



Republic of Bulgaria

National Reform Programme
(2008 – 2010)

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Foreword

After its accession to the European Union Bulgaria joined the first cycle of the renewed Lisbon Strategy (2005-2008) at the beginning of 2007, when it presented its first National Reform Programme (NRP). The progress report on the implementation of the measures and the actions under the NRP was elaborated in October last year.

According to the 2008 Spring European Council conclusions and in compliance with the December 2007 European Commission Strategic Report, Bulgaria should address four country-specific recommendations in its updated National Reform Programme (2008-2010). They are related to the need for accelerated further improvement of the administrative capacity, particularly in the key areas of the government functions; contain the current account deficit and the high inflation; accelerated improvement of the business environment through cutting red tape when starting and winding down a business; increase the quality of labour and the employment. Furthermore, additional five areas, which are subject to more intensive monitoring during the next cycle (the so-called 'points to watch'), were specified. These areas include the long-term sustainability of public finances, competition in network industries, implementation of an integrated public policy for R&D innovations, reduction of hidden employment through improvement of the institutional capacity to carry out inspections and for law enforcement, completion of the Lifelong Learning Strategy and enhancing the participation in different forms of lifelong learning.

Accepting these recommendations as the basis for updating of the National Reform Programme for the new cycle, Bulgaria regrouped the initial priorities, namely the overarching horizontal priority for improving the administrative capacity, and its main priorities to maintain macroeconomic stability, modernise and develop the infrastructure, improve business environment and quality of human capital, and activate labour supply, as well as the priority actions in conformity with the Spring 2006 European Council (investments in knowledge and innovation, promoting SMEs and entrepreneurship, improving the employment opportunities for the priority categories (target groups), and reform of the energy market) in a manner addressing the country-specific recommendations and points to watch. To this end an Action Plan, which is an integral part of the current update of the programme, was elaborated. ▼

Mechanism for Reporting and Updating the National Reform Programme

The reporting on the progress of the NRP 2006-2008 takes place on a quarterly basis and is prescribed by Decision No. 416 of the Council of Ministers as of 18 June 2007¹. It is coordinated within a working group under the Council on European Affairs, in which representatives of all ministries and other institutions concerned participate. The Agency for Economic Analysis and Forecasting (AEAF), on the basis of the contributions by each participant, elaborates a quarterly report which is submitted for consideration and approval to the Council of Ministers. The quarterly report for the second quarter of 2008 includes concrete recommendations for acceleration of the implementation of the reforms in the programme as well as on formulating new measures in response to the country-specific recommendations. After the report was adopted by the Council of Ministers, the elaboration of the Action Plan as part of the present NRP has started.

This document is prepared by the AEAF in close cooperation with the ministries and other institutions within the public administration. In June 2008 the ministers adopted a decision on enhancing the political involvement when planning and organising the NRP actions. As a result of this decision the coordination of the work on the Lisbon Strategy on political level is performed by the Deputy Prime-Minister of Economic Affairs Mr. Ivaylo Kalfin. The operational management remains a responsibility of the present National Lisbon coordinator, the deputy finance minister Mr. Lyubomir Datsov, who is also co-chairperson of the deputy-ministers' working group on the Lisbon Strategy issues. The members of this group distribute and coordinate the work of the experts in their administrations and are responsible for the quality of contributions and the compliance with the deadlines.

The preparation of this document was made in close cooperation with the experts from the European Commission with whom a number of meetings were held both on expert and on political level. The comments and recommendations given in the course of these meetings proved extremely useful for the development of a high quality Action Plan, adequate to the challenges facing the Bulgarian economy.

The draft Action Plan was discussed within a workshop organised by the Economic and Social Council in Bulgaria. The non-governmental sector, the social and economic partners were standing participants in the preparation and the discussions of specific documents and measures (programmes, plans, strategies) in this document. A number of meetings and consultations were organised during the year with trade unions, business and farmers' associations, consumer protection organisations and other non-governmental organisations on issues related to food prices, competition and market functioning, improving the business environment, wages' setting and labour market policies. ▼

¹ Decision No. 416 of the Council of Ministers as of 18 June on defining the mechanism on reporting on the implementation of the measures and actions set out in the National Reform Programme (2007-2009) and in the Summary of Challenges, Policies and Governance – National Reform Programme of Republic of Bulgaria (2007-2009) (CoM Decision No. 416 of 2008).

Progress under the National Reform Programme 2006-2008

In the NRP Progress Report as of October 2007, 63 specific measures have been reported, of which 45 in process of realisation, 9 planned, 4 approved, 4 completed and 1 introduced. As of September 2008, 36 new measures have been included in the NRP. Five measures are with a status "planned" and 66 are in process of implementation. The number of completed measures has grown from 4 to 14.

The implementation of 3 new measures started in the second quarter of 2008 – one each in the field of research and development, education, and administrative capacity. They are aimed at modernising and integrating the Bulgarian research-education network, of the Bulgarian schools' computer network (to be completed by 2011), as well as at establishing a test environment for operational compatibility of the public administration GIS systems (to be completed in the third quarter of 2009).

The first supercomputer centre for scientific research was opened in the third quarter of 2008. In the fourth quarter a draft National Healthcare Strategy (2008-2013), including a programme and an action plan in the field of healthcare, was adopted by the Council of Minister. The Strategy submission for discussion and adoption by the National Assembly is pending.

With regard to the time schedule for implementation of the measures, there is delay concerning the measure "Adoption of a new Law on Energy Efficiency, which is linked with the transposition of Regulation 2006/32/EC" and which should have been implemented by June 2008. At present the draft law has been submitted for consideration by the National Assembly.

The deadline for the implementation of four measures has been extended, namely:

- Programme "Qualification services and training for employed persons" (due to the launch of new schemes under the programme)
- Research and development financing of manufacturing companies under grant schemes of the National Innovation Fund
- Training (on a regional basis) of businessmen and granting free financial support for starting up a business – micro and small enterprises (to be completed in the fourth quarter of 2011 instead of in the same quarter of 2009)
- The update of the Employment Strategy of the Republic of Bulgaria on the basis of an assessment of the implementation of the defined objectives was completed in the second quarter of 2008 instead of in the first one, as it had been initially announced.

On the basis of the information provided by the competent authorities, a conclusion may be reached that, as a whole, the implementation of the measures and actions under the NRP is taking place **in compliance with the preliminary schedule.** ▼

Contents of the Document

In compliance with the conclusions of the Spring European Council this document consists of three main sections. The first section contains the political message of Bulgaria, which specifies the clear political commitment of the government to continue implementing the reforms with a view to achieving visible results within short time.

The second section contains description of the mechanism for reporting and updating the National Reform Programme of Bulgaria for 2008-2010; a brief review is presented of the macroeconomic situation after 2007, and finally the more important measures addressing the country-specific recommendations are presented in accordance to the period of their implementation.

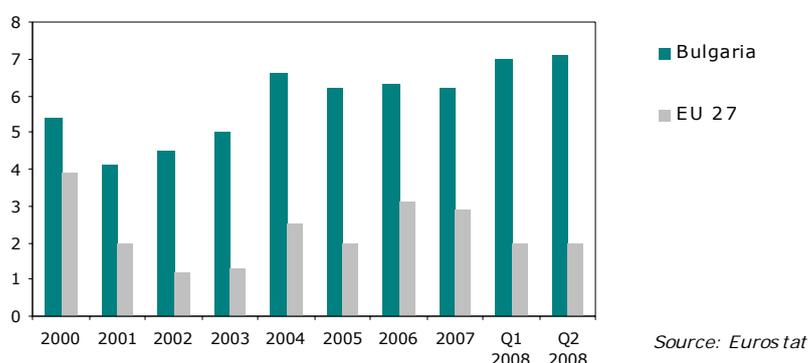
The third section is the Action Plan presented as a table with a description of the measure, the deadline for its implementation, the responsible institution, budget, effects from its implementation, and impact assessment indicators. ▼

I. The Bulgarian Economy in the Context of the Lisbon Strategy Objectives

I Economic growth

Bulgaria continues to register high GDP and employment growth rates in spite of the international financial markets turmoil and the high food and oil prices. Thereby the main objective of the renewed Lisbon Strategy of achieving high growth rates has been fulfilled.

