 2020 Strategy.
- 1.4. According to the ESC, the key message of the package of measures presented in all four documents - to create jobs, growth and investment, which outlines the first priority in the policy guidelines of the new Commission, is targeted both on the final and sustainable recovery of the European economy from the effects of severe financial and economic crisis, and on laying the foundations for "solid and sustainable growth in the future."
- 1.5. ESC emphasizes the need to develop and implement appropriate and effective measures designed to encourage both long-term and short-term economic growth at the national and regional European level. At the same time, ESC fears that the investment and reform areas recommended in the AGS 2015 are largely long-term oriented and motivated more by the desire and the potential opportunity to maximize the potential for growth in the future. On the other hand, these recommendations may postpone lasting economic recovery from the crisis, increase the "price" of short-term growth and keep it low in the coming years, as well as achieve uncertain and possibly pro-cyclical effects on long-term economic growth of the EU.

- 1.6. In this regard, ESC insists that within the new European semester support should be provided not only to EC strategic investments in reference areas, but to all investments with expressly innovative character suited to the specifics of the national structure of economies and traditionally developed in them competitive and export oriented industries and industries with high added value, which are a robust engine of growth in the various Member States. According to ESC, support and investments may be provided to other traditional sectors, not characterised by high added value (such as agriculture and tourism), as long as this would contribute to increasing productivity and employment.
- 1.7. Despite the expected positive effects of the implementation of the Plan for investment in Europe, ESC recognises the need to develop measures that can encourage external (foreign) and domestic private investment. The stability and predictability of the law, the achievement of clear progress on structural reforms in education and the labour market, curbing corruption, and fighting informal economy are factors that can contribute to attracting investors.
- 1.8. The creation of new jobs in high-tech industries and sectors suggests speeding up the process of modernisation and reform of vocational training in a number of Member States. ESC believes that an important role in this process must be given to the national social partners. Overcoming the mismatch between offered jobs and job-seekers' qualification will prevent deepening of structural unemployment in many regions of the European Union.
- 1.9. ESC notes with concern that the AGS 2015 does not pay serious attention to the need to counteract and neutralise the negative effects of the unfolding process of de-industrialisation of Europe. In the wake of the crisis it has become even more necessary to work for the proactive management of industrial restructuring in response to the recent challenges facing global markets in order to strengthen EU's role as a leader in the field of industrial production, as well as to promote and ensure the creation of new jobs to restrict technological unemployment. ESC emphasises that it is namely production, especially of products with high added value, is the engine of economic growth and therefore it should have a special place, together with policies and actions in the field of research and development.
- 1.10. ESC is pleased to report that among the key reform areas identified in the AGS the highest priority is ascribed to improving the dynamics of the labour market and taking measures against high unemployment, followed by the recommendation for the implementation of pension reforms and the modernisation of social protection systems. ESC calls for a unified approach and integrated solutions of the economic and social problems as well as the consequences of the crisis, with a major emphasis on policies in support of employment. ESC acknowledges that the "Draft Joint Employment Report of the Commission and the Council" accompanying AGS presents in detail the issues of employment and unemployment, but the analysis of the real reasons for the weak rebound or continued deterioration of the situation on European labour markets is not considered in sufficient depth. ESC expressed a similar concern and recommendation in its Resolution on AGS 2014

