



Republic of Bulgaria

**NATIONAL REFORM PROGRAMME  
(2008 - 2010)**

**2009 UPDATE**



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## List of Abbreviations

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AEAF – Agency for Economic Analysis and Forecasting

BAS – Bulgarian Academy of Sciences

BNB – Bulgarian National Bank

CLI EA – Chief Labour Inspectorate Executive Agency

CoM – Council of Ministers

CPC – Commission for Protection of Competition

CPI – Consumer Price Index

CRC – Communication Regulatory Commission

EA – Employment Agency

EC – European Commission

EEA – European Economic Area

EIB – European Investment Bank

ERM II – Exchange Rate Mechanism II

ESF – European Social Fund

ESO EAD – Electrical Energy System Operator Sole Proprietorship Joint Stock Company

ETS – Emission Trading Scheme

EU – European Union

EUREKA – pan-European network for market-oriented, industrial R&D

Eurostars Programme – a programme supporting and funding research and innovation performing businesses in Europe

FDI – Foreign Direct Investments

FLAG – Fund for local authorities and governments (FLAG)

GDP – Gross Domestic Product

GPs – general practitioners

ICT – Information and Communication Technologies

IMF – International Monetary Fund

IPA – Institute for Public Administration

LEP – Law on Employment Promotion

LPC – Law on Protection of Competition

MEET – Ministry of Economy, Energy and Tourism

MEYS – Ministry of Education, Youth and Science

MFF – Medium-term Fiscal Framework

MLSP – Ministry of Labour and Social Policy

MSAAR – Ministry of State Administration and the Administrative Reform

NGO – Non-government organisation

NHIF – National Health Insurance Fund

NIF – National Innovation Fund

NRA – National Revenue Agency

NRP – National Reform Programme

NSF – National Science Fund

NVE Norway – Norwegian water resources Norway

OP – Operational Programme

OP HRD – Operational Programme Human Resource Development

R&D – Research & Development

RES – Renewable Energy Sources

SDR – Special Drawing Rights

SER – state educational requirements

SEWRC – State Energy and Water Regulatory Commission

SIC – Social Insurance Code

SMEs – Small and medium-term enterprises

VAT – Value Added Tax

## Mechanism for Reporting and Update of the National Reform Programme

The progress of reporting under the 2006 – 2008 National Reform Programme (NRP) has continued in 2009 in line with the procedure established with Council of Ministers Decision No. 416 as of 18 June 2007<sup>1</sup>. The process of reporting is co ordinated within a Working Group under the Council of European Affairs, in which representatives of all ministries and other institutions concerned participate. On the basis of the contributions by each participant in the group the Agency for Economic Analysis and Forecasting (AEAF) prepares a quarterly report, which is submitted for consideration and approval by the Council of Ministers. The report for the second quarter of 2009 contains concrete recommendations for speeding up the implementation of reforms in the country, as well as for 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 to the present NRP has started.

This document is prepared by the AEAF in close co operation with line ministries and other institutions within the public administration. Its elaboration was supported also by the intensive consultations with the experts from the European Commission during a number of meetings at both expert and political level. The comments and recommendations made during these meetings proved to be extremely useful for the preparation of a quality and adequate to the challenges faced by the Bulgarian economy Action Plan.

The non-government sector, the social and economic partners also participated in the drafting and discussions of the specific documents and measures (programmes, plans, strategies) part of this document. □

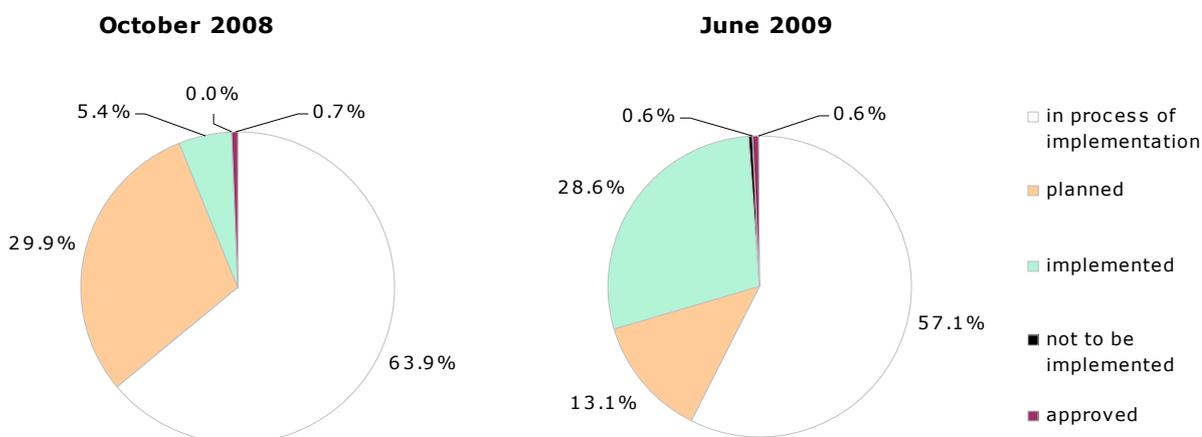
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<sup>1</sup> Decision No. 416 of the Council of Ministers as of 18 June 2007 on the definition of a mechanism for reporting the implementation of the measures and actions set out in the National Reform Programme (2007 – 2009) and in the Summary of Challenges, Policies and Governance – National Reform Programme of the Republic of Bulgaria (2007 – 2009) (CoM Decision No. 416 of 2007).

