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ENV 527
EDUC 204
RECH 322
ENER 241
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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9401/22 - COM(2022) 603 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Bulgaria and delivering a Council opinion on the 2022 Convergence Programme of Bulgaria

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 603 final.

COUNCIL RECOMMENDATION

of …

on the 2022 National Reform Programme of Bulgaria and delivering a Council opinion on the 2022 Convergence Programme 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 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) 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 OJ L 209, 2.8.1997, p. 1.

(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 for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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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).

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also adopted the Alert Mechanism Report, in which it did not identify Bulgaria as one of the Member States for which an in-depth review would be needed. On the same date, the Commission also adopted a proposal for the 2022 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights The Council adopted the Joint Employment Report on 14 March 2022.

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3 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[4] was triggered for the first time by Council Implementing Decision (EU) 2022/382[5], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare. Exceptional support is made available to Bulgaria under the Cohesion's Action for Refugees in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) programme to urgently address reception and integration needs for those fleeing Ukraine.

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4 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p. 12).

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply-chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council Recommendation of 18 June 2021[6] delivering a Council opinion on the 2021 Convergence Programme of Bulgaria, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[7]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[8] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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6 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Bulgaria (OJ C 304, 29.7.2021, p. 6).

7 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the recovery and resilience plan and that can boost potential growth.

8 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) 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 set out in Annex V to that Regulation. On 4 May 2022, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Bulgaria[9]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Bulgaria has satisfactorily fulfilled the relevant 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.

(10) On 29 April 2022, Bulgaria submitted its 2022 National Reform Programme and its 2022 Convergence Programme, in line with the deadline established in Article 8 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together.

(11) The Commission published the 2022 country report for Bulgaria on 23 May 2022. It assessed Bulgaria's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of its recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that 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, including those emerging from Russia's invasion of Ukraine. It also assessed Bulgaria's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

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[9] ST 8091/2022; ST 8091/2022 ADD 1.

(12) On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Bulgaria, as its general government deficit in 2021 exceeded the Treaty reference value of 3 % of gross domestic product (GDP). The report concluded that the deficit criterion was not fulfilled. In line with the communication of 2 March 2022, the Commission did not propose to open new excessive-deficit procedures in spring 2022 and will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.

(13) In its Recommendation of 20 July 2020[10], the Council recommended Bulgaria to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Bulgaria to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Bulgaria's general government deficit increased from 4,0 % of GDP in 2020 to 4,1 %. The fiscal policy response by Bulgaria supported the economic recovery in 2021, while temporary emergency measures increased from 2,9 % of GDP in 2020 to 4,3 % in 2021. The measures taken by Bulgaria in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. According to data validated by Eurostat, general government debt increased from 24,7 % of GDP in 2020 to 25,1 % of GDP in 2021.

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10 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Bulgaria and delivering a Council opinion on the 2020 Convergence Programme of Bulgaria (OJ C 282, 26.8.2020, p. 8).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is favourable in 2022 and realistic thereafter. The government projects real GDP to grow by 2,6 % in 2022 and 2,8 % in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2,1 % in 2022 and higher real GDP growth of 3,1 % in 2023, mainly due to different employment and investment growth projections. In its 2022 Convergence Programme, the government expects that the headline deficit will increase to 5,3 % of GDP in 2022 while falling to 2,9 % in 2023. The deficit increase in 2022, which is cushioned by the phase-out of some COVID emergency measures, mainly reflects a steep rise in intermediate consumption, business support and energy measures, as well as pension system amendments. According to the 2022 Convergence Programme, the general government debt-to-GDP ratio is expected to increase to 25,5 % in 2022 and to 27,7 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 3,7 % of GDP and 2,4 % respectively. This is considerably lower than the 2022 deficit projected in the 2022 Convergence Programme, mainly due to different macroeconomic projections, lower intermediate consumption growth, and higher revenues from taxes on production and imports in 2022. The Commission's 2022 spring forecast projects a lower general government debt-to-GDP ratio of 25,3 % in 2022 and 25,6 % in 2023. The difference is due to the lower deficits in both years and higher projected economic growth in 2023. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 1,8 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Bulgaria's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 4,3 % of GDP in 2021 to 1,8 % in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's 2022 spring forecast are estimated at 0,9 % of GDP in 2022 and 0,0 % of GDP in 2023.[11] Those measures mainly consist of support programmes for public utilities, industrial end-users of electricity and household gas consumers. Theoe measures have been announced as mostly temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular the moratorium on energy prices for households. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % of GDP in 2022 and 0,2 % of GDP in 2023[12].