- 1.11. ESC welcomes the efforts of the Commission to address better the social consequences of the crisis related to the actual implementation, complementation and improvement of the set (table) of additional indicators for employment and social indicators presented in the Communication on the Economic and Monetary Union in 2014, as well as the continued use of the set of indicators by the European Semester 2015.
- 1.12. ESC expresses its concern about the identified in the AGS 2015 data for low growth, accompanied by high and persistent unemployment and almost zero inflation in most countries and the EU as a whole, as well as the estimated unfavourable trends for 2015. According to the ESC, in such conditions the domestic demand will continue to have delaying rather than accelerating effect on production and growth; investment projects of private business will be discouraged, postponed or prevented; the allocation of the majority of public resources to perform more production-related investment will be restricted - thus making the achievement of the targets recommended in AGS 2015 difficult.
- 1.13. ESC emphasises its concern about low investor confidence, low demand and high indebtedness of households, businesses and public authorities, while at the same time the private sector is characterised by high rate of savings and high liquidity. The observed lack of progress, against the decreasing in the wake of the crisis excessive levels of private debt, is a problem for the financial stability and limits the potential for investment and growth in the EU. In this regard, ESC draws attention to the need for a more tangible increase in people's income and consumption, more decisive stimuli and easier lending to SMEs - to ensure funding for more projects that can impact positively the economy and reduce the lag in the growth in European countries.
- 1.14. ESC is pleased to notes that the AGS 2015 envisages expansion of the sources of financing of investment projects of business with joint funding from the EU Member States and the private sector through the planned creation of a new European fund for strategic investments. ESC believes the that priority orientation to and mobilisation of new venture financing for SMEs and midcap companies will create more opportunities for better absorption of EU funds and for drawing real investment to the private sector, which will be particularly suitable for countries where SME is the predominant form of business organisation and where public funds are limited, like Bulgaria.
- 1.15. In this regard, ESC emphasises the major role of the planned parallel establishment and functioning of a Consultancy Centre on Investment given the limited administrative capacity and the expressed need of SMEs for expert and technical assistance. In connection with the implementation of approaches to combining national measures with specific European funds and financial instruments, ESC again proposes to take serious action to prevent abuse, which can lead to distortions of the competition. The efforts to reduce the administrative burden also have an important role for promoting entrepreneurship and improving the business environment. ESC emphasises the need to simplify procedures and requirements for employers to recruit interns and to participate in the dual training system.
- 1.16. ESC believes that the achievements of in the field of European social economy are unjustifiably undervalued, although it is a sector, which demonstrated stable employment indicators and financial security even in the midst of crisis. At the same time, ESC finds that the initiatives and planned measures to promote social entrepreneurship and improving

the visibility of social enterprises are insufficient. Special attention should also be paid to cooperatives in the EU, which meet the basic needs of many European citizens in a difficult or disadvantaged position.

- 1.17. ESC supports the fact that the development of the Single Market for Goods and Services is given a top priority status, which is essential for the growth and future of the European Union. Again ESC's position is that the Commission should make more effort in this direction particularly in terms of the rapid adoption of remaining legislation within Single Market Acts I and II and the rapid implementation of the information contained in these measures.
- 1.18. ESC joins the appeal to the European Commission for a more active and effective fight against tax fraud and tax evasion, which is important to ensure fairness and to increase the collection of taxes owed by the public. Moreover, according to the ESC, this will provide more opportunities and financial resources necessary to undertake productive investments through government spending. With respect to shifting the tax burden from labour to taxes on harmful emissions, ESC believes that such a transition could harm national competitiveness and should be made on the basis of thorough analyses and consultations with the social partners and civil society.
- 1.19. ESC welcomes the intention of the Commission to provide "additional guidance for the best possible use of the flexibility contained in the existing provisions of the Stability and Growth Pact", which was announced in the new Commission's Political Guidelines of 15 July 2014
- 1.20. ESC supports the recommendation of the Commission to implement an integrated approach in which "structural, fiscal and monetary policies should be combined in a growth-friendly approach" to provide simultaneous impact on supply and demand in European economies. At the same time, ESC fears that the results of the objective of better coordination of the actions of European, national, regional and local levels of government can be neutralized by their weaker or impaired coordination with the actions of government at the global level. ESC believes that this will further increase the vulnerability of national economies and the EU economy as a whole to adverse external shocks, generated mainly by the high degree of trade and financial openness and combined with the high external indebtedness of EU countries.
- 1.21. ESC supports the Commission's efforts to streamline and strengthen the European Semester, aimed at increasing its effectiveness by improving cooperation and dialogue with Member States, isolation of cases of limited performance or non-performance of key country-specific recommendations. In this ESC considers the fact that so far the European Semester, including country-specific recommendations, stability programmes, convergence programmes and the procedure for macroeconomic imbalances do not provide sufficiently effective coordination mechanisms in the area of fiscal policy, structural reforms of labour markets and wages.
- 1.22. ESC asserts that in the process of streamlining and strengthening of the European Semester it is necessary to lay particular emphasis on the democratic legitimacy and implementation of a comprehensive dialogue not only with the national parliaments, but

also with the social partners to participate actively in the formulation of national programmes and priorities. ESC believes that there are untapped opportunities to deepen dialogue and welcomes the idea of the Commission to cooperate with the European Parliament and the social partners at the European level before the AGS is presented and discussions of it to continue after its adoption.