## Progress under the National Reform Programme 2008 – 2009

The Action Plan to the National Reform Programme of the Republic of Bulgaria (2008 – 2010), approved with CoM Decision No. 658 as of 27 October 2008, contains 147 measures (including 11 measures of a more general character with 43 sub-measures) in response to the four country-specific recommendations and five points-to-watch for Bulgaria, as defined by the European Commission in the December 2007 Strategic Report.

After the adoption of the programme until the end of June 2009, 28 new measures have been included, and consequently the total number of measures has increased to 175. Of these, 100 are in the process of implementation, 23 are planned, 50 have been already implemented, the implementation of one measure has been suspended, and one measure has been approved. Out of the twenty eight new measures, as of end of June 2009 23 are in the process of implementation, 3 are implemented, 1 is approved and 1 will not be implemented.



After the adoption of the programme in October 2008 until the end of June, the implementation of measures aimed at improving the administrative capacity, increasing the employment of youths and elders, encouraging the entrepreneurial activity, provision of qualification services in support of employment, introducing school and university practices for encouraging the entrepreneurship, career development of teachers and lecturers, introducing ICT in education, preventing the early school leaving, provision of financial stimuli for better achievements in higher education, etc., has been started.

With regard to the time-schedule for implementation, delay is being observed for the following measures:

- Measure 13 "Carrying out an independent external review of the organisation in key administrative units and structures in charge of the elaboration and implementation of policies to cope with the most significant challenges which Bulgaria faces" – the implementation deadline was December 2008;
- Measure 39 "Abolishment and simplification of administrative regimes" – the implementation deadline was December 2008. It should be noted, though, that in addition to the regimes which were to be eliminated or simplified according to the Better Regulation Programme, a year after the adoption of the Programme the Council of Ministers has abolished and simplified a total of 25 regimes, of them– 10 being part of the Programme and other 15 (3 - abolished and 12 simplified).
- Measure 44 "Extension of the time period for consultation with the stakeholders to 30 days" – the implementation deadline was December 2008;
- Measure 46 "Elaboration of a new Law on the Statutory Instruments – the implementation deadline was March 2009;

- Measure 49 "The Bulgarian Government will consider the possibilities for exercising administrative pressure on the local authorities with regard to the regimes at municipal level" – the implementation deadline was April 2009;
- Measure 51 "Start of the Administrative Register" – the implementation deadline was December 2008;
- Measure 73 "Legal regulation of the activity of the Agencies for temporary employment" – the implementation deadline was the fourth quarter of 2008.

For two measures, the implementation deadlines were extended as compared to the initially envisaged:

- Grant scheme for renovation of the equipment for applied purposes at research organisations (Project proposals related to the European Research Infrastructure will be prioritised in the selection process);
- Grant scheme for preparation of technical documentation for the establishment of technological parks.

In the context of the new financial situation these two grant schemes will be reviewed:

Measure 66.5 "Contracting projects under the scheme "Support to and promotion of employment in branches with labour force shortages" will not be implemented given the recent labour market developments following the impact of the global financial and economic crisis on the Bulgarian economy. A decision to this effect has been taken by the Monitoring Committee of OP "Human Resources Development".

For 48% of the measures (84 out of 175 measures) detailed information regarding their financing is provided.

# I. Overview of the Environment and the Framework for the Implementation of the National Reform Programme

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## ψ The global crisis and its impact on the Bulgarian Economy

### — The Bulgarian economy at the end of 2008 and the first half of 2009

The negative impact of the global crisis on the Bulgarian economy started revealing itself in the last quarter of 2008, when the real GDP growth slowed down to 3.5% as compared to 7% for the first nine months of the year. Since the beginning of 2009, two consecutive quarters with an increasing real GDP contraction - of -3.5% in the first quarter and -4.9% in second quarter of the year - have been registered. Industry and agriculture were the most strongly affected although in the second quarter the pace of their contraction was lower as compared to the one in the first three months of the year. In the first half of the year services had positive contribution to the GDP dynamics, despite the fact that their growth slowed down (1.4% in the second quarter and 2.5% in the first quarter of 2009 as compared to 5.9% in 2008). On demand side a structural shift has been observed due to shrinking domestic demand and the external sector positive contribution to the GDP dynamics, with the latter one resulting from the faster deterioration of imports as compared to that of exports. The gross fixed capital formation decreased by 15.4% on annual basis in the first half of 2009 owing to limited financial resources and uncertain global economic environment. The dynamics of the final consumption deteriorated - it registered a drop of 4.5% as a result of the weaker credit activity, the growing savings and unemployment. The trade balance continued improving and reached -14.4% of GDP as compared to -27.2% in January-June of the preceding year.

Since 2008 the faster-than-consumption growth of the gross national disposable income resulted in gradual increase in domestic savings, which in the last 12 months reached 14.8% of GDP as of end of June as compared to 12.6% of GDP as of end of June 2008. This, together with the lower investment activity in the country throughout 2009, resulted in an increase of the coverage of investments with national savings to 50% in January-June, which is the highest level for the last four years. As a result, the needed external savings decreased, which had a favourable impact on the current account of Bulgaria. On the other hand, as a result of the higher public expenditure and the limited private consumption, 72.4% of the national savings were accumulated by the private sector in a 12 month period, against less than 50% in 2008.