Real GDP growth



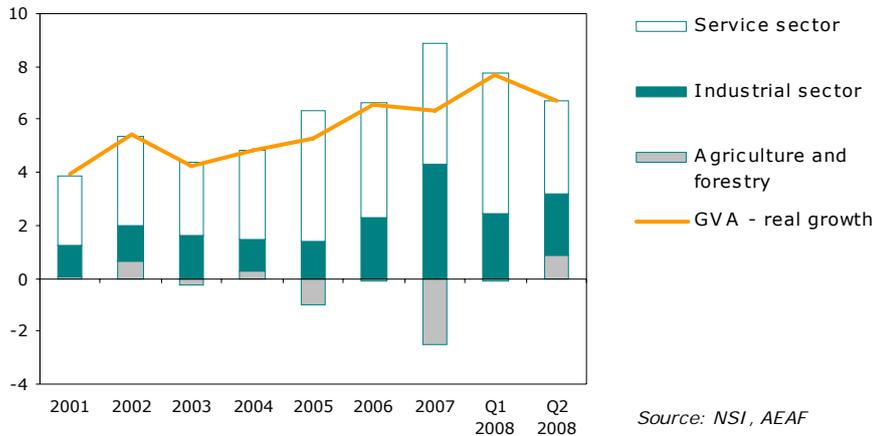
In 2007 real GDP growth reached 6.2% in real terms with the underlying role of domestic demand being preserved. The gross fixed capital formation continued growing at a high rate (21.7%) and reached a share of about 30% of GDP². The high profit rate and the favourable tax policy remain among the main reasons for the investment expansion particularly in such branches as real estate and business services, manufacturing, trade, and construction, as well as electricity, water, and gas supply. As a result of the inflationary processes in the country real growth rate of the private consumption decelerated to 5.3% compared to 9.5% in 2006. The contribution of the net exports to the GDP growth grew mainly due to the gradual slowdown of the real growth rate of the imports in each consecutive quarter of the preceding year.

In the first half of 2008 the contribution of the net exports to growth improved on an annual basis which was the main reason for the acceleration of the real GDP growth rate to 7.1%. The domestic demand growth slowed down to levels of about 9.2% (12.2% in the first half of 2007), which might contribute to calming down of the inflationary processes in the country in the second half of the year and in the following years, should the trend is preserved.

During the preceding year, as well as since the beginning of this year, the industry and the services have a positive contribution to growth. In spite of the fact that the value added in agriculture dropped by about 30% in 2007, the sector started to recover in the second quarter of this year and its value added grew by 6.5% for the first half of the year. This is also one of the reasons for the expected acceleration of the real economic growth in 2008 as compared to 2007, ranging from 6.2% to 6.5%.

² Including changes in inventories, the share reaches 36.8%

Real GVA growth - contributions (p.p.)



Prices, Incomes and Productivity Dynamics

The improved employment opportunities of the population in a stable macroeconomic environment, is the basis for the high income growth rates, both in nominal and in real terms, that have been observed since the beginning of the previous year. The main engine of the observed growth during the period under review was the private sector of the economy where, according to information from the Enterprise Survey³, the average wage grew by 21.6% in nominal and 12.1% in real terms last year⁴. In January-June 2008, the average wage in the private sector grew by 24.6% in nominal and 9.2% in real terms. The real income growth rate decelerated in the first half of the year, both in comparison with the previous half-year and on an annual basis.

The labour productivity⁵ in the Bulgarian economy has also increased and registered real growth rates of 3.3% and 3.0% in 2007 and in the first half of 2008, respectively. Despite the stable development of the indicator, the accelerated income growth has led to an increase in unit labour costs, both in nominal and real terms.

According to reported data, July was the first month from the beginning of 2008 in which inflation on an annual basis marked a decrease. This trend persisted also in August and it is expected that this development will continue until the end of the year due to last year's basis effect and the good agricultural crop. The international food market conjuncture also seems to be favourable in the second half of 2008. Significant inflation moderation is expected by the end of this year and in 2009 provided that the wage policy is adequate and promotes wage moderation, and at the same time, is supported by structural reforms for reinforcing the labour market flexibility, and if there are no external shocks.

³ Preliminary data.

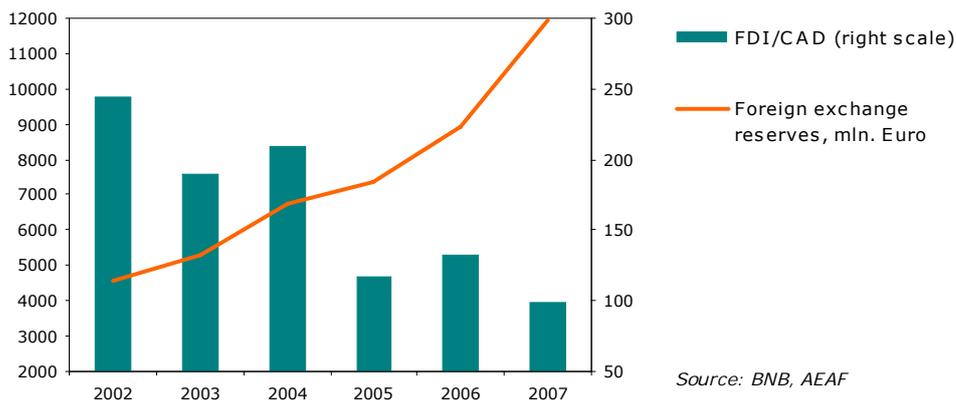
⁴ The real change in the average wage is calculated using the CPI.

⁵ Labour productivity is calculated as a ratio between GDP in constant prices and the number of employed persons according to the System of National Accounts.

Balance of Payments

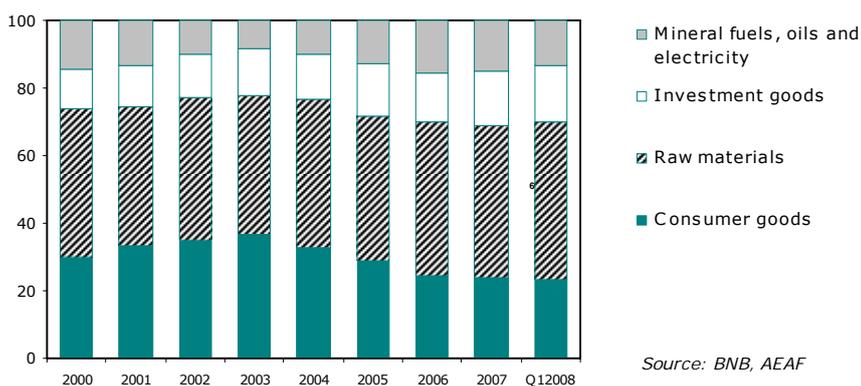
At the end of 2007 the current account deficit reached 21.8% of GDP and in January-July of the current year it amounts at 13.9% of the projected GDP, which is by 3.2 percentage points higher than the reported deficit in January-July 2007. This deterioration is a result of the worsening of trade deficit in the April-July 2008, which was mainly due to the increase of the average price of the imported crude oil and natural gas, as well as to the rise of the net income paid to foreign investors.