- 1.23. Within the framework of the European Semester in 2014 ESC adopted acts on specific issues in key areas where there are still significant challenges for Bulgaria identified by the Commission in the AGS 2015 partly for the EU as a whole. Among them it is important to identify the reflected analytical elements criticisms, constructive recommendations and proposals of ESC elaborated in the adopted a Resolution on the "Communication from the Commission - Annual Growth Survey 2014"; Opinion on the "Draft Strategy for Development of Higher Education in the Republic of Bulgaria for the Period 2014-2020"; Opinion on the "Draft Act on Amendments to the Law on Vocational Education and Training"; Opinion "Opportunities for Regional Development by using the Instrument "Community-Led Local Development"; Opinion on "Problems of the Healthcare System", etc.
- 1.24. ESC again expresses its support for the actions of the Commission and calls on EU institutions and Member States to support greater integration and coordination of policies and efforts to support the economy and investment, which is the only possible solution for a final and permanent overcoming of the crisis, economic recovery and creating conditions for accelerating growth currently and in the future, at the national and the European level.

2. INTRODUCTION AND GENERAL BACKGROUND

2.1. The adoption of the AGS 2015 marks the beginning of the new European Semester for economic policy coordination at a time when Member States have shown significant progress in removing the imbalances arising from the crisis. The Commission presents a detailed and thorough analysis of persisting main areas of existing macroeconomic imbalances and risks in this year's Alert Mechanism Report.¹ The economic recovery is less than was expected a year ago, which prevents the reduction of high unemployment and does not allow to overcome the ongoing social crisis.

2.1.1. ESC highlights and shares the EC main concern relating to the existence of a real risk of perpetuation of the now existing permanently low growth, low inflation, almost equal to zero, and high unemployment:

2.1.1.1. According to estimates and projections of the European Commission,² the expectation is for real GDP growth in 2014 of 1.3% in the EU as a whole and by 0.8% in the Eurozone is projected to increase to 1.7% for 2014 and 1.3% in 2015. The Commission's estimation of the pace

¹ European Commission "Alert Mechanism Report 2015." COM (2014) 904 Final

² Commission forecasts for the winter of 2015, January 2015, p. 13

http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

of economic growth in Bulgaria in 2014 are similar to those of the EU - GDP growth of 1.4% is expected in 2014, but a slowdown to 0.8% is anticipated in 2015³

2.1.1.2. Unemployment in the EU is expected to remain at the double-digit rate of 10.2% in 2014 and to decrease slightly to 9.8% in 2015. The forecasts of the European Commission for unemployment in Bulgaria envisages a rate of 11.7% in 2014 and a decrease to 10.9% in 2015. At the same time, it should also be noted that the prospects of increasing employment in the EU as a whole (as in Bulgaria) are not very optimistic - it is expected to grow by less than one percentage point per year in 2014 and 2015 and to reach the rate of 59.2% for the whole EU in 2015.⁴

2.1.1.3. The trend of low inflation is expected to continue, while an insignificant decrease is predicted in the harmonized index of consumer prices by 0.6% in 2014 to 0.2% in 2015 in the EU as a whole. In Bulgaria the forecasts expect maintaining the process of deflation of -1.6% for 2014 and -0.4% in 2015.⁵

2.1.2. ESC shares the conclusions of the Commission that the slowdown in the EU is partly due to the global economic environment, but the acceleration is hindered by specific domestic factors. Taking into account the major differences by individual Member States, retaining effects are related primarily with the fragmentation of financial markets, the need to reduce the corporate debt accumulated during the crisis, government debt and household debt, lack of confidence and uncertainty in the economic outlook. ESC also believes that the potential and growth trends in the EU are limited by low productivity, low investment and high structural unemployment.

2.1.3. In the still difficult economic and social situation ESC joins the recommendation of the European Commission for a firm commitment to change at the national level, and active collaboration of the EU institutions and Member States to revive economic growth and progress towards sustainable development.

2.2. In order to meet the latest challenges, the European Commission recommended the AGS 2015 Member States need to implement an **integrated approach** that would contribute to growth by combining structural, fiscal and monetary policies. To achieve an impact on both supply and demand and generate conditions for accelerated growth, the Commission recommends **three main pillars of EU economic and social policy**

³ See Commission forecasts for winter 2015, January 2015, p. 77

http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

⁴ See Commission forecasts by winter 2015, January 2015, p. 48

http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

⁵ See Commission forecasts for winter 2015, January 2015, p. 77

http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf

during 2015: coordinated investment stimuli, renewed commitment to structural reforms and fiscal responsibility.

