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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Bulgaria

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Bulgaria

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3 (3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

[3] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

security and diversify the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it did not identify Bulgaria as one of the Member States which may be affected or may be at risk of being affected by imbalances, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years

[4] COM(2023) 168 final.

[5] COM(2024) 77 final

[6] COM(2023) 901 final.

[7] Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 15 October 2021, Bulgaria submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 4 May 2022, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Bulgaria[9], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Bulgaria has satisfactorily fulfilled the relevant

[8] Net expenditure as defined in Article 2 of Council Regulation (EU)2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

[9] Council Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Bulgaria (8091/22).

[10] Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Bulgaria (15837/2023).

milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 30 April 2024, Bulgaria submitted its 2024 National Reform Programme and its 2024 Convergence Programme, in line with Article 8(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Bulgaria's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Bulgaria[11] on 19 June 2024. It assessed Bulgaria's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Bulgaria's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Bulgaria's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) Based on data validated by Eurostat[12], Bulgaria's general government deficit decreased from 2.9% of GDP in 2022 to 1.9% in 2023, while the general government debt rose from 22.6% of GDP at the end of 2022 to 23.1% at the end of 2023.

(11) On 12 July 2022, the Council recommended[13]that Bulgaria take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[14], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Bulgaria was recommended to adjust current spending to the evolving situation. Bulgaria was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[15]was broadly neutral, at 0.0% of GDP. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a broadly neutral contribution to the fiscal stance of 0.2% of GDP. This includes the reduced costs of the emergency support measures (targeted and untargeted) to

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12 Eurostat-Euro Indicators, 22.4.2024.

13 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Bulgaria and delivering a Council opinion on the 2022 Convergence Programme of Bulgaria, OJ C 334, 1.9.2022, p. 11.

14 Based on the Commission Spring 2024 Forecast, the medium-term potential output growth of Bulgaria in 2023, which is used to measure the fiscal stance, is estimated at 10.1% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

15 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

households and firms in response to energy price hikes (by 1.3% of GDP). This also includes higher costs to offer temporary protection to displaced persons from Ukraine (by 0.3% of GDP). The main drivers of growth in nationally financed primary current expenditure (net of discretionary revenue measures) were recently legislated increases in pensions and wages. In sum, the growth of nationally financed primary current expenditure in 2023 was in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.2 % of GDP in 2023. Nationally financed investment amounted to 2.7 % of GDP in 2023, representing an annual increase of 0.8 percentage points as compared to 2022. Bulgaria financed additional investment through the Recovery and Resilience Facility and other EU funds. Bulgaria financed public investment for the green and digital transitions, and for energy security, such as investments in facilities and business models for using waste as a resource in support of the circular economy, as well as investments to increase energy efficiency and to support the effective protection of natural habitats and protected species, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(12) The key projections in the 2024 Convergence Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP to grow by 3.2% in 2024 and 2.7% in 2025, while it projects HICP inflation at 2.4% in 2024 and 2.8% in 2025. The general government deficit is expected to increase to 3% of GDP in both 2024 and 2025, while the general government debt-to-GDP ratio is set to increase to 25% by the end of 2024 and 27.3% by the end of 2025. After 2025, the general government deficit is projected to decrease to 2.8% of GDP in 2026 and increase again to 3.0% in 2027. Therefore, the general government balance is planned to not exceed the 3% of GDP deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to increase gradually to 30% in 2026 and 30.7% in 2027.

(13) The Commission Spring 2024 Forecast projects real GDP to grow by 1.9% in 2024 and 2.9% in 2025, and HICP inflation to stand at 3.1% in 2024 and 2.6% in 2025.

(14) The Commission Spring 2024 Forecast projects a government deficit of 2.8% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 24.8% by the end of 2024. The increase of the deficit in 2024 mainly reflects expenditure on pensions and wages. Based on the Commission’s estimates, the fiscal stance is projected to be contractionary, by 0.3% of GDP, in 2024.

(15) Expenditure amounting to 0.4% of GDP is expected to be financed by non-repayable support (“grants”) from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Bulgaria.

(16) On 14 July 2023, the Council recommended[16]that Bulgaria ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed

[16] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Bulgaria and delivering a Council opinion on the 2023 Convergence Programme of Bulgaria, OJ C 312, 1.9.2023, p. 13.

primary expenditure[17]in 2024 to not more than 4.6%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Bulgaria's net nationally financed primary expenditure is projected to increase by 6.2% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.6% of GDP in 2024. However, net expenditure in 2023 was lower than expected at the time of the recommendation (by 3.3% of GDP). Therefore, as the recommendation for 2024 was formulated as a growth rate, the assessment of compliance also needs to take into account the base effect from 2023. Had net expenditure in 2023 been the same as expected at the time of the recommendation, the resulting growth rate of net expenditure in 2024 would have been below the maximum recommended growth rate by 2.7% of GDP. Overall, net nationally financed primary expenditure is assessed as at risk of being not fully in line with the recommendation.