Current account and FDI



In January-July 2008 an acceleration of the foreign trade turnover growth in comparison to the same period of 2007 was observed. The exports of goods in the first six months of the year rose by 23.9% in nominal terms. The biggest contribution of 9.6 percentage points had the raw materials group. An improvement in the exports is observed in a number of branches with the biggest contribution coming from oil products, raw materials for the food industry, machinery and equipment as well as the so called other investment goods.

Structure of exports (% of total exports)



In the first half of the year the imports of goods (cif) grew by 27.9% in nominal terms. The greatest contribution to this increase had the group of energy raw materials, in particular crude oil and natural gas. The import of investment goods in 2008 is accelerating, while the import of consumer goods decelerates on annual basis. The import of goods with high value added is supported by the good investment and business climate in the country, and is to a large extent due to the growing inflow of foreign direct investments.

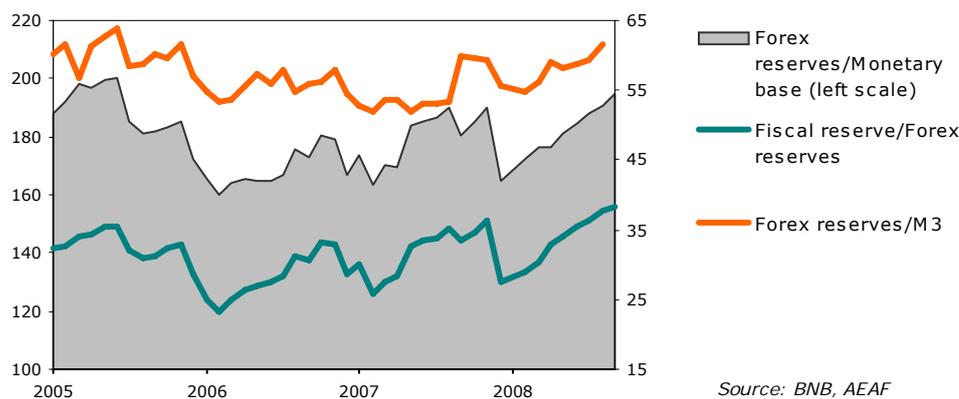
Despite the reported high negative current account deficit in January-July 2008, it is entirely covered (134.3%) by the net inflows on the financial account. The overall balance for the period is positive with the foreign reserves growing by EUR 1 680.7 million.

According to preliminary data, the foreign direct investments in January-July 2008 amount to EUR 2 847.3 million. Unlike 2007, the structure of the foreign direct investments inflow has significantly changed - the share of investment in equity capital and of the reinvested earnings grows at the expense of the intra-company credits. The structural breakdown of the FDIs has also improved markedly - the investment activity in branches like real estate, renting and business services, as well as construction decreases, while that in branches like manufacturing, financial intermediation and trade increases considerably. As no incomes from privatisation transactions with non-residents were reported in January-July, the FDI reflect entirely the private sector activity.

Monetary Aggregates

The currency board which is one of the main factors for the macroeconomic stability in the country continued to function in a stable manner. As of end of September the foreign reserves grew by 25.8% on an annual basis. They continue ensuring a high coverage of the monetary base and the money supply (190.5% and 61.5% respectively at the end of August 2008). The foreign reserves cover 5.7 months of imports of goods and non-factor services.

Dynamics of Foreign Exchange Reserves



The money supply in 2007 grew by 31.2% on an annual basis compared to 26.9% in 2006. The M3 money aggregate to GDP ratio thus reached 74.4% in 2007. Since the beginning of 2008 a certain deceleration of the money supply growth is observed, mainly influenced by the restrictive policy pursued by the BNB, as well as to the government measures aimed at containing the inflation. As of end of August 2008 the money supply grew by 21% on an annual basis.

Since the start of 2008, a deceleration trend in the growth rate of commercial banks' claims on non-financial corporations and households is observed, but they remain at relatively high levels (49.3% annual growth as of end of August 2008). Among the reasons that have brought about a growth reduction could be included the higher minimum required reserves of the commercial banks, which they maintain with BNB, the rise in the price of financial resources, and the higher comparison base in the second half of 2007.

I Macroeconomic Expectations

The good development of the economy observed in the recent years is expected to be sustained also by the end of the current year with the GDP growth accelerating to 6.5% as compared to 6.2% in 2007. The world financial crisis and the deceleration of the economic growth in the euro area are expected to have adverse effects on the Bulgarian economy next year with the GDP growth slowing down to around 4.7%. It is expected that in 2010 the economic growth will accelerate again as a result of surmounting the liquidity problems resulting from the financial crisis and of the confidence recovery.

The slowdown of the economic growth next year is expected to manifest itself mainly through slower investments growth rates. The private consumption real growth is also expected to decelerate next year due to the lower incomes' increase. The restriction of the credit expansion, due both to the deteriorating external environment and to the saturation of the market, will also contribute to the contraction of the domestic demand. The tight fiscal discipline will not allow for significant changes in the real growth dynamics of the government final consumption expenditure, to compensate for the deceleration of households' consumption growth.

The weaker demand of the main EU trading partners is expected to have a restricting effect on exports. The fall in commodity prices as a result of the weaker demand on a global scale will exert influence in the same direction. On the other hand, the deepening integration of Bulgaria to the Single Market will stimulate the real growth of exports of goods and services. The significant capital accumulation in the economy, observed in the past years, will continue to be a factor for developing the competitiveness of the Bulgarian economy and for stimulating the exports growth and the development of import-substituting production. The imports growth is expected to continue slowing down, which will lead to a gradual improvement of the net exports contribution to the GDP growth.

In 2008 the potential economic growth is expected to accelerate to 6.37%, due to, on the one hand, the lower comparison base in 2007, and on the other – the continuing high investment pace in the Bulgarian economy. On production factors' side, the capital is expected to have the highest contribution to potential growth, followed by the employment. The contribution of the total factor productivity will grow only marginally mainly because of the continued rise of the employment and the declining unemployment. In 2009 and 2010 the economic growth is expected to decelerate compared to 2008, which should contribute to closing of the output gap.

In 2008 the current account deficit is expected to reach 23% of GDP after which it will gradually contract to about 19% in 2010. The persistent high level of the current account deficit is a result of the accumulated large difference in the value of exports and imports as well as of the expected increase in the net income outflow. Part of the trade deficit is expected to be compensated, on the one hand by income from tourism, and, on the other – by private and official current transfers. The expected financial account cash flows are to provide for full coverage of the current account deficit. In the medium term it is not expected the country's overall balance of payments to exert pressure and to lead to a decrease in the BNB foreign reserves.

The employment and the unemployment will continue their positive development, albeit at a slower pace.

In addition to the currency board arrangement, the tight fiscal policy and the implementation of structural reforms will continue to be a guarantee for the macroeconomic stability by providing buffers against possible external shocks. ▼

II. The National Reform Programme and the new Lisbon Strategy Cycle (2008-2010)

The attainment of high and sustained economic growth leading to higher welfare levels has been the paramount objective of several successive governments in Bulgaria. The main tools of the country's economic policy for achieving the above objectives remain in the field of fiscal policy and structural reforms.