- 2.2.1. Under the agenda of **coordinating the efforts and investment incentives** EC proposes an accompanying investment plan for Europe which would provide for the mobilisation of at least 315 billion. Euros in additional public and private investment over the period 2015-2017.
- 2.2.2. With regard to the **renewed commitment to structural reforms** the Commission recommends to Member States to reduce their debt and to stimulate the creation of more and better jobs. As key opportunities for generating new employment opportunities and growth the Commission gives priority to services, energy, telecommunications and the digital economy.
- 2.2.3. Regarding **the implementation of the fiscal responsibility** the Commission raises several important points and recommends that Member States should: (1) provide long-term control over the size of the deficit and debt; (2) improve the quality of public finances by improving cost effectiveness and prioritising industrial investment financed with public funds; (3) increase the efficiency of the tax system and using the proceeds to support investments.

2.3. ESC shares the opinion of the Commission for the strong correlation and the possibility of obtaining mutually reinforcing effects of the three pillars, which requires taking simultaneous action in all three areas, which will lead to restoring investor's confidence and reducing their uncertainty and thereby inducing more new investment and growth. In relation to this ESC supports the intentions of the Government Programme "for effective coordination and proactive approaches of the institutions in connection with the participation of Bulgaria by means of submitting projects under the Juncker Plan, including by seeking opportunities for regional cooperation"⁶. In parallel, ESC believes that a new reasonable debt policy of the government would provide through targeted emissions important public resources to be invested in the real economy and to help restore economic growth.

2.4. ESC calls for the Annual Growth Survey to lay a greater emphasis on the benefits, problems and challenges of the social economy in the EU. According to ESC the role of social enterprises as sources of growth and jobs should not be overlooked and it recommends conducting a Europe-wide campaign to promote the opportunities for social entrepreneurship among young people.

2.5. European Semester 2015 will be the first in which the Commission will apply the new approach and timetable for the development, coordination and delivery of Member States of documents and tools for analysis and coordination of economic policies, containing key guidelines and recommendations on economic governance. ESC subscribes to the Commission's recommendation to deepen this process, which would

⁶ Government Programme for the Sustainable Development of the Republic of Bulgaria for the Period 2014-2018, p.6.

lead to increased national sense of commitment to country-specific recommendations, to greater involvement of national parliaments, social partners and citizens to ensure understanding and comprehension of the most important reforms.

3. INVESTMENTS, STRUCTURAL REFORMS AND FISCAL RESPONSIBILITY

3.1. ESC expresses its unwavering support for the recommendation of the Commission for **more investment** which as a key driver of growth will increase the growth potential and competitiveness of the economies of the Member States and the EU in the coming years.

3.1.1. ESC notes that the recovery in the EU is slow due to the reduced investment in the wake of the crisis, which dropped by 15% as compared to the highest value in the EU for 2007. In Bulgaria, their decline is even greater and prolonged as a result of which in 2013 gross fixed capital formation is estimated (at comparable prices taken from the previous year) of only about 79% of its value in 2008, which is the highest value for the period.⁷

3.1.2. ESC endorses the reference platform for investment put forward by the Commission, which includes the need to:

- use the latest technology for energy and resource efficiency in companies and households, as well as equipment for education and innovation;
- modernize social systems in accordance with the challenges of developing demographic processes and a rapidly ageing population;
- modernize the energy sector by integrating renewable energy sources and to diversify the sources of energy supply;
- modernize infrastructure in the transport sector;
- use better facilities for recycling and waste water treatment to improve the protection of the environment;
- introduce large-scale and faster broadband and intelligent centres for data processing.

3.1.3. At the same time, ESC notes that the implementation of most of these areas of long-term investment requires large investments the return of which will be slow. Available funds for this are limited and insufficient due to the unrecovered pre-crisis levels of income, consumption and employment and still high indebtedness of companies and Member States. In some EU countries the implementation of these measures may take place more slowly or be postponed indefinitely. In this connection, ESC insistently offers to prioritatively direct domestic investment to proven competitive sectors and industries that provide more job opportunities and employment, forming stable and promising sources of growth at the national level. Moreover, economic incentives must focus on higher productivity and knowledge-intensive economic activities.