**During the last couple of months the fall in the industrial production slowed down, yet remaining at two-digit values.** Metallurgical industries have large negative contribution, with ferrous metallurgy contraction being significant, where the export sales amounted to only one-third of last year's volumes mainly because of the reduced production of "Kremikovtsi" plant. Non-ferrous metallurgy production registered strong growth in May-August. This was due to the increase in the world prices of metals. The production of goods from non-metal mineral raw materials, which strongly depends on the construction sector dynamics, also has a large negative contribution to the industrial sales decrease. The drop in construction continues with the index of construction production decreasing annually by 17% in August. Among the other sectors with a considerable negative contribution were the production of metal articles, excluding machinery and equipment, and the production of chemical products and clothing, which were mostly affected by the shrinking external demand. Despite the unfavourable conditions, there were some sectors with positive annual growth in January-August 2009. These were production of coke and refined petroleum products, basic precious and other non-ferrous metals, production of sports goods, radio-, television and long-distance communication equipment, printing and recording on record devices, the production and distribution of heat, collection, treatment and water supply, some of the branches of the food industry.

**The unemployment rate has been growing at a faster pace on an annual basis during the recent months.** As of the end of August the unemployment rate reached 7.9%, up by 2 percentage points as compared to August 2008. The unfavourable impact of the crisis on the labour market was even more clearly reflected in the employment dynamics. In the first half of the year the number of employed decreased by 1.5% on average, or by nearly 50 thousand people on an annual basis (according to Labour Force Survey data). The Enterprise Survey data point to an accelerated decrease in number of employed during the recent months, so in the first half of the year this decrease reached -2% as compared to the

period January–June 2008. The current negative employment dynamics is determined by the decrease in number of employed in industry (mainly in processing industry, and, in the recent months, also in construction), while in the services sector the number of employed is still preserved around its levels of the first half of 2008 (yet, as of the second quarter the number of employed in the services sector has started decreasing on an annual basis).

The observed since the second half of 2008 slowdown of the pace of increase in incomes has also continued in the first half of 2009. In the first half of 2009 the nominal average wage growth amounted to 15.8% on an annual basis, which is the lowest value of the indicator since the beginning of 2007. In real terms, the average wage increased by 10.2% on an annual basis. The export-oriented branches were the most affected as a result of the lower external demand. During the period under review, the average labour income in the processing industry registered a growth of only 10.6% and 5.2% in nominal and real terms, respectively.

The combination of falling international prices of basic commodities and domestic demand moderation resulted in a slowdown of the consumer prices growth. Since the middle of 2008 a pronounced process of disinflation has been observed and the annual **inflation** declined to 0.2% in September 2009. To a large extent this is explained by some base effects as of the middle of the last year. Despite the decelerating annual inflation, the prices of the services have preserved their relatively higher growth (3.1% against September of the preceding year) as compared to the other components of the consumer price inflation index (CPI). The growing unemployment rate and the weaker demand have also additionally restrained increase in domestic prices. Since March 2009, domestic industrial producer prices have been registering a deflation on an annual basis - in August it reached -9.8%. With the expected lower increase in incomes, this to some extent helps maintain the purchasing power and contributes to the stabilisation of the consumption.

**The current account balance** was positive (at EUR 65.1 million) in July, for the first time since end-2001. In August the balance remained positive and amounted to EUR 284.3 million. For the first eight months of 2009, the current account deficit amounted to EUR 2.2 billion, which is by 65.4% lower as compared to the same period of 2008; the accumulated deficit amounts to 6.3% of the estimated GDP for 2009 as compared to 14.8% for the same period of 2008. The main factor for the improvement of the current account balance in January-August was the trade balance, where the deficit decreased by 44.3% to EUR 3.1 billion due to faster annual decrease of imports (34.9%) over exports (29.9%).

As a whole, in January–August 2009 the services account was in a surplus of EUR 1.12 billion, almost doubling against the same period of the preceding year (EUR 782 million). This was mainly due to faster decline in imports of services (by EUR 500.9 million) over the export of services (by EUR 161 million). Despite the expectations for a weaker season, the tourism sector preserved its high growth rates during the summer season. Another factor, which contributed to the improvement of the current account balance in January-August, was the improvement in income account, which although being negative in the first eight months of 2009 (at EUR -591.6 million), was by 26.4% lower as compared to the same period of the preceding year.

The reported in July and August 2009 financial account deficit of EUR 139.9 million resulted in a 90.5% annual decrease of the net inflows (to EUR 827.7 million) in the first eight months of the year. The foreign direct investments in January-August decreased by 57.6% on an annual basis to EUR 1.95 billion and cover 77% of the current account deficit. To a large extent the financial account developments continued to depend on bank activity. Negative cash outflows were registered on both the asset and the liability sides of item "Other investments".

As a whole, the balance of payments reported a deficit since the beginning of this year mainly as a result of the lower financial account inflows .

The currency board is stable and boosts the confidence of the economic agents in the financial system and the economy as a whole. The sound macroeconomic environment, secured by the strict rules of the currency board, as well as the implemented reforms, contributed to the limited influence of the global crisis on the financial system of the country. The latter remained stable as the commercial banks in Bulgaria do not have exposures to the so called "toxic assets". Regardless of the capital outflows, the change in the minimum reserve requirements at the beginning of 2009, and the reduction of the government deposit at

the central bank, the foreign exchange reserves remain high and ensure adequate coverage of the monetary base and the money supply.