In response to the country-specific recommendations and the points to watch the Bulgarian government elaborated this updated National Reform Programme. The new measures set out in the Action Plan are aimed at:

- Improving the administrative capacity particularly in key areas of government in relation to implementing policies in the field of the labour market, programme budgeting, market regulation, and the EU Structural Fund absorption;
- Limiting the current account deficit and the high inflation rate through implementing measures in the field of fiscal policy, market and competition functioning, consumer protection and income policy;
- Further improving the business environment and applying the principles of better regulation through implementing the measures of the Better Regulation Programme and increasing the share of the electronic registrations in the Trade Register;
- Increasing the labour supply, improving the quality of the workforce and raising the employment level;
- Ensuring the long-term sustainability of public finances in particular in relation to the potential risks related to the adequacy and sustainability of pension expenditures;
- Developing an integrated policy approach of the public sector in the field of R&D and innovation with the aim to reform the public R&D system, transition from publicly financed R&D (based on a total value of R&D expenses to GDP by 2010) to a more competitive financing focused on key priorities;
- Taking measures against hidden employment through strengthening the institutional capacity for conducting inspections and ensuring law enforcement;
- Encouraging lifelong learning.

■ Short-term measures:

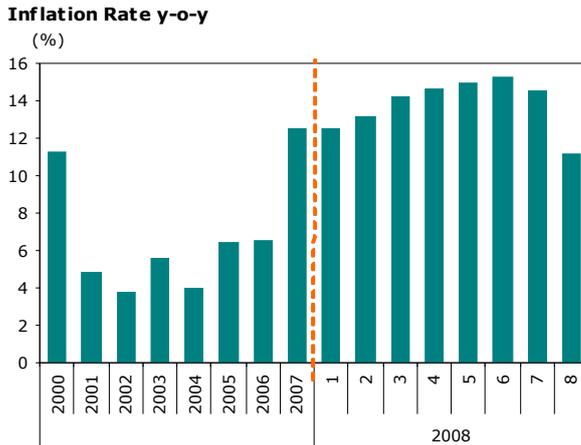
In the short term Bulgaria undertakes the commitment to accelerate reforms aimed at improving the resilience of the Bulgarian economy to possible external and domestic shocks, enhancing the capacity of the Bulgarian public administration, significant improvement of the business environment as well as improving the quality of the labour force and raising the level of employment.

Availing itself of the favourable macroeconomic environment in the country achieved through the consistent efforts of several consecutive governments, the Bulgarian government sets itself the ambitious goal to accelerate the implementation of the reforms in the above fields through which

a solid base for the successful implementation of the National Reform Programme until 2010 will be ensured.

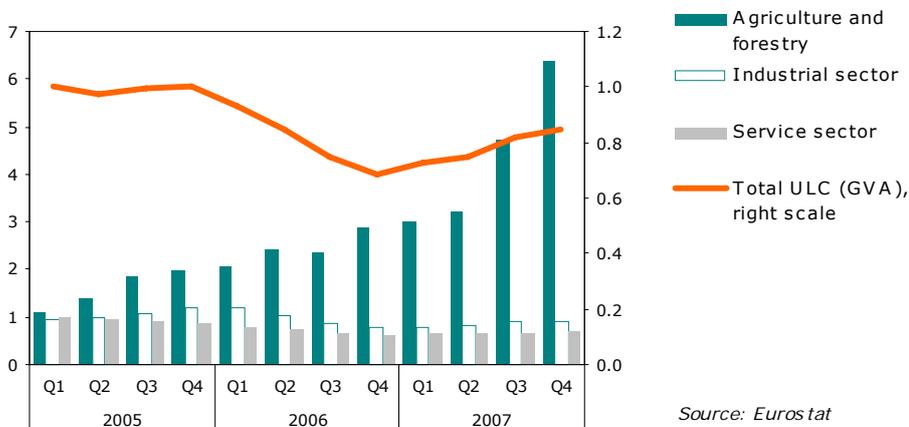
— Overcoming the macroeconomic challenges (inflation, current account deficit)

In 2007 the HICP annual average inflation reached 7.6%, while the end-of-period inflation reached 11.6%. The accumulated since the beginning of 2008 inflation was 11.8% as compared to the respective month of 2007.



Source: NSI

ULC Growth Indices (IVth quarter of 2004 = 1)



Source: Eurostat

Although the incomes growth might be regarded as a reason for the price level growth in the country, its role is not of primary importance in view of the wage growth dynamics, labour productivity growth and the labour costs.

Despite the fact that during the second half of 2008 the price growth moderated, the inflation rate remained at relatively elevated levels as compared to those in the EU.

On account of this, at the beginning of October 2008 the Council of Ministers discussed and adopted at its meeting a package of measures directed towards ensuring greater flexibility and adaptability of the Bulgarian economy to possible external and domestic shocks. The formulation of the proposed measures is based upon the understanding that the inflation observed in Bulgaria in the last months is to a substantial extent due to the global price increase and, first

and foremost, to the food and fuel price rises. The intensified price and income convergence after the EU accession contributes to the additional acceleration of inflation in the country above the average EU levels.

The government has undertaken a political commitment in line with which by the end of 2008 and in the first quarter of 2009 it will launch the following measures:

- The implementation of a prudent fiscal policy will continue with the aim of achieving a budgetary surplus higher than the one projected for the current year at 3% of GDP. During the following years the government will adhere to the announced in the 3-year budgetary framework medium-term objective for a surplus of 3% of GDP. The ceiling of the consolidated expenditures (excluding the contribution to the common EU budget) will remain unchanged at up to 40% of GDP. The government will adhere to the principle of not allowing for tax preferences, including differentiating the VAT rate. The commitments to the EU for reaching the minimum levels of the excise taxes will continue to be strictly implemented and fulfilled in advance with the exception of the excise tax on fuels. The fulfilment of these commitments has already yielded positive results since the beginning of the year. Due to the increased tax collection and the achieved high economic growth in the January-August period the cash budget surplus grew by 61.2% as compared to the respective period of the preceding year. The budget revenue rose by 22.2% and expenditure increased by 13%. At the end of August the value of the state debt and the government guaranteed debt amounted to 16.1% of GDP;
- With a view to improving the quality of public finances the introduction of the risk management process in the public sector institutions will start from the beginning of 2009 (as part of the Action Plan on implementing the Strategy for Developing Financial Management and Control and Internal Audit in the Republic of Bulgaria – 2008-2010, adopted by the Council of Minister on 20 March 2008);
- With a view to avoiding the wage-price spiral the rise of the real incomes in the public sector will be limited to the labour productivity growth. The formula set out in the Social Security Code on pension indexation shall be strictly observed, while, at the same time, work will be carried out to achieve consensus on the needed measures for holding back inflation. The government has already started the dialogue with the social partners with regard to the draft budget for 2009. One of the main points of the government in this dialogue will be related to the need of reaching consensus on the anti-inflationary measures. The government might raise the incomes above the labour productivity growth only in relation to the needed compensations to low income groups of citizens in view of the significant price growth of the energy sources. With regard to the overall pension increase, we will observe the provided in the Social Security Code mechanism;
- The Bulgarian National Bank supports the efforts of the government aimed at containing the inflation. The central bank pursues regulatory policy aimed at ensuring private sector credit growth rates at levels keeping the price and financial stability in the economy. At the same time, in consequence of the world financial crisis, which has indirect effect over the Bulgarian banking system and economy, the commercial banks are restricting the credit expansion by tightening their credit standards and conditions, while the citizens and the companies reconsider their investment plans.
- By the end of 2008 a new Law on Competition Protection will enter into force widening the powers of the Competition Protection Commission (CPC) in relation to investigating infringements of competition and amending the method for determining sanctions for law infringements. The regular monitoring on part of the competent authorities of risk companies and market segments/sectors in which often the rules of competition and consumers' rights are violated will be expanded. With this regard, the practice of the

State Commission on Commodity Exchanges and Market-places to publicly disclose market information for different market-places will be expanded. Moreover, the practice for public discussions and consultations before the increase of the regulated prices of electricity, water and gas supply will be strictly applied. The government, in cooperation with the businesses, will start working on the establishment of an energy stock exchange in Bulgaria. The concept and the legal basis for the operation of the energy stock exchange will be elaborated by mid-2009;

- The government and the State Energy and Water Regulatory Commission (SEWRC), together with the social partners, will, by end-March 2009, review the mechanism for defining the increase in the prices of utility services provided by the monopolies with the objective to encourage higher productive and consumption efficiency. With a view of reducing the energy intensity of the Bulgarian economy, and hence the magnitude of the effects of future external shocks linked to the world energy prices, by the end of 2008 will enter into force the proposed by the Ministry of Economy and Energy and approved by the Council of Ministers new Law on the Energy Efficiency. The provisions of the new law encourage the introduction of energy-saving technologies in both production and consumption.