3.1.4. ESC highlights the need in the current conditions for creating a more favourable environment for investment by the private sector and moreover efforts to attract more external (foreign) investment and better absorption of

⁷ According to data of the Bulgarian National Statistical Institute (NSI). See : <http://www.nsi.bg/bg/content/2212/бвп-%3F-азходи-за-крайно-потребление-национално-нист>

EU funds. In this respect progress should be sought along the lines of implementing key EU programmes - such as "Horizon 2020" (Innovation and Research), the Connecting Europe (infrastructure) and COSME (financing SMEs), as well as the new instrument of the European Commission European Fund for strategic investments.

3.2. According to ESC, for attract private productive investment it is crucial to conduct the **structural reforms of the goods and services markets as well as the labour markets, as** recommended by the Commission; to remove some overly burdensome regulations; to develop further the Single Market, as prioritised by the Commission; to improve access to finance; to ensure the quality of investment in research and innovation. As regards structural reforms, the priorities that will allow recovering economic growth and improving the current and future competitiveness of the EU, are put forward by the European Semester 2015 as follows:

- digital single market, whose potential can be utilized by businesses and consumers after its development, the introduction of common European rules on data protection of the highest standards based on the restoration of consumer confidence;
- achieving sustainable energy alliance in line with the Europe 2020 Strategy and the 2030 Framework for Climate and Energy, agreed by the European Council in October 2014, increasing the security of energy supply and completion of the internal energy market.

3.3. The ESC agrees with the Commission on the crucial importance of the identified areas for reform, in which Member States will take various concrete measures relating to: (1) improving the dynamics of labour markets and undertaking measures to address high unemployment; (2) implementation of pension reforms; (3) modernisation of social protection systems; (4) improving the flexibility of product markets and services markets; (5) improving framework conditions for business investment; (6) improving the quality of investment in research and innovation; (7) improving the efficiency of public administration.

3.3.1. **Improving the dynamics of labour markets and undertaking measures to address high unemployment**

3.3.1.1. The ESC has repeatedly stressed in its acts the need for the rules and institutions for the protection of employment to provide suitable environment to stimulate employment, to offer an advanced level of protection for those already employed and those seeking employment.

3.3.1.2. During the crisis, employment insecurity, part-time employment or employment on a temporary contract increased, while the standard forms of employment (permanent and full-time) declined. In this regard, ESC believes that it is becoming increasingly important to adopt specific measures to reduce the segmentation of the labour market, which can help remove the barriers to full employment for the unemployed and temporary workers, as well as to facilitate professional mobility.

3.3.1.3. ESC agrees with the Commission that, in order to stimulate employment and job creation, it is necessary to intensify reforms by taking action to reduce the tax burden on labour. According to ESC,

measures should focus mainly on low-paid and younger workers. This is expressed in the resolution on the AGS 2014.⁸

- 3.3.1.4. Against the backdrop of the tendency to high unemployment and according to the new directions for future investment, ESC emphasises the important role of investment in the modernisation of education and training, including lifelong learning. ESC notes with concern that despite the high levels of unemployment, there is evidence of a shortage of manpower in the labour market and mismatch between the supply and demand of specialists.⁹ For the preparation of the necessary current and future skilled workforce in growing economic sectors, ESC believes that it is of paramount importance to modernise the education system and develop more intensively vocational training, encouraging companies to increase the number, locations and quality of professional internships.
- 3.3.1.5. In the context of continuing high level of youth unemployment (23.1% at the end of 2013 in the EU and in the worst affected Member States - above 40%), ESC urges to take more resolute measures to eliminate fiscal disincentives to job search for more efficient use of tools and initiatives of the Commission for Youth Employment including the development of an adequate plan for progress in the implementation of the "Youth Guarantee" at the national level. In the period after completion of secondary or higher education, many young people have difficulty in accessing health care and unemployment benefits. Taking into account the labour-related challenges faced by young people in the EU, ESC recommends drawing up measures ensuring the access of young people to the social security systems
- 3.3.1.6. ESC believes that in order to curb and reduce unemployment, the EU and Member States should focus on reducing the burden on private businesses. In this connection, ESC recommends that Member States should reduce the administrative burdens for hiring young people and trainees, which can achieve a sustainable positive effect on employment.
- 3.3.1.7. ESC deems that a particularly important role for increasing employment and reducing unemployment as well as for the acceleration of economic growth is played by encouraging entrepreneurship and the creation of new enterprises, in particular SMEs. These two factors are key drivers of economic growth in most Member States, they stimulate the application of entrepreneurial innovation and skills, promote self-employment and starting a business and are an important source of jobs and income.
- 3.3.1.8.** According to ESC, the slowing down, deteriorated indicators for the state of employment and the social environment are a symptom (despite the fact that the social objectives are appropriately defined) that

⁸ Resolution on "Communication from the Commission - Annual Growth Survey 2014", p. 14.