The growth of the consumer loans slowed down to 2.8% at the end of August as compared to 36.4% a year earlier. The increase of the value of the extended mortgage credits, which are traditionally among the fastest growing market segments, also decelerated, albeit at a slower rate as compared to consumer loans. At the end of August their growth reached 12.1% compared to 47.3% in August 2008. The growth of business loans also decelerated to 4.3% at the end of August as compared to 53.6% for the same month of the preceding year. The banks do not face serious liquidity problems mainly as a result of the released funds following the change in the minimum reserve requirements and the attracted deposits from the domestic market. The banks use the released financial resources for repayment of their liabilities to foreign entities or for increasing their foreign assets, which resulted in an increase of the net foreign assets by nearly EUR 2.5 billion as compared to the end of 2008.

At the end of February 2009, the Bulgarian National Bank (BNB) announced amendments in the ordinances regulating the assessment and the classification of the risk exposures and the capital adequacy of the commercial banks. These amendments aimed to ensure greater flexibility in management of credit portfolios of the financial intermediaries in order to limit the negative impact of the financial crisis.

**The foreign exchange reserves of Bulgaria were positively influenced by the additionally assigned by the IMF SDR.** Bulgaria received SDR amounting to about EUR 665 million and thus at the end of September the reserves reached EUR 12.39 billion. Regardless of the lower foreign capital inflow to Bulgaria, the coverage of the monetary base and of the broad money remained high. The coverage of the imports of goods and non-factor services started increasing in the second quarter as a result of the considerable contraction of the imports, and exceeded 6.5 months of imports at the end of August.

#### — Macroeconomic perspectives

As a result of the financial crisis and the deterioration of the world economy, in 2009 the Bulgarian economy is expected to contract by 6.3% in real terms. The uncertain economic environment is expected to lead to a re-consideration of the economic agents' investment decisions. This process will be additionally reinforced by the more difficult access to credit financing stemming from the reduced global liquidity and risk reassessment on part of the financial institutions. In 2009 the share of investments is expected to fall to 26.5% of GDP.

The decelerating growth rate of wages and the growing unemployment are expected to have a negative impact on the income of the households. This, coupled with the limited extension of credits to households, will lead to a contraction of the households' consumption by 4.5% in real terms in 2009. The measures undertaken to limit the government expenditures will result in falling government consumption by 3% in real terms. As a result, in 2009 the final consumption is expected to contract by 4.2% in real terms.

As a result of the contracting domestic demand, the imports of goods and services in 2009 are expected to decrease by 19.5% in real terms. In addition, the still unsustainable economic situation of the country's main trade partners will have a negative impact on the Bulgarian exports, and consequently, they are expected to shrink by 12.3% in real terms.

In 2010 the Bulgarian economy is projected to fall by 2.0%. A process of economic recovery will start in 2011, with exports expected to be the driving force of the economic growth.

The **overall end-of-period inflation** is projected to be 1.8% at the end of 2009 and the average annual inflation to reach 2.3%. As the recovery of the developed industrialised economies is expected to start in 2010, the international prices of both energy and non-energy commodities will increase. This way the external inflationary factors will gain momentum and low, but positive inflation rates can be expected for food and energy goods at the end of 2010. In 2010 the domestic factors will limit the overall price level increase as the nominal labour costs during the year will not be a pro-inflationary factor. The unemployment will continue increasing and the wages growth will be close to that of the labour productivity. The introduction of new, higher excise duty rates for cigarettes will contribute by 0.4 percentage points to an increase in the overall end-of-period inflation at the end of 2010. The average annual inflation and the end-of-period inflation are projected to be about 2.2% in 2010.

The current account deficit is expected to decrease to 11.0% of GDP in 2009 as compared to 25.4% in 2008. The main factor would be the improved trade deficit. Despite the contraction of the exports of goods by 10.5% in real terms, the lower domestic demand will lead to an 18.9% fall of the imports of goods. This, together with the decrease in the international prices of metals, food products and energy goods, will lead to an improvement in the trade deficit from 25.7% of GDP in 2008 to 16.0% of GDP in 2009.

The global financial crisis will negatively affect the financial account inflows, which Bulgaria is attracting. FDI inflows are not expected to exceed EUR 3 billion at the end of the year. Nevertheless, in view of the sharp decrease of the current account deficit, FDI will finance 84% of the deficit as compared to 71% a year earlier.

The annual growth of the money supply is expected to be 1.5% at the end of 2009, and then to gradually increase to 10.4% by the end of 2012. In 2009 – 2011 the net foreign assets of the banking system will increase to EUR -1..

The contraction of external demand and domestic investment activity in 2009 and 2010 is expected to have a negative impact on the labour market during these two years. The employment is expected to fall by 4.9% in 2009 and by 2.5% in 2010. The steepest decrease in employment is expected in the second half of 2009, and the drop is seen to continue also 2010 because of the time lag with which the labour market reacts to the lower economic activity. As a result of the delayed reaction of employers to the fall of the economic activity, in 2009 the labour productivity is expected to fall on an annual basis. Against the background of a lower expected GDP decrease and continued reduction of the employment, the labour productivity is expected to resume growth in 2010. The unemployment rate is expected to increase to 9.5% in 2009 and to 11.4% in 2010. The subdued economic activity in the medium-term justifies the expectation for a significant slowdown of the pace of increase in labour income.

## ψ Influence of the political cycle on the implementation of the National Reform Programme

In the middle of 2009 regular parliamentary elections in the Republic of Bulgaria took place leading to the constitution of a new parliamentary majority. The new government assumed office at the end of July and announced radical reforms in the public sector mainly directed towards decisive elimination of the corruption at all government levels and enhancing the efficiency of public administration.

Setting limits to the grey economy, accelerated improvement of business environment, and elimination of all obstacles to the efficient absorption of the EU funds are among the other major priorities of the government.