— Accelerated strengthening of the administrative capacity

After the government announced its objective to cut the number of the public administration by 12% by the end of 2008, and linked the envisaged in the budget increase of the wage bill in the middle of the period to the fulfilment of this objective, the administration contracted by 5000 people.

As part of the government commitment set out in the updated National Reform Programme to devise a comprehensive policy of building an independent and efficient public administration in the medium term it is envisaged to take the following main actions by the end of 2008 and at the beginning of 2009:

- An independent external review will be conducted of the organisation in key units responsible for developing and implementing policies for overcoming the most important challenges facing Bulgaria. For this purpose by the end of 2008 the government will sign an agreement with the World Bank on carrying out such review;
- The implementation of the Law on Administration and the Law on the Civil Servants will be analysed with the objective to limit the deviation from the general rules for the structure of the administration and the civil service statute. The analysis might lead to amendments to the Law on Administration, the Law on Local Self-regulation and Local Administration, as well as to the respective bylaws linked to the civil service;
- By the end-2008 the Ministry of State Administration and the Administrative Reform (MSAAR) will elaborate an improved framework of competencies for the servants under civil contracts at all statutory levels in the state administration;
- The intensive training programme for public administration employees will continue. We expect that, by the end of 2009, 1500 civil servants at management levels, including high-levels civil servants, would be trained in the areas of strategic planning and management, public-private partnerships, EU funds management, and impact assessment.

— Additional improvement of the business environment and applying the principles of good governance

In fulfilling the recommendations in the Strategic Report of the European Commission, in 2008 four measures were implemented which have fundamental significance for the further improvement of the business environment in Bulgaria:

- A uniform tax rate of 10%, equal to that of the corporate income tax, was introduced on the incomes of natural persons;
- After a wide public discussion in April 2008 a Better Regulation Programme⁶ was adopted, which determines the actions of the government in the period from 2008 to 2010. The implementation of the programme will contribute to the establishment of a regulatory system with low expenses and small risk that supports the country's competitiveness and at the same time efficiently protects the public interests. With a view to attaining this objectives, in the following several years Bulgaria will build the required capacity in compliance with the good European regulatory practices. The actions under the programme are separated into four specific areas – abolition and facilitation of administrative regimes, establishment and reinforcement of the institutions for implementation of and control over better regulation policy, intensification of the dialogue with interested parties, improved regulation at municipal level and strengthening the capacity at the regional and municipal level for implementing good regulatory policies. As a consequence of 14 meetings with regional and municipal administrations and the business under the aegis of MSAAR, 29 municipalities have voluntarily abolished illegally introduced regimes for registering a commercial entity. In September 2008, the minister of the state administration and the administrative reform, together with the minister of EU affairs, has signalled the Chief Prosecutor of another 95 municipalities, which administer illegal regimes. It is expected 40 of these municipalities to abolish these regimes voluntarily.
- A time schedule for drawing up a National Action Plan under the European Commission Action Programme for reducing the unnecessary administrative burden by the existing legislation within the EU was adopted by the CoM meeting on 28 February 2008 with Decision under item 29 of Minutes No. 9. An analysis of the existing legislation was carried out with the aim to determine what part of it is purely national and what part is transposed European legislation. As a result of this analysis, from about 360 laws and codes, 128 are linked to the issue for reduction of the administrative burden to the business under the EC Action Programme. Out of these, 17 introduce only requirements of the EU legislation, 33 introduce only national requirements, while the remaining 78 contain both national and transposed EU requirements. The figures show that to a great extent (75% in total) the administrative burden stems from the European legislation. A contract for identifying the information obligations under 33 laws and bylaws, which introduce only national requirements, for measuring the administrative costs they impose and for formulating proposals for reducing the administrative burden has been signed with consultants. By the middle of December the measurement of the administrative costs will be completed, on which basis by the end of 2008 a proposal for defining a national target for reduction of the administrative burden stemming from the national legislation will be made;
- The Unified Centralised Electronic Public Commercial Registry started its operations on 1 January 2008 which created conditions for easing and accelerating the companies' registration procedure. In order to improve the legal framework, a Law on amendment of

⁶ Decision on item 49 of Minutes No. 16 of the Council of Ministers meeting on 17 April 2008.

the Law on the Commercial Registry was adopted and entered into force on 30 May 2008. The Law on amendment of the Law on the Commercial Registry regulates certain issues related to the purely technical facilitation of the access to the commercial registry and encouragement of the use of advanced access electronic tools. As of September 2008 all the procedures for entering, removing, and registration of commercial entities in the Electronic Commercial Registry are performed within a working day, much shorter than the 14-day deadline is defined in the law. Thus, we comply with the recommendation from the 2006 Spring European Council for reducing the time needed for starting up a business to up to 7 days. In result of the introduced in July 2008 by 30% lower fees for submission of electronic applications, the share of registrations grew by 50%;

- The "one-fiche payment" system was introduced at all border check-points that are external to the EU.⁷

With the objective for rapid improvement in the business environment, ensuring easier market access and stimulating efficient competition, the government firmly intends to apply the Better Regulation Programme adopted in April 2008 and to work in the short term on the implementation of the following main tasks:

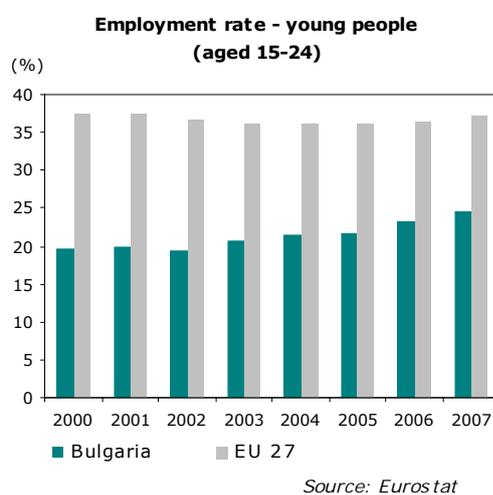
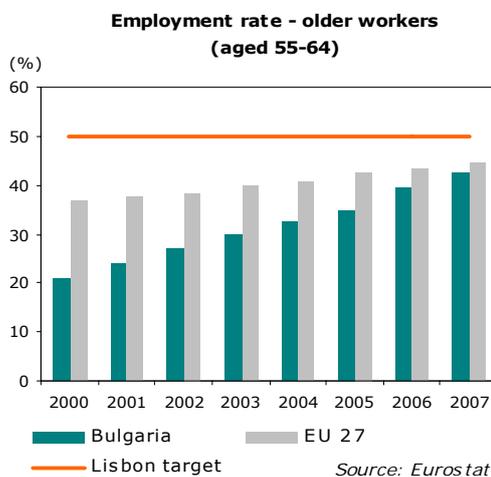
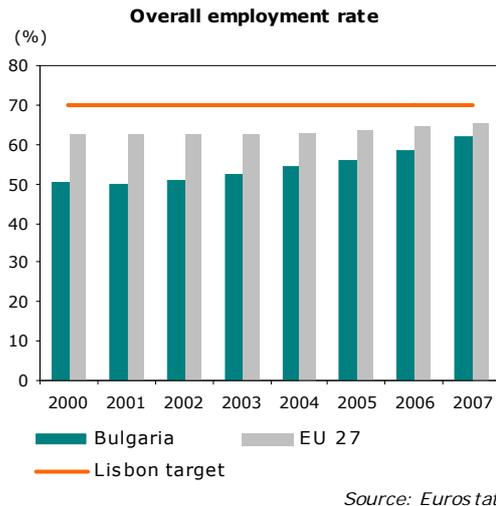
- After 8 regimes have already been abolished and simplified, proposals for abolishing and simplifying another 6 (of the remaining 8 regimes included in an annex to the Programme) will be considered by 18 December 2008;
- By the end of 2008, in partnership with representative organisations of the business, a list of administrative regimes which create the greatest administrative burden, will be prepared;
- In parallel with the 2009 budgetary procedure, the government will consider the opportunities for exerting administrative influence on the local authorities with regard to limiting the regimes at municipal levels;
- By the end of October the Prime Minister will address by letter all the mayors to insist on cutting down the regimes at local level;
- In line with the adopted in the first half of 2008 time schedule, by the end of the current year a national target for administrative burden reduction will be defined;
- By the end of 2008 Bulgaria will dispose with a functioning Administrative register that will provide accurate and up-to-date information on the existing regulatory regimes and administrative services;
- By March 2009 the government will put forward to the National Assembly a new Law on Normative Acts, which will provide for legal requirement to implement impact assessment of normative acts as well as will establish a deadline for public consultations of 30 days. By the end of March the National Assembly is expected to adopt the new Law on Normative Acts.

⁷ There is a delay in the practical introduction of the system only at the Gueshevo border check-point due to the refitting carried out there – a total overhaul of the facility is under way.

— Enhancing the quality of the labour force and raising the employment level

The positive tendencies at the labour market, reflected in continued growth of employment and lasting reduction of unemployment, continued in 2007 and the first half of this year as a result of the sustainable and favourable macroeconomic development supported by the policy enhanced structural reforms.

According to Labour Force Survey (LFS) the average number of the employed persons has increased by 4.6% and 4.3% in 2007 and the first half of 2008 respectively. The newly created jobs in the private sector of the economy contributed mainly to this increase.



As a result of the increased number of jobs at the primary labour market, the number of the unemployed persons continued to decrease. It reached an average of 6.9% and 6.1% of the workforce in 2007 and the first half of 2008 respectively. In the second quarter of the current year the unemployment rate decreased to 5.8% marking its lowest value for the entire period of the labour force survey. The administrative statistics of the Employment Agency also confirmed the downward trend in the unemployment dynamics. The level of registered unemployment was 5.9% at the end of August 2008 which is the lowest value of the indicator for the last 17 years.

The employment growth, which outstripped the pace of unemployment decrease in the period under review, was determined by the significant increase of the participation rate. The workforce at 15-64 years of age increased by 1.8 percentage points in 2007 compared to its average annual value in 2006 and reached 66.3%. The value of the indicator continued to rise also in the first half of 2008 to 67.5%, registering 2 percentage points increase on an annual basis.

The observed improvement in the main labour market indicators is a result of the increased economic activity in the private sector supported also by the pursued policy of reducing the direct tax and social security burden, as well as the improved focussing of the active policy of the labour market.

At the end of 2008 a significant part of the measures envisaged in the labour market field has been fulfilled.

The updated Employment Strategy of the Republic of Bulgaria 2008-2015 was adopted by the Council of Ministers on 30 April 2008⁸. It sets out the framework of the policies in response to the new challenges facing the Bulgarian labour market.

In June 2008 the Council of Ministers also adopted a National Strategy on Migration and Integration 2008-2015⁹, aimed primarily at contributing to the solution of the problems on the domestic labour market related to the labour force shortage and the stemming from it limitations to the economic growth.

In April 2008 the implementation of the National Programme on Activating the Inactive Persons started. Its main objective is to attract and motivate the inactive and the discouraged people (mainly from the Roma minority) to register in the employment offices in order to be eligible for participating in training and/or employment, financed within the active policy measures package. Under the programme some 45 mediators from the Roma minority have been trained and appointed at the employment offices. The programme also envisages the operation of specialised labour exchanges for providing direct contacts between workers and potential employees. Until present a 19 labour stock exchanges have been carried out. In a result, more than 4000 people have started work.

In fulfilment of the abovementioned programme documents the Ministry of Labour and Social Policy (MLSP) envisages:

- To conduct, in the third quarter of 2009, a specialised study and analysis of the possibilities for interventions upon vulnerable groups on the labour market and inactive persons within the Human Resources Development Operational Programme. By the end of 2008 the public procurement procedures will commence. The conduct of an in-depth study of the characteristics of inactive persons, including their geographical distribution, will provide valuable information for the better direction of the initiatives under the National Employment Action Plan (NEAP) and the Human Resources Development Operational Programme. When determining the subsequent interventions, a compliance with the principle of complementarity will be observed and avoidance of overlapping between the initiatives financed under the Human Resources Development Operational Programme and the state budget will be avoided.
- In view of the need to increase the share of young people who have received the so called "new start", as well as in order to fulfil the recommendations of the 2007 spring

⁸ Decision under item 1 of Minutes No 17 of the Council of Ministers meeting on 30 April 2008

⁹ Decision under item 21 of Minutes No 22 of the Council of Ministers meeting on 5 June 2008. The strategy was adopted together with an action plan for 2008

European Council, in the last quarter of this year MLSP will carry out a review of the present programmes and measures for young people. The aim is to improve coordination, efficiency and, in case of need, to define new tasks in this respect.

- The operation of the temporary employment agencies will be regulated through amendments to the Labour Code which will be adopted by the National Assembly by the end of 2008 in order to improve the possibilities for employment of different groups of people from the work force through creating more flexible forms of labour opportunities. The motion submitted to the National Assembly by members of parliament for amending the Labour Code provides for the introduction of the notions "employer-provider" and "employer-user" on one hand, and the relationships between them and the employed person, on the other. After the amendments are adopted, the Law on Employment Encouragement will provide for a registration regime for the operation of employers-providers of workers and employees.
- To realise an integrated package of actions aimed at increasing the employment of elder workers, activating the long-term unemployed and the inactive people and developing the initiatives for providing a 'second chance' to people without education and/or qualification with the objective to reduce the hindrances for lasting work of people in most disadvantaged position on the labour market;

In addition to the short-term measures the Action Plan includes activities until the end of 2010, the more important of which are related to:

- Approval, in 2009, of the Bulgarian flexicurity "pathway" whereby the decision of the spring European Council will be fulfilled and guidelines for better integration of the efforts under the four flexicurity components, namely labour legislation, lifelong learning, active labour market policy, modern social security systems, will be provided;
- Ensuring, by the end of 2010, of an expanded employment service provision including provision of qualification services to employed persons by private service providers. It is envisaged that private service providers will provide services mainly for: training, professional orientation, services for entrepreneurship.
- With the objective to ensure education and training, which is adequate to meet the labour demand MLSP and the Ministry of Education and Science (MES) started the joint establishment of a National System for Monitoring and Forecasting of the labour force demand on part of employers for employees with certain quality characteristics which is expected to start functioning in the second half of 2009.