⁹ The Commission finds that unemployment reached 24.6 million people in August 2014, while on average there are more than 2 million unoccupied jobs.

this policy approach is not sufficiently effective, there is a need to rethink economic governance by strengthening the social environment in the EU.

3.3.2. Performing pension reforms

- 3.3.2.1. ESC supports the recommendation of the Commission concerning the need to ensure the sustainability and adequacy of pension systems.
- 3.3.2.2. Given the persistent trend for diminishing population and deterioration of its age structure, the pressure on public finances grows and becomes a serious challenge with regard to the growing deficits in public pension funds. According to ESC, adverse changes in the ratio of "working-pensioners" will require achieving higher rates of economic growth and increased productivity in the short and long term.
- 3.3.2.3. ESC focuses again on the need to increase economic activity as one of the best ways to overcome the imbalances caused by the ageing population in Europe. Ensuring a sustainable level of employment, contributing to the financing of social security systems is one of the most sensible ways to compensate negative demographic trends and the age dependency ratio.
- 3.3.2.4. ESC joins the EC in its appeal for further reforms aimed at improving the efficiency and financial sustainability of pension systems, to ensure a decent level of income for people in retirement.
- 3.3.2.5.** Regarding the adequacy and sustainability of social systems, ESC endorses the Commission's recommendations and draws again attention to the need for pension reforms with a view to linking the retirement age with life expectancy in which to ensure an appropriate balance between working life and life after retirement.

3.3.3. Modernisation of social protection systems

- 3.3.3.1. ESC has repeatedly emphasised the Commission's recommendations for targeted social policy coupled with affordable quality care for children and their education, to prevent early school leaving, training to find work, affordable and good-quality health care. The positions, proposals and recommendations of the ESC in these areas and issues are expressed in a number of opinions, resolutions and analyses adopted over the past few years.
- 3.3.3.2.** ESC believes that considering the importance, difficulty and complexity of social problems in the post-crisis period, the Commission should have paid greater attention in the AGS 2015 to social policy and its potential for mutual commitment and impact on solving the formulation of priorities of economic governance in the new European Semester.

3.3.4. Improving the flexibility of goods and services markets

- 3.3.4.1. ESC shares the recommendation of the Commission for modernisation of the functioning of the network industries, increasing the capacity of existing infrastructure, further opening of the services sector.
- 3.3.4.2. ESC notes that the same recommendation was made to each Member State and in 2014, but despite the efforts remained a challenge. Insufficient and uneven, in the estimation of the Commission, remains

the progress in implementing reforms in the services sector following the entry into force in 2006 of the Services Directive.

3.3.4.3. ESC joins the renewed recommendation of the European Commission (addressed to Member States already in 2012) for more active reforms pointed at removing the main obstacles related to: (1) uncertainty of the law relating to the rules applicable to undertakings providing cross-border services; (2) lack of mutual recognition; (3) cumbersome administrative procedures; (4) uneven progress in the ongoing mutual evaluation of the regulations for the professions and regulatory reform of professions; (5) remaining obstacles to the free movement of goods. ESC recommends the implementation of additional measures in these areas, which will facilitate and accelerate the process of developing the Single Market.

3.3.5. Improving the framework conditions for business investment

3.3.5.1. According to ESC, defining investment as a priority to restore growth presupposes the implementation of effective measures to improve the business environment. This is especially important in countries like Bulgaria, where opportunities to take fiscal measures for making public investments are limited.

3.3.5.2. ESC believes that we should encourage more active public-private partnerships, which can lead to increased effectiveness of providing public and private investment expenditure to further improvement of the public procurement system by expanding access to them through the application EU legislation.

3.3.5.3. According to ESC, special attention should be paid to the development of e-procurement, which currently lags behind, as well as strengthening the administrative capacity for procurement, planning and execution of contracts.

3.3.5.4. ESC is concerned that in recent years there is a decrease in the share of industrial production in the GDP (in %) at the expense of the services sector. In this connection the Europe 2020 Strategy should include an additional target - "share of industrial production in national GDP". ESC deems it is necessary to build a more independent Europe that can withstand the fast-growing global competition (especially on part of China).