A clear signal for a strong political commitment to the implementation of the renewed Lisbon Strategy was provided already in the first month of the new government ruling, after the Council of Ministers appointed Deputy Prime Minister and Minister of Finance Simeon Dyankov a National Lisbon Coordinator.

With regard to the current update of the National Reform Programme, the policy of the government will be focused on the implementation of the key measures and programmes of the NRP in the areas where country-specific recommendations were made by the Council, while putting an emphasis on more efficient functioning of the public administration and on overcoming the negative repercussions of the crisis in Bulgaria.

Providing for a better policy co-ordination within the government is an important pre-condition for success with the reform agenda. The appointment of the Minister of Finance a Deputy Prime Minister responsible for several different areas of the government policy (including administrative reform, healthcare, education, management of the EU funds) will contribute to the fulfilment of this pre-condition within the concept of unity between European and national policies. □

## II. Main Priorities and Policies to Achieve the Objectives of the Lisbon Strategy (2008-2010)

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Assuming office at the height of the economic crisis, the new government defined as one of its most important priorities overcoming the consequences of the global economic downturn and the quickest possible return to the high and sustainable growth path. The main instruments of the economic policy to achieve the above objectives remain in the field of fiscal policy and structural reforms.

The Bulgarian government will continue to implement key measures and actions under the updated National Reform Programme, following the country-specific recommendations addressed to Bulgaria in the European Council Conclusions as of 25 June 2009:

- Urgently further strengthen the efficiency and the effectiveness of the public administration, in particular by focusing on key government functions, including the competition, supervisory and regulatory authorities, and the judiciary, and continue taking all measures necessary to ensure effective financial controls and sound management of structural funds;
- Maintain a tight fiscal policy, improve the quality and efficiency of public expenditure, keep wage developments in line with productivity gains, and enhance effective competition so as to strengthen competitiveness and reduce external imbalances;
- Rapidly adopt and implement new measures to substantially cut red tape at central and local level and shorten procedural delays in order to improve the business environment, which will also help in the fight against corruption; and
- As part of an integrated 'flexicurity' approach, focus on increasing the quality of labour supply and the employment rate by improving the efficiency, effectiveness and targeting of active labour market policies and by further modernising and adapting the way education is governed to raise skills to levels that better match labour market needs, and reduce early school leaving.

With a view to overcoming the negative consequences of the global economic downturn the government adopted a package of anticrisis measures to be implemented by the end of April 2010. The document was elaborated with the active participation of the business and the trade unions and its objective is to limit the decline of the economic activity through the implementation of measures which improve the business environment and through providing support and social protection to the most vulnerable social groups. The main results, which are targeted through the implementation of the economic measures of the government, are ensuring the stability of the macroeconomic and financial system, improving the business environment, activating the agricultural production, developing better infrastructure, stimulating the employment and the social assistance, developing a knowledge-based economy, efficient management of the EU funds.

### ψ Further strengthening of the administrative capacity

The new government started with determined actions in the field of the administrative reform already at the beginning of its mandate. After the closure of the Ministry of State Administration and Administrative Reform and of the position of the Deputy Prime Minister responsible for European Funds, a Council for the Administrative Reform and a Council for the EU Funds Management to the Council of Ministers were established. They are chaired by the Deputy Prime Minister and Minister of Finance and are composed of ministers of the cabinet. The objective of this step is to ensure the coordination of policies and the synergies in the areas related to the public administration reform, as well as to enhance the capacity for absorption of the EU funds. The administrative reform is already in process of implementation. The new government may benefit from the effects of the crisis and from the fact that it is at the beginning of its mandate, and to swiftly implement these reforms. With the adoption of new Rules of Statute of the Council of Ministers at the beginning of October, the composition of its administration has been optimised. The newly established "Public Administration" Directorate will perform some of the functions of the closed Ministry of State Administration and Administrative Reform. It will provide operational support to the Council for the Administrative Reform.

With a view to improving the organisation and the efficient absorption of the resources from the EU budget, a specialised unit at the Council of Ministers was established to perform the functions of a secretariat to the Council for the EU Funds Management and to assume some of the co-ordination functions of the "Management of EU Funds" Directorate, which so far existed at the Ministry of Finance.

By November all ministries will prepare and submit to the Deputy Prime Minister and Minister of Finance their proposals for personnel reduction in their administrations. In the 2010 budget personnel expenditures will be reduced by 15% as compared to the current year.

In September the reform in the revenue administration started – as a first step, competitions for appointing people to 367 senior and middle-level positions within the system of the National Revenue Agency (NRA) were started. The people currently occupying these positions were discharged from office and were invited to participate in the open competitions on equal terms with all other applicants satisfying the preliminary conditions for the corresponding position. Significant reforms are also underway in the customs system. The government set the establishment of a working electronic interconnection between the NRA and the customs offices as a task of highest priority, and it is already a fact. The reform of state agencies has also started. The Ministry of Finance has also started a reform aimed to reduce its personnel by almost 14% as of the beginning of the next year.

In April 2009 the work on an independent external review and functional analysis of the public administration started. Following a public procurement procedure launched by the MSAAR in March 2009, the consortium of "PricewaterhouseCoopers Bulgaria" and "Global Advisers Plc." started working on the project realisation. Currently, two of the three project stages have been implemented, namely: a horizontal functional review of the public administration at central level and a functional review of the public administration to efficiently implement the programme budgeting approach. Reports on the completed comparative analysis of the structure, scope and dimension of the Bulgarian public administration compared to those of other EU Member States, as well as on the completed horizontal review of the Bulgarian public administration, including with regard to the possible overlap of functions and improvement of the activities related to the formulation and implementation of policies, have been prepared. At present the work on the third stage is also under way - it is to review and analyse the organisation and co-ordination of the administrative structures responsible for the development and the implementation of policies under the Lisbon Strategy. The project will be completed at the end of November 2009.