■ Long-term measures

These measures are directed towards carrying out a fundamental transformation of the Bulgarian economy from one based on low costs to a knowledge-based economy.

— Increasing the long-term sustainability of public finances

Until the end of the new Lisbon cycle several measures are envisaged with the objective to increase the quality and efficiency of the public finances, in particular through confirming the practice of multi-annual budget planning, legally regulating the State Fund for guaranteeing the sustainability of the state pension system, inclusion of the state as a third insurer in the pension insurance and elaborating a framework for assessing the quality of the public finances with the respective fulfilment indicators. Moreover, a preliminary survey of the market functioning, in line with the methodology of the European Commission, will be carried out.

— Increasing the quality of human capital

- It is envisaged that a new Law on School Education is elaborated in 2009, in which all reforms in the education system carried out in the last two years will be incorporated.
- A new educational and professional training structure will be introduced next year, in compliance with the National Programme for Development of School and Pre-school Education and Preparation 2006-2015. The objective is that the profile in the last several classes (after the age of 16) is determined in order to achieve greater adaptability to the requirements of the labour market. At present the professional education lasts for 5-6 years, after the reform it will be only 2-3 years in the final classes. Short-term modules for acquiring qualifications by people who do not want to continue their education are also envisaged.
- A new Law on Higher Education will also be adopted in 2009-2010. The new law will introduce a rating system for the higher schools, which will take into account their contribution to research and development; the financing and management models will be changed with the aim of overcoming the fragmentation; the independence and accreditation of higher schools will be ensured.
- A Lifelong Learning Strategy will be adopted by end of October 2008, which objective is to ensure the framework for improving the quality of the labour force through stimulating employers and the employees to invest in attaining new knowledge corresponding to the new requirements during the entire professional lifetime.

— Support for research and development and innovations

- In 2008-2009 a National R&D Strategy will be adopted. It will provide for developing the link between science and business, for defining the scientific priorities in support to the economic growth, for ensuring adequate conditions for scientific career development and promotion;
- In the 2009 State Budget Law the financing of the National Fund for Scientific Research will be increased up to BGN 100 million. They will be mainly targeted to applied research projects;
- The process of accepting applications under the Operational Programme "Competitiveness", including under Priority 1 "Developing an economy based on knowledge and innovation activities" continues, where the priority will be given to projects including innovation and R&D;
- By the end of the first quarter of 2009 Ministry of Education and Science (MES) and the Ministry of Economy and Energy (MEE), in collaboration with the business organisations, will propose the creation of new schemes and mechanisms for stimulating the innovation activity with higher involvement of the business and the higher schools;
- Using the 2009 state budget as well as additional mechanisms, additional incentives will be created for the institutes and scientists of the Bulgarian Academy of Science, the Agriculture Academy, and the higher schools, to work on applied research projects within the outlined as national priorities areas;
- By the end of the year MEE and MES will revise the existing mechanisms to create and maintain strong links between the information and communication technologies (ICT) companies and the educational and scientific institutions.

Other measures related to the priority for infrastructure building, including in the ICT

All new measures that were proposed for inclusion in the updated NRP in the second quarter of 2008 were related to the modernisation and development of the ICT infrastructure:

- In the third quarter of 2008 proposals for the adoption of two programmes with a three-year term of operation were also elaborated: a National Programme for the Development of Information Technologies and a National Programme for the Development of broadband access in Bulgaria. They are aimed at systematising the efforts and providing for adequate conditions for accelerated convergence with the advanced in this regard EU countries;
- In the third quarter a campaign for the introduction in the country of IPv6 also started; it will support the development of scientific and applied expertise required for improving the information society services and for introducing the applied research on part of the business;
- In September 2008 the supercomputer centre for scientific research was officially opened; it is directly linked to the policies aimed at stimulating the investment in R&D – with its support the creation of applied products with the aim of their introduction on part of the business will become possible;
- The planned establishment of ICT registries under the Law on e-Governance addresses also the third challenge since it is expected to contribute to improving the business environment and reducing red-tape through improvement of the electronic administrative services for the citizens and for the business.

Contribution of the Structural and the Cohesion Funds for the fulfilment of the National Reform Programme

As it can be seen from the previous parts of the document, the Structural and the Cohesion Funds have significant contribution for the fulfilment of the National Reform Programme. They complement and diversify the scope of measures envisaged for financing from the national budget.

After the start of the operational programmes, most of the approved projects are directed at increasing the employment through improving the quality of the workforce and its adaptability to the labour market needs. Under Human Resource Development Operational Programme are approved 712 projects in the overall value of EUR 25.9 million. Some 689 contracts are signed under the programme in the total value of EUR 25.5 million, while the payments made as of end of September amount to EUR 3.56 million.

The activity under Competitiveness Operational Programme is also high – some 312 projects in the overall value of EUR 108.2 million are approved. Until now some 299 contracts worth EUR 98.9 million are signed. There were not yet pay-outs under the programme.

Under the Administrative Operational Programme are approved 160 projects in the amount of EUR 38.2 million – some 159 contracts worth EUR 38.1 million have been concluded. The made payments as of 30 September amount to EUR 5.6 million.

With the highest value of the contracted funds is Transport Operational Programme. There are 6 approved projects under it, the value of the contracts concluded for these projects amounts to EUR 251.9 million – nearly half of the overall amount of the contracted funds for all the

operational programmes. The payments made as of 30 September amount to EUR 0.659 million, all of them under priority axis Technical Assistance.

Under Regional Development Operational Programme are approved 106 projects in total value of EUR 165.1 million. Some 99 contracts are concluded in the amount of EUR 121.1 million. So far no payments were made under the programme.

Under Environment Operational Programme are approved 9 projects in the amount of EUR 0.716 million and contracts in the same value have been concluded. No payments were made under the programme.

Under Technical Assistance Operational Programme are approved 14 projects in total value of EUR 9.7 million and contracts in the same value have been concluded. The value of the payments made amounts to EUR 0.292 million.

At present contracts in the total amount of EUR 546.1 million are concluded and as of 30 September are made payments in the value of EUR 10.1 million under the seven operational programmes. ▲

Annex: Time-table for implementation of the Better Regulation Programme 2008 – 2010

Simplified regimes – 6, of which 1 has been transferred for self-regulation of a branch association

Abolished regimes – 2

Not changed – 2

Subject to forthcoming examination not later than 18.12.2008 – 6, for 5 of which draft law amendments have been prepared

Regimes under facilitation	Simplification Procedure	Law	Responsibility of	Status
1. Licensing of commodity exchange activities	Replacement of the licence with registration regime.	Law on commodity exchanges and market-places	MEE	Draft amendment law prepared – approval postponed by Protocol №28 of 17.07.2008. Published on the Public consultations website – www.strategy.bg
2. Licensing of carriers for transportation of animals	Replacement of the licence with registration regime. Amendments to art. 165 of the Law on the veterinary activity are envisaged. Paragraf 1, b. 2 and 4, requiring provision of documents that the administrative authority is also obliged to dispose with, have been abolished. By shifting towards registration regime, the administrative authority has no option to refuse the activity execution on expedience any more, and, according to art. 14, para.1 of the Law on limiting the administrative regulation and the administrative control over the economic activity, it will be obliged to give permission for this activity provided that the normative requirements have been fulfilled.	Law on the veterinary activity	MAF	Draft amendment law on the Law on the veterinary activity approved by the CoM on its session of 02.10.2008. This regime has been facilitated as described in column 2.
3. Licensing of wholesale trade of veterinary medical products	Replacement of the licence with registration regime. It is envisaged to make an amendment in art. 364 of the Law on the veterinary activity. By shifting towards registration regime, the administrative authority has no option to refuse the activity execution on expedience any more, and, according to art. 14, para.1 of the Law on limiting the administrative regulation and the administrative control over the economic activity, it will be obliged to give permission for this activity provided that the normative requirements have been fulfilled.	Law on the veterinary activity	MAF	Draft amendment law on the Law on the veterinary activity approved by the CoM on its session of 02.10.2008. This regime has been facilitated as described in column 2.