3.3.5.5. According to ESC, the AGS 2015 ascribes too little importance to the role of SMEs, which are the backbone of the EU economy, and in the context of looking for opportunities to accelerate growth, should not be discriminated against in their access to funding as a result of the strict rules for bank reserves. ESC emphasises the need to stimulate the activities of SMEs, particularly in some more productive manufacturing sectors, and recommends the creation of revolving instruments to provide such loans to enable SMEs to obtain easier access to funding, without excessive collateral taking advantage of the guarantee funds provided by national and European resources. ESC welcomes the initiative to establish a consultancy centre on investments that would contribute to a full and purposeful utilization of funds from the

European Fund for Strategic Studies in conjunction with the envisaged national measures.

3.3.6. **Improving the quality of investment in research and innovation**

3.3.6.1. ESC emphasises that improving the quality and increasing the amount of investment in research and innovation is crucial to create stable sources of sustainable growth, with which can be overcome and the shortfall in the achievement of one of the important objectives of the Europe 2020 Strategy.

3.3.6.2. In accordance with the conditions in several Member States, including Bulgaria, ESC calls for giving priority to and increasing the efficiency of public investment in research and innovation, which is enshrined in the adopted new national innovation strategy for smart specialisation of Bulgaria.

3.3.6.3. ESC believes that efforts should focus on supporting the process of creating more reliable long-term sources of growth, increasing the share of R&D investment of the GDP, which according to preliminary data of the NSI reached only to 0.65% in Bulgaria in 2013¹⁰

3.3.6.4. With regard to private investments in R&D, which are insufficient, special attention should be paid to stimulating SMEs and the investment process in "innovative SMEs", turning them into a real generator of growth in the present and in the future.

3.3.7. **Improving the efficiency of public administration**

3.3.7.1. ESC shares the Commission's view that the challenges facing public administration have not been overcome, despite efforts to improve the effectiveness of its operation.

3.3.7.2. ESC believes that in terms of the recommendations of the European Council to the new European Semester, attention should focus more on reducing administrative and regulatory burdens on businesses and individuals, adapting to the digital economy, streamlining the organisation of the work processes, and optimising costs.

3.3.7.3. According to ESC, an important contribution to improving the efficiency of public administration within Member States will be the introduction of e-governance. Expanding the number of and improving the access to online and remote services will also contribute to providing more transparency and improving the quality of administrative services.

3.4. As regards the application of the principle of **Fiscal Responsibility**, ESC welcomes the findings of the European Commission for a significantly reduced number of countries subject to an excessive deficit procedure (which fell to 11 in 2014 as compared with 24 in 2011) and the expectation that the fiscal situation in the EU will remain neutral in the coming years.

3.4.1. However, ESC concernedly draws attention to the currently persistent high levels of public debt, combined with high external indebtedness in several

¹⁰ According to NSI data for the performance indicators of the Europe 2020 Strategy, section on investment in R&D. <http://www.nsi.bg/node/583>

Member States where the economies are more vulnerable to shocks and economic growth encounters difficulties.

3.4.2. Despite the very low levels of public debt in Bulgaria (which is among the three member states with the lowest ratio of debt to GDP), ESC regards with particular concern the changes in debt patterns in the wake of the crisis.

3.4.2.1. Internal public debt consistently increases after 2009, even in 2010 it is 924.7 million BGN or almost 31% more than in the previous year. This trend continues in subsequent years. As a result, internal debt in 2013 amounted 6,289.6 million BGN, which almost doubled compared to its size in 2007 (Increased with almost 97%). This is the largest size of internal debt in the last 15 years (since 1999)¹¹ although it is only 7.8% of Bulgaria's GDP.

3.4.2.2. The ratio of internal debt to GDP of Bulgaria increased to 7.8% in 2013 and in this year the total government debt also reached its largest amount - 14,118.5 million BGN or 17.6% of Bulgaria's GDP.