A review of the mechanisms and the systems for formation and payment of the remuneration of the civil servants is forthcoming with a view to their unification within the public administration. The wages in the public sector will be defined according to the budget resources, the economic growth and the inflation.

An improved framework of competencies covering all position levels under public service contracts in the public administration has been developed. By the end of 2009 the adaptation of the existing training programmes under the Competencies Catalogue will be completed.

The structural changes in the public administration will also guarantee efficient work of the Institute for Public Administration (IPA), which is now within the structure of the Ministry of Education, Youth and Science (MEYS). A concept for the IPA work has been developed, according to which the training of the civil servants is carried out on three levels: senior, medium and local (where in the last one the needs are most pressing). IPA will work in close co-operation with similar EU institutions and will seek possibilities for external financing of its activities.

With regard to the pressing need to improve the efficiency and effectiveness in the EU Funds management, the government, through the Council for the EU Funds Management and its secretariat, will start working on the following main activities:

- The process and the documentation linked to the reporting of the physical and financial implementation of the projects will be simplified;
- A higher level of decentralisation will be introduced, including through the introduction of the partnership principle already at the planning stage of the policy related to the management of the EU funds; the evaluation and control process of small projects will also be further decentralised;

- Work on development and maintenance of an adequate capacity of the Audit of the EU Funds Authority to allow for the efficient implementation of its functions under the EU Regulations is planned;
- Constant cash flows from the EU funds and the corresponding national co-financing to the beneficiaries will be ensured;
- The processing of and the payments under not yet processed projects will be accelerated;
- A “Young Professionals” Programme will be established at the Institute for Public Administration to start the training of young specialists for more efficient and transparent absorption of the EU funds;
- The work of the Fund for Local Authorities and Governments (FLAG) will be optimised and for project preparation funds will be increased there. The co-operation with international financial institutions like the European Investment Bank, the European Bank for Reconstruction and Development, etc., will be strengthened;
- Widespread information campaigns regarding the opportunities to participate in projects under the programmes, which manage the EU funds, will be organised;
- Mechanisms to provide advance financing for the preparation and the implementation of priority infrastructure projects before their financing under the Operational Programmes is approved, will be developed.

## ψ Maintaining the macroeconomic stability in the short and the long-term

### — Fiscal policy aiming at a balanced budget in 2009 and 2010 against the background of a weak economic activity

With the objective to overcome the impact of the crisis and to accelerate the preparation for the entry of the Bulgarian lev to the Exchange Rate Mechanism II (ERM II), the fiscal policy aims at maintaining a balanced budget (excluding the net resources received from the EU Funds with a view to their optimal absorption). The starting point of all the measures in the anticrisis package is maintaining the macroeconomic stability and fiscal consolidation in line with the priorities of the Medium-term Fiscal Framework (MFF). The elaboration of the MFF and the main assumptions for the period 2010 – 2013 coincide with the government mandate and provide for an indicative framework for the resources provision of the policies and priorities of the individual sectors while taking into account the forecast for the macroeconomic indicators' development. With regard to the need to limit the economic and fiscal risks, to guarantee the stability of the financial system and as a response to the present unfavourable trends linked to the revenue execution of the 2009 budget, additional measures to the buffers created in the budget for 2009 were introduced with Council of Ministers Decree No. 191 as of 2009 for optimising and limiting the budget expenditures in 2009. According to the government anticrisis package, the following actions, some of which have already been implemented, are envisaged for guaranteeing the fiscal stability in the short-run:

- Cutting the inefficient expenditures in the structure of the state budget for 2009 by 15% (implemented by means of CoM Decree No. 196 as of 11 August 2009 for additional measures for limiting the non-interest expenditures and the transfers to the central government budget for 2009) and further reduction at the end of 2010;
- Reducing the number of ministers by two and of the administrative expenditures by 15% following a functional analysis of the administrative structure in all administrations – as of 1 January 2010. At present the administrations of the following ministries have been reorganised and their personnel has been reduced: Ministry of Finance - by 14%, NRA – by 8%, Customs Agency – by 15%, Council of Ministers – by 19%;
- Keeping the unified value added tax (VAT) rate of 20% as of January 2010;
- Providing reciprocal access to the information systems of the Customs Agency and the NRA to increase the efficiency of the control process (implemented);

- Pursuing a conservative policy with regard to assuming new government debt;
- Improving the systems for financial management and control through strengthening the role of the internal audit;
- Developing the system for healthcare financing and funds raising, including voluntary health insurance funds;
- Review of the justifications for annexing public procurement contracts;
- Strengthening the customs supervision and control over levies on imports of goods, such as customs value, tariff classification and country of origin, with the objective to increase the collection of public revenues;
- Using fiscal meters for the financial reporting of petrol filling stations – the first step has been implemented with the amendments to the Ordinance No.H-18 for registering and reporting of sales in the retail units by means of fiscal meters, issued by the Minister of Finance.

### — Measures for guaranteeing the long-term sustainability of public finances

In order to guarantee the stability of the pension system, a team of representatives of the public administration and the social partners is working on the review of the pension system.