(17) Moreover, the Council recommended that Bulgaria take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Bulgaria should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[18]of emergency energy support measures is estimated at 0.0% of GDP in 2023 and projected at 0.0% in 2024 and in 2025. The emergency energy support measures were wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council.

(18) In addition, the Council also recommended that Bulgaria preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to decrease to 2.1% of GDP in 2024 (from 2.7% of GDP in 2023). This decrease is partly driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023, but exceeds the decrease that can be explained by the share of national co-financing. Hence, nationally financed public investment risks being not in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to decrease to 0.8% of GDP in 2024 from 1.2% of GDP in 2023. This decrease is driven by the end of the 2014-2020 programming period of EU structural funds, for which funds were available until 2023.

(19) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government

[17] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

[18] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

deficit of 2.9% of GDP in 2025. The general government debt-to-GDP ratio is set to increase to 24.6% by the end of 2025.

(20) There is scope to increase the efficiency of public investment management by stepping up the implementation of key measures. Bulgaria still has shortcomings in key areas such as the alignment between investment decisions and long-term strategic goals, and the timely execution of capital expenditure. Standardised procedures for project selection and evaluation based on objective value-for-money criteria are not yet in place.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan is essential to boost Bulgaria's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Bulgaria to significantly accelerate the implementation of reforms and investments by improving the functioning of the public administration and improving public investment management. Further efforts are necessary in the digitalisation of administrative processes and to improve the quality of procurement procedures. Staff recruitment, training and retention of talented personnel are key to building a competent administration at both central and local level. Business regulation continues to be a key problem for companies, half of which identify it as a main barrier to making long-term investments. Some 53% of investors are not confident that their investments are being protected by law and courts. All these elements would also improve the business environment in Bulgaria. The rapid inclusion of a REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Bulgaria's and EU strategic objectives in the field of energy and the green transition. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(22) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Bulgaria is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Bulgaria has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. Bulgaria is experiencing a population decline and significant regional disparities, especially with the three northern regions still lagging behind. Accelerating the implementation of cohesion policy programmes and strengthening administrative capacity at all levels is crucial. The priorities agreed in the programmes continue to be relevant. Regional and local actors' capacity to apply integrated approaches to investments at local level remains key. It is particularly important to promote regional and local support networks for research, innovation and entrepreneurship through targeted measures for technology transfer and commercialisation. Investments in sustainable transport, including the development of rail and road infrastructure as well as intramodality remain priorities. The implementation of the territorial just transition

plans deserves specific attention, also in terms of effective governance, coordination and capacity of the national, regional and local actors. It is also necessary to continue green investments, particularly to improve water management, drinking water supply and wastewater treatment, and to ensure efficient waste and resource management. Labour shortages persist, affecting in particular professions related to social services such as nurses. Although unemployment is generally low, it remains much higher among vulnerable groups (young people, persons with disabilities and the Roma) and in some regions, suggesting that there is potential to increase the labour force. Active labour market policy measures, especially for groups further away from the labour market, and investment in skills acquisition, particularly for the green and digital transitions, remain priorities. Quality and inclusive education system, including the implementation of the European Child Guarantee is still pertinent. Despite a gradual decline, Bulgaria has one of the highest shares of the population at risk of poverty or social exclusion, including more than 1 in 3 children and over 1 in 3 older (65+) people. The share is also significantly higher for persons with disabilities and the Roma. In addition, income inequalities are significant. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis based on the features of the Social Convergence Framework[19]. Bulgaria could also make use of the Strategic Technologies for Europe Platform initiative, including in increasing investments in digitalisation, clean and resource efficient technologies and in the green industrial transformation. This initiative could enable Bulgaria to implement its commitments to clean tech, circular and low-carbon economy with its smart specialisation strategy and ensure a cohesive approach to advance industrial sustainability.

(23) Bulgaria faces several challenges related to the decarbonisation of the economy and energy production, sustainable transport as well as quality of education and skills. These could be further addressed beyond the scope of the recovery and resilience plan and cohesion policy programmes.