3.4.2.3. More favourable trends develop our country in terms of external public debt, which has shown a tentative and uneven change since 2009 and decreased at the end of 2013 by 525.5 million EUR (from 4587.7 million EUR in 2012 the external debt of the public sector fell to 4062.2 million EUR in 2013).¹² A prerequisite for the reduction of external debt are primarily repayments on global bonds denominated in Euros with maturity date in January 2013

3.4.2.4. In 2013 the ratio of gross external debt/GDP of Bulgaria reached 94%, although this was mainly due to the growth of private external debt as government debt decreased. ESC notes with concern that this ratio is above the reference value of dashboard of macroeconomic imbalances - 80%. Given the unstable and low rates of economic growth in the country, reported in recent years, external funding from sources outside the country, supporting the development of the public and private sector, has not had the expected impact on accelerating economic growth. In this respect, ESC believes that it is necessary to focus more on policies for effectively stimulating economic growth, to consider the intended future effect more carefully before proceeding to drawing new public loans for certain purposes.

3.4.2.5. The share of government debt in GDP has increased from 17.5% in 2012 to 18.1% at the end of 2013. However, ESC notes with satisfaction that this indicator remains significantly below the limit of 25% set in force for the period strategy for public debt management.¹³

3.4.2.6. Despite these specific and unfavourable trends, ESC notes that Bulgaria retains its leading position of a country with low debt compared to other Member States. The debt burden, determined on the

¹¹ As compared with 1999 internal government debt for 2013 is more than 3 times larger. Calculations according to the data provided by the Ministry of Finance: Overview of Government Debt 2013, p. 29 <http://www.minfin.bg/bg/statistics/2>

¹² BNB Gross External Debt by Sectors 1999-2014, <http://www.bnb.bg/Statistics/StExternalSector/StGrossExternalDebt/index.htm>

¹³ See: Strategy for Debt Management for 2012-2014, <http://www.minfin.bg/bg/page/68>

basis of the indicator "consolidated government debt/GDP" amounted in 2013 to 18.9%. This ranks Bulgaria second among Member States (the first place is occupied by Estonia 10%) and the achieved level of the indicator is much lower than what is permissible as a reference value according to the Maastricht criteria, and even than the average levels for the EU as a whole.

- 3.4.3. According to ESC, the main challenge in identifying and adherence to the future fiscal path refers to the necessary adaptation of the targeted revenue and cost to generate conditions for fostering economic growth.
- 3.4.3.1. ESC fully endorses the recommendation of the European Commission to stimulate growth through possible relocation of the tax burden from labour to other types of taxes, in which, however, the principle of support for growth must be observed (or keeping the damage done to the minimum). Alternative options for making adjustments in the tax system (in the direction of supporting economic growth) may affect fixed real property taxes, taxes related to the environment, etc.
- 3.4.3.2. ESC warns that one of the possible solutions for the insurance burden shifting to "green" taxes (on emissions) would lead to incentives for restructuring and labour market, but its implementation could seriously affect the competitiveness of the national economy and lead to a slowdown of growth in the medium term. ESC believes that the imposition of such measures should be implemented after preliminary analysis and public discussions, in order to avoid or to limit the maximum possible negative consequences.
- 3.4.3.3. ESC restates its position that the ongoing tax reforms should encourage employment; promote and support self-employment and business start-ups; improve the regulatory framework for doing business and facilitate access of small and medium-sized enterprises (SMEs) to finance and public procurement; convert informal employment and undeclared work into regular employment.
- 3.4.3.4. ESC believes that more efforts should be made and particular attention should be paid to: increasing the efficiency of the tax system; improving tax compliance, fighting against aggressive tax planning, which requires adequate and effective measures.
- 3.4.3.5. According to ESC, public spending should be directed with priority to productive investment, but it stresses that when doing this the functions of social systems in combating poverty and promoting social inclusion should not be underestimated and distorted.
- 3.4.3.6. ESC welcomes the initiative of the European Commission to carry out periodic reviews of the expenditure by Member State (as undertaken recently in the UK, Denmark, France, Italy, etc.) And for a wider exchange of results and experience between them, which can help to increase efficiency by introducing timely correction of existing expenditure programmes.
- 3.4.4. ESC highlights the significance of the Stability and Growth Pact in the context of sustainable public finances, the placing emphasis not only on the nominal deficit, but also on the structural budget balance.

- 3.5. ESC is convinced that close engagement and better coordination of fiscal, macroeconomic and structural policies at the national and at the EU level in the implementation of their oversight by the European Commission before being prepared for the upcoming year will support and increase the results of the efforts to promote job creation, growth and investment in the name of the economic and political future of the EU.
- 3.6. ESC stresses that the return of Europe to sustainable economic recovery and sustained economic growth requires a broad consensus on the direction of policy support and greater involvement of national parliaments, social partners and civil society in the development and implementation of reform programmes and policies at the national level.

(signed)

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