11 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

12 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

(16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Bulgaria pursue a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Bulgaria to keep the growth of nationally financed current expenditure under control. It also recommended Bulgaria to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Bulgaria's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -3,4 % of GDP, as recommended by the Council[13]. Bulgaria plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 1,1 percentage point of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 1,1 percentage point of GDP in 2022[14]. Therefore, Bulgaria plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1,4 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,2 percentage points of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 percentage point of GDP), while pension system amendments (0,6 % of GDP) and wage increases (0,3 % of GDP) are also projected to contribute to the growth in net current expenditure. Therefore, on the basis of current Commission estimates, Bulgaria does not sufficiently keep under control the growth of nationally financed current expenditure in 2022.

13 A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

14 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point of GDP.

(18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at -1,3 % of GDP on a no-policy-change assumption[15]. Bulgaria is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,7 percentage points of GDP compared to 2022. Nationally financed investment is projected to provide an expansionary contribution of 0,2 percentage points in 2023[16]. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide an expansionary contribution of 0,5 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,9 % of GDP), while increased social transfers and wage increases are projected to contribute to the growth in net current expenditure.

(19) In the 2022 Convergence Programme, the general government deficit is expected to gradually decline to 2,8 % of GDP in 2024 and to 2,4 % by 2025. The general government deficit is thus planned to remain below 3 % of GDP over the Programme horizon. Those projections assume revenue increases from direct taxes and social contributions thanks to higher household income and higher capital transfers thanks to the Recovery and Resilience Facility. According to the 2022 Convergence Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically with an increase to 29,1 % in 2024, and a rise to 30,4 % in 2025. According to the Commission’s analysis, debt sustainability risks appear medium over the medium term.

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15 A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

16 Other nationally financed capital expenditure is projected to provide a neutral contribution of 0,0 percentage points of GDP.

(20) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Bulgaria by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the recovery and resilience plan addresses the country-specific recommendations in the social field with measures to improve social inclusion, which are expected to improve the adequacy and coverage of the minimum income scheme, and with measures to move forward the integration of employment and social services. Other measures addressing the country-specific recommendations focus on skills acquisition, in particular digital skills, on improving the labour market relevance of the education and lifelong learning systems and on widening the offer of healthcare services across Bulgaria. Those measures can help achieve the objectives and make further progress on the European Pillar of Social Rights and its action plan by 2030. Furthermore, the recovery and resilience plan addresses country-specific recommendations by advancing decarbonisation of the energy sector, increasing overall energy efficiency and implementing measures on sustainable transport and digital infrastructure and services. In addition, the plan contains far-reaching measures to improve the efficiency of the public administration and justice system, prevent, detect and correct corruption, improve the business environment, foster investment, and improve the research and innovation system. This will also contribute to supporting Bulgaria in addressing the concerns and observations under the Rule of Law Mechanism.

(21) The implementation of the recovery and resilience plan of Bulgaria is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Bulgaria account for 58,9 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 25,8 % of the recovery and resilience plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Bulgaria swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. At the same time, further efforts to make full use of public employment services and to provide integrated employment and social support will help to mitigate the impact of the projected demographic change and support a fair green and digital transitions. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.

(22) Bulgaria submitted the Partnership Agreement provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[17] on 11 May 2022, while the other cohesion policy programmes have not yet been submitted. In line with Regulation (EU) 2021/1060, Bulgaria is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

(23) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. In the context of the energy crisis and in accordance with the mandate given by the European Council in March 2022, the Commission and Member States have set up an EU Energy Platform for the voluntary common purchase of gas, LNG and hydrogen. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