According to the Medium-term Fiscal Framework for 2009-2013, during the next four years the following policies, addressing the ageing of the population, will be implemented:

- Further development of the existing three-pillar model of the pension system and development of a wide and efficient network for long-term care of the elderly;
- Promotion of longer working lives after the statutory retirement age through bonuses allowing for higher pension for each year of additional employment;
- Extending the scope of the insured individuals and, in particular, of agricultural producers, by reviewing the social insurance regime for the seasonal workers and improving the control and the measures against the violations and the circumvention of the social insurance legislation;
- Increasing the minimum monthly insurance income for the self-employed individuals from BGN 260 to BGN 420 for the period 2010 – 2013;
- Promoting higher birth rates and developing a supportive social environment for social inclusion through: establishing a social services network and extending the childcare system; increasing the size of the allowances for children with disabilities and providing them with modern technical means, increasing the funding for sterility treatment and in-vitro fertilization procedures.

In 2010 the pensions are envisaged to be increased after analysing the pace of economic recovery, and for the period 2011 – 2013 their level will be determined in line with the inflation, the social insurance income and the employment. The maximum monthly insurance income for the period under consideration is kept at BGN 2,000, and, consequently, no change in the maximum amount of the received one or more pensions - BGN 700, for the pensions granted until 31 December 2009. Pursuant to the legislation in force, the ceilings for pensions granted after this date have to be removed.

During its mandate the government envisages to increase from 20 percent to 40 percent the supplement to pensions for employment of deceased spouse under Article 84 of the Social Insurance Code (SIC).

A monthly allowance for old age supplemented to pensions of people aged over 75 will be gradually introduced. This allowance is to be provided under SIC following a differentiated approach.

As a result of the ongoing healthcare reform, the scope of the services, activities and medicines paid for by the National Health Insurance Fund has been extended. The working conditions of the general practitioners (GPs) in the disadvantaged areas have been improved. The hospital infrastructure has been improved; the

investments in high-tech medical equipment have been increased, and the state aid has been restructured. In contrast to the hospital sector, the non-hospital sector is already functioning in a competitive environment. The number of health insurance companies has increased, but the accumulated funds are still insufficient to fully cover the costs.

By the end of October 2009 a Law on the Amendment of the Law on Health Insurance will be submitted to the National Assembly. It is regulating the possibility for the health funds to cover the mandatory minimum healthcare package.

A priority of the Ministry of Health will also be the optimisation of the regional hospital infrastructure through amendments to the Law on the Medical Institutions. A new type of health card will be elaborated. The method of financing of the healthcare will be changed.

During the whole period under consideration the health insurance contribution will remain at 8%.

The reforms in the area of healthcare, social and pension insurance will be presented in more details in the upcoming 2009 update of the Convergence Programme of the Republic of Bulgaria.

## ψ Further improving the business environment and applying the better regulation principles

### — Improving the business environment

In the short term (by the end of April 2010) the government has envisaged and started implementing, as part of the anticrisis programme, the following measures:

- Reduction of the initial capital required for the establishment of a company (already reduced to BGN 2);
- Accelerated reimbursement of VAT (already started, the amount due was of BGN 620 million as of 27 July 2009 and reached BGN 200 million at the end of September 2009);
- Reduction of the social security contributions by 2 percentage points in 2010 and, depending on the budget resources, it will be reduced by a further 1 percentage point in the next three years, or by a total of 5 percentage points for the entire mandate of the government;
- Establishment of a centralised concession management with rigorous control rules;
- A proposal to the National Assembly for the adoption of amendments to the Law on the Public Procurement to abolish contradictory and non-transparent procedures, to eliminate the “small public procurement” concept, and to strengthen the role and the powers of the Public Procurement Agency;
- Increase in the investors’ classes, with some of them to be supported and administered by the state and the rest - by the municipalities by virtue of the Law on the Investment Promotion and the Rules on its implementation;
- Establishment of venture capital funds and guarantee funds;
- Speeding up the court bankruptcy proceedings, simplifying the procedures and introducing mechanisms for clearing of liabilities and debt settlement;
- A proposal to the National Assembly for the adoption of amendments to the Law on Limiting the Administrative Regulation and the Administrative Control over the Business Activity with the objective to introduce transparent, unambiguous and explicit rules on licensing, permit and registration regimes;
- Control over the efficient use of the funds provided by the Bulgarian Development Bank to commercial banks for business loans.

## — Better Regulation Programme Update and fulfillment of the 20% target for administrative burden reduction

The "Strategic Planning and Management" Directorate at the Council of Ministers was assigned functions related to the co-ordination of the implementation and reporting on the Better Regulation Programme. In pursuance of these functions, a progress review was elaborated every month, which comprised the information received from the institutions involved in the implementation of the Programme, and an annual report for its implementation was also prepared. The first annual implementation report of the Programme was adopted by the Council of Ministers at its session on 8 May 2009. In the process of report preparation the ministries and the Regional Governors submitted information in a predefined format for a more accurate analysis of the implementation of the measures.

As part of the institutionalisation of the co-ordination of the programme implementation, the Ministry of Agriculture and Food (MAF) and the Ministry of Economy, Energy and Tourism (MEET) have already established units with functions related to the better regulation, with which the Directorate is in regular contact.

With the adoption of the new Rules of Statute of the Council of Ministers and of its administration as of the beginning of October 2009, the co-ordination of the activities related to the implementation of the Better Regulation Programme was transferred to the "Economic and Social Policy" Directorate at the Council of Ministers.