(24) Access to clean and affordable energy continues to be a priority issue in Bulgaria. While the country has made limited progress, further structural challenges remain. In particular, the postponed electricity market liberalisation – one of the essential decarbonisation reforms under the recovery and resilience plan – impedes the transition to clean and affordable energy. Further, the district heating systems in Bulgaria are often in poor technical condition, and most of them are predominantly based on natural gas or coal. In 2023, the deployment of solar photovoltaics saw a significant increase with over 1.2 GW in newly installed capacity, bringing the total to nearly 3 GW. However, the installed wind capacity has stagnated over the past decade, with a total of 700 MW in onshore installations. This is despite wind power's potential to boost the electricity system's balancing capacity during off-peak periods. Untapped technical potential of offshore wind energy is estimated at 26 GW[20]. At the same time, the lack of sufficient energy storage is increasingly evident, especially during sunny hours, posing a risk to the continuous deployment of grid-scale renewables in Bulgaria. Despite strong electricity interconnection with its neighbours, including a new 400 kV line with Greece (PCI Maritsa East-Nea Santa), bottlenecks to the transmission and distribution grids persist. Further action to improve the management of grids by introducing smart grid elements, including a roll-out of smart meters and

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20 World Bank, Offshore Wind Energy Potential in the Black Sea, Washington, D.C., March 2020.

demand-side response measures could improve the situation. While there have been slight improvements in energy poverty indicators in Bulgaria, significant challenges persist. The share of the population unable to adequately heat their homes was 22.5% in 2022, the highest rate within the EU, well above the EU average of 9.3%. Although Bulgaria has adopted an official definition for energy poverty, concrete support schemes are yet to be fully developed, with the current targeted heating allowance remaining limited in both duration and coverage.

(25) Greenhouse gas emissions from transport are a significant concern for Bulgaria, particularly from road transport, where greenhouse gas emissions increased by 29% in 2022 (compared to 2005 levels). The use of passenger cars continues to be high, while the share of battery electric vehicles s still very low. In addition, the charging infrastructure is still insufficient, with just one charging point for every three electric vehicles, which impedes the uptake of electric mobility. Moreover, Bulgaria's rail infrastructure lags behind the EU average, with specific disparities between northern and southern regions. Strengthening investments in the country's railway network and increasing the number of sustainable urban transport initiatives is crucial, ensuring transport connectivity between northern and southern regions, large urban centres and rural and peripheral areas, as well as completion of connections to TEN-T network.

(26) Despite some amendments to the regulatory framework as part of the recovery and resilience plan, educational outcomes in Bulgaria are poor and have further deteriorated. The country has recorded lower results in the latest editions of international assessments compared to previous years. The shares of low achieving students in mathematics, reading and sciences – as shown by the OECD Programme for International Student Assessment– are among the most alarming in the EU. 53.5% of 15-year-olds lack a minimum proficiency level in mathematics, 52.9% in reading and 48% in sciences, with very high rates among students from disadvantaged backgrounds. National standardised exams show large and growing inequalities of outcomes and strong social segregation in the Bulgarian education system. About 50% of schoolteachers are at least 50 years old and teacher shortages are emerging. Despite some improvements, challenges remain to improving initial teacher education and continuous professional development to facilitate improvements in the quality and equity of education. The rate of early leavers from education and training improved in recent years but remains particularly high among the Roma and in rural areas. Furthermore, the low participation of adults in learning (9.5% compared to the EU average of 39.5%) translated into insufficient or inadequate skills, therefore creating bottlenecks to employability and overall competitiveness. The Vocational Education and Training regulatory framework introduces obligatory competences for environmental protection as a part of general professional training for all professions. On top of that, the just transition plans for coal regions include several measures covering the reskilling of the workforce and job creation in such regions in Bulgaria. The levels of digital skills remain much lower than the EU average (35.5% vs 55.5% in 2023) and influence employability. To tackle these challenges, there is an ambitious project funded by the Recovery and Resilience Facility that aims to improve the upskilling and reskilling of the workforce, focusing on digital skills, but its implementation has been delayed.

HEREBY RECOMMENDS that Bulgaria take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[21] in 2025 to a rate consistent with maintaining the general government deficit below the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term.
2. Significantly accelerate the implementation of cohesion policy programmes and the recovery and resilience plan, ensuring completion of reforms and investments by August 2026, by improving the functioning and boosting the capacity of the public administration, including at the regional level, increasing the quality of procurement procedures and strengthening the independence and functioning of regulators. Rapidly finalise the REPowerEU chapter. In the context of the mid-term review of cohesion policy programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.
3. Improve education and training, including for disadvantaged groups, by enhancing teacher training and implementing competence-based teaching and learning. Address labour shortages and improve workers' skills to boost competitiveness and support the green transition.
4. Reduce reliance on fossil fuels and accelerate the clean energy transition, particularly by shifting to renewable energy in district heating and deploying wind installations. Ensure sufficient storage capacities to increase the flexibility of the energy system. Strengthen the electricity grid infrastructure by introducing smart grid elements and increasing interconnection with neighbouring countries. Address energy poverty by implementing targeted measures to reduce the share of population unable to keep their homes adequately warm. Promote the deployment and uptake of sustainable urban and railway transport, including by accelerating the development of the necessary infrastructure.

Done at Brussels,

For the Council
The President

[21] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.