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17 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(24) Bulgaria has the most carbon-intensive economy in the Union, with greenhouse gas intensity more than four times higher than the Union average. The current share of fossil fuels in Bulgaria's energy mix is 61,5 %, with nuclear representing a share of 24 % and renewables 14,5 % (lower than the Union renewables average of 19 %). The country was highly dependent on Russia for natural gas until April 2022[18]. In 2020, 75 % of natural gas was imported from Russia, above the Union average of 43,2 %. However, its share in the energy mix was only 13,9 %, lower than the Union average of 24,4 %. Industry remains the largest gas consumer, with a share of 40 %, including non-energy uses, while the share of the power sector has decreased since 2010, from 30 % to 25 % in 2019. District heating relies on natural gas with little margin for improvement as the district heating systems cannot be replaced by alternative sources. While the recovery and resilience plan explores the potential of geothermal energy for heating, additional investment could be envisaged to support the installation of large-scale heat pumps. Coal-fired power generation is fully covered by the domestic production of lignite, and Bulgaria imports limited quantities of coal from Russia for industrial use (0.56 million tons, representing 85 % of total coal imports). On the other hand, Bulgaria is reliant on Russia for crude oil (63 % of its crude oil comes from Russia[19], significantly higher than the Union average of 26 %) and imports 22 % of its refined oil products from Russia, below the Union average of 35 %. Overall, the share of oil in the energy mix was 23,9 % in 2020, below the Union average of 32,7 %. The Bulgarian recovery and resilience plan includes the adoption of a Roadmap to climate neutrality. It includes steps for completing the phase-out of coal and lignite at the latest by 2038 and significant investments and reforms to accelerate the deployment of renewables, while further efforts will be needed to achieve the climate and energy transition objectives.

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18 As of April 2022, following the unilateral suspension of gas supply from Gazprom, Bulgaria is no longer receiving gas supplies from Russia.

19 Eurostat 2019 data is referenced for Bulgaria's import data. 2020 import data is not informative, as large qualities of crude imports had been categorised as from 'not specified' trade partners. The EU average refers to the share of imports from Russia in total extra-EU27 imports, for crude oil and refined oil products respectively.

On renewables, Bulgaria has committed to add at least 3 500 MW of new capacity from renewable energy sources (wind and solar) and create the technical conditions to integrate an additional 4 500 MW into the electricity system by 2026. In addition, the plan includes a reform to remove key impediments to the development of renewable hydrogen technologies and value chains, as well as investments to support the development of pilot projects to produce renewable hydrogen and sustainable biogas. Measures are also envisaged to help households install solar water heating and solar photovoltaic systems. The plan will also define energy poverty. It should be noted that a further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed in order for Bulgaria to be in line with the 'Fit for 55' objectives.

(25) At the same time, the Bulgarian recovery and resilience plan envisages more than EUR 1 billion of investments in energy efficiency measures intended for public and private building stock. This is bolstered by reforms to tackle barriers to energy efficiency investments and reduce the administrative burden linked to renovation. Nonetheless, Bulgaria should aim to further reduce energy consumption and dependence on fossil fuels to achieve its targets in line with its long-term strategy for renovating the building stock. The national decarbonisation fund to be established in 2023 could support that measure. In parallel, Bulgaria needs to ensure energy interconnections with sufficient capacity including with neighbouring countries. By completing ongoing investments, Bulgaria can capitalise on the advantages of the single market, ensure security of supply and accelerate the diversification of gas routes. New infrastructure related to gas is recommended to be future-proof where possible, in order to facilitate its long-term sustainability through future repurposing for sustainable fuels.

(26) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Bulgaria can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most-affected regions. In addition, Bulgaria can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[20], to improve employment opportunities and strengthen social cohesion.

(27) In the light of the Commission's assessment, the Council has examined the 2022 Convergence Programme and its opinion[21] is reflected in recommendation (1).

(28) On 10 July 2020, the Bulgarian lev was included in the European exchange rate mechanism II (ERM II) as a preparatory step towards adopting the euro. To preserve economic and financial stability and achieve a high degree of sustainable economic convergence, the Bulgarian authorities have committed to implement specific policy measures on ensuring the sustainability of the non-banking financial sector and strengthening the governance of State-owned enterprises, as well as the insolvency and the anti-money laundering frameworks. Bulgaria's progress in fulfilling the necessary requirements for the adoption of the euro will be assessed in the 2022 convergence reports of the European Commission and the European Central Bank,

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20 Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

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

HEREBY RECOMMENDS that Bulgaria take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. 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. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 4 May 2022. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.

3. Reduce overall reliance on fossil fuels and fossil-fuel imports by accelerating the development of renewables, and diversify gas supply sources and routes by increasing interconnections with neighbouring countries. Step up efforts to reduce energy demand by increasing energy efficiency in industry and in private and public building stock. Promote new sustainable solutions in centralised district heating.

Done at Brussels,

For the Council

The President