Regimes under facilitation	Simplification Procedure	Law	Responsibility of	Status
4. Licensing of retail trade of veterinary medical products	<p>Replacement of the licence with registration regime. It is envisaged to make an amendment in art. 375 of the Law on the veterinary activity. By introducing registration regime, the administrative authority has no option to refuse the activity execution on expedience any more, and, according to art. 14, para.1 of the Law on limiting the administrative regulation and the administrative control over the economic activity, it will be obliged to give permission for this activity provided that the normative requirements have been fulfilled.</p>	Law on the veterinary activity	MAF	Draft amendment law on the Law on the veterinary activity approved by the CoM on its session of 02.10.2008. This regime has been facilitated as described in column 2.
5. License for vocational education or vocational orientation	<p>It is envisaged to prepare a draft law on amendment of the Law on vocational education and training that will provide for revision and facilitation of the procedures for licensing of vocational education centers and information and professional orientation centers, as well as for revision and facilitation of the application forms for both procedures. It is also envisaged to amend the license of vocational education centers and information and professional orientation centers fee tariff, collected by the National agency for professional education and training. The administrative regime will be facilitated by introduction of two new steps in the tariff at the stage of candidate's proposal evaluation (at the start of the procedure) – fees for candidates with one profession and for candidates with 2 to 6 professions.</p>	Law on vocational education and training	MES/ MLSP	Draft amendment law prepared. Envisaged for consideration by the CoM on 6.11.2008, according to the Legislative Programme of the CoM.
6. Permit of performance of activities including collection, transportation, temporary storage, preliminary treatment, utilization and/or making harmless of waste	<p>The amendments in the Law on waste management envisage:</p> <ol style="list-style-type: none"> 1. Excluding from the permission regime the most often demanded permissions for performing activities with dangerous waste, namely their temporary storage on the place of origin. 2. Shortening by ½ the deadlines* for concerting the Programmes for waste management activities – new paragraphs 7, 8 and 9 have been created in art.30 that set up those shorter deadlines. 	Law on waste management	MOEW	Draft amendment law prepared. Envisaged for consideration by the CoM on 18.12.2008, according to the Legislative Programme of the CoM.

Regimes under facilitation	Simplification Procedure	Law	Responsibility of	Status
	<p>* At moment the deadline is 30 days. 3. Reduction by 30 days of the overall duration of attaining approval for the Company waste activity programmes, and in case of a single return for missing details completion – to up to 75 days: It is proposed a removal of a stipulation currently in force (art.30, para.4 - „The director of the regional inspectorate for environment and waters, on which territory is the seat of the persons as per the commercial register, shall approve the draft programme after receiving statements about their co-ordination by the regional inspectorates for environment and waters, on which territory the activities are implemented.”</p>			
<p>7. Permit of organization on utilization</p>	<p>MOEW Position: "The waste management organisations are specific legal entities that have some modalities with regard to other commercial entities. First, they accumulate ceded by government public funds. Second, they are non-profit. Third, they are allowed to spend the accumulated funds only on specific purpose and are subject to annual auditing for this. Hence they have to remain on permission regime."</p>	<p>Law on waste management</p>	<p>MOEW</p>	<p>MOEW does not envisage abolition of the permission regime</p>
<p>8. Licensing of persons who import, sell, pack and wrap products for plant protection with commercial aim or perform plant protection services</p>	<p>The amendments on the Law on plants protection as of 28.03.2006 with regard to the permission regime are in contradiction with the Law on limiting the administrative regulation and the administrative control over the economic activity since the permission is issued for each separate deal or activity, while in substance this is a registration regime. In the period 2008-2010, no facilitation of the permission regime for trade and re-packaging of plant protection products is envisaged. The regime for performing plant protection services has already been abolished.</p>	<p>Law on plants protection</p>	<p>MAF</p>	<p>MAF does not envisage abolition of the permission regime for persons who import, sell, pack and wrap products for plant protection with commercial aim or perform plant protection services. The regime for providing plant protection services has been abolished.</p>

Regimes under facilitation	Simplification Procedure	Law	Responsibility of	Status
9. Registration of sites for making harmless of side animal products and sub-products	Shift towards approval of objects in line with the stipulations under the Regulation 1774/2002/EO. The approval procedure is described in art. 229, para. 2, which refers to the approval procedure under art. 228, para.2-7. The regime is facilitated by introducing a significant reduction of the approval deadlines.	Law on the veterinary activity	MAF/ MOEW	Draft amendment law on the Law on the veterinary activity approved by the CoM on its session of 02.10.2008. This regime has been facilitated as described in column 2.
10. Permits of persons for conformity assessment of construction products	A draft Ordinance on amendment of the Order on essential requirements for buildings under construction and for assessment of building materials' compliance is prepared. The amendments are related to the reduction of the number of documents required as well as of the deadline for issuing permission based on compliance assessment, in case the candidate provides copies of validated certificates for accreditation for the same scope of products, standards, and competencies as the ones it applies for.	Law on products technical requirements	MRDPW	Facilitated. CoM Ordinance № 225 of 10.09.2008
11. Permit of performance of occasional transportation	An amendment in the Law on road transport is envisaged aimed at making more precise the texts requiring administration approval for casual bus transport. Yet, the measure will be preserved on its whole.	Law on the road transport	MT	Draft amendment law prepared. Envisaged for consideration by the CoM on 30.10.2008, according to the Legislative Programme of the CoM.
12. Permit of performance of taxi transportation	According to a draft Law on amendment of the Law on the road transport, the registration will no longer be under responsibility of the Ministry of transport, respectively the "Road Administration" Executive Agency; it will be carried out by the correspondent municipalities (upon issuance of permission). Thus, the Municipality Council will locally define the number of taxi vehicles as well as the terms and conditions for their operation.	Law on the road transport	MT	Draft amendment law prepared. Envisaged for consideration by the CoM on 30.10.2008, according to the Legislative Programme of the CoM.
13. Classification of places of interest	The draft Law on amendment of the Law on tourism introduces amendments in art. 50, para. 2 that aim at abolishing the categorisation of the establishments for catering and entertainment.	Law on tourism	STA	Abolished. The draft amendment law is in the National Assembly.

Regimes under Removal	Removal Procedure	Law	Responsibility of	Status
1. Licensing of expert valuers of different types of assets	The draft Law on independent valuers envisages replacement of the existing license regime with a registration one, and the regulation of the independent valuers to be carried out by a professional association – the Chamber of independent valuers.	Law on independent valuers	MEE	Facilitated. Decision №462 of 15.07.2008 This regime is transferred for self-regulation by a branch association.
2. Licensing of operators of airport ground operations	Position of MT: After consultations with the EC on issues regarding the access to ground services market it has been clarified that at present it is not possible to remove the license of ground service operators. Hence it is necessary to consider the possibility provided by Directive 96/67, according to which the General Directorate „Civil Aviation Administration” gives approval before the ground service supplier starts operating on a certain airport market. Such an approval will be issued under clear criteria as stipulated by Directive 96/67, and will be related to its principles according to art.14, para. 1 of the Directive.	Law on the civil aviation	MT	Draft amendment law is envisaged for consideration by the CoM on 30.10.2008, according to the Legislative Programme of the CoM.