An update of the Better Regulation Programme is forthcoming in order to take into account the new realities faced by the business against the background of the economic crisis and the priorities of the new government. The Medium-term Fiscal Framework envisages that an overall review of the legal conformity and the expediency of all administrative regimes will be carried out.

In the course of the review of the national legislation, which has been completed under a one-year project of MEET, as of the end of February 2009 398 information obligations provided for in 33 laws and the corresponding secondary legislation were identified. The administrative costs related to them are estimated to amount to EUR 81 million, and the administrative burden is EUR 51.5 million. The project consultants proposed that 136 information obligations shall be eliminated in order to save the business about EUR 13 million. On the basis of this proposal, at its session on 12 March 2009, the Council of Ministers adopted a **national target for reduction of the administrative burden for the businesses of 20% by the end of 2012**. As a next step the Council of Ministers shall give a mandate for the preparation of an Action Plan for Administrative Burden Reduction, which to elaborate on the concrete proposals for reduction, deadlines and responsible ministries.

## — Efficient management of the activities related to competition and the regulation of the energy and communications markets

The **Commission for Protection of Competition** has implemented all measures envisaged in the National Reform Programme of the Republic of Bulgaria and the Action Plan attached to it. The Law on the Protection of Competition (LPC) was adopted by the National Assembly and entered into force at the beginning of December 2008. The law provides for a stable and modern legal framework, which allows for close collaboration with the EC and the national competition authorities of the EU Member States with regard to legal enforcement, as well as in performing preventative sanction policy with regard to infringements. A significant amendment is the change to the method for determination of the pecuniary penalties, under which the penalty represents a percentage of the turnover of the enterprise or the group of enterprises, which have violated the law, and not an absolute sum within the limits specified in the law, which existed under the 1998 LPC. A possibility for imposing periodic pecuniary penalties, which aims at forcing the enterprises to comply with the CPC decisions and definitions, was introduced.

Based on the new Law, the CPC instituted 19 legal proceedings in the energy, telecommunications, transport and public utilities sectors.

In the field of legal enforcement, the CPC actively cooperates with sectoral regulators and also seeks the assistance of business to jointly solve or prevent problems in the field of competition. As of August 2009

the Public Electronic Register for the CPC decisions, including for appeals against public procurement and concessions, is operational and is maintained on the website of the CPC. It provides for constant electronic access to information on the stage of the proceedings at the CPC, as well as on the adopted decisions, definitions and instructions.

The **Communications Regulation Commission** (CRC) adopted and is implementing a Strategy for its activities for the period 2008 – 2012, which elaborates on the vision on its priorities in the short, medium and the long-term. One of the main objectives of the CRC activity is related to strengthening and encouraging of the competition on the relevant markets to the benefit of both the enterprises and the consumers. In this regard, the CRC carries out market analyses for monitoring the respective market segments and for imposing specific obligations on incumbents and/or enterprises with significant market influence in case that competition problems have been identified. Since 2008 until present the regulator has finally adopted the analyses of 9 markets – wholesale (markets for generation of calls from a certain location of public telephone networks, for termination of calls at a certain location of individual public telephone networks and for termination of voice calls in individual mobile networks) and retail (markets for access to a public telephone network at a certain location and telephone services provided at a certain location and accessible to the public). At present, 4 wholesale markets are being analysed, among which are the markets for granting wholesale (physical) access to network infrastructure (including separate and joint unattached access) at a certain location and for granting broadband wholesale access. The market analyses listed above are the exact instrument for achieving efficient competition in the telecommunications markets (including these related to the communication infrastructure), achieved through the specific obligations, including also pricing measures, imposed by the CRC to the enterprises. For example, it should be noted that the pricing measures with regard to the tariffs for termination envisage their reduction by up to 56% for the mobile networks and by up to 67% for the fixed-line networks by 1 July 2010.

Since the middle of 2007 the domestic market of **electricity and natural gas** has been fully liberalised. This means that each consumer has the legal right to choose its supplier. In order to enforce this legal right, however, additional work will be carried out for: extending the powers and strengthening the capacity of the national regulatory authority; raising the requirements for the transmission companies which must grant non-discriminating access to the network to all market participants and to develop the network to the benefit of the consumers; restructuring of the energy sector in line with the new European requirements of the European Commission Third Liberalisation Package; establishing of a more liquid energy market and creating favourable conditions for competition among producers and distributors through the establishment of an energy exchange.

The SEWRC exercises continuous control over the fulfilment of the clauses defined in the licences granted to the energy enterprises, including of the approved by the regulator general terms for supply to the end-users. With regard to prices, the price of the balancing energy in case of shortages has been reduced following the development of the non-regulated segment of the energy market, namely via the introduction of trading with electricity upon "one day ahead" bilateral contracts and the change to the methodology on offsetting up the prices of balancing energy. With a view to improving the legislation linked to the liberalisation of the energy market and to further enhancing the efficiency of the energy regulation, a partnership project between MEET and the Norwegian regulatory authority, NVE Norway (jointly with SEWRC and ESO-EAD), for the development of rules for competitive energy market, including the creation of an energy exchange market, is expected to start in November 2009.

## — Energy and transport infrastructure

The government priorities in the field of the energy infrastructure are related to the completion of large scale projects for rehabilitation and treatment facilities in compliance with the environmental protection requirements for power plants in the "Maritza Iztok" Complex. Priority is also given to the projects for construction of intersystem gas connections to the neighbouring countries with a view to diversifying the gas supplies and routes. Bulgaria will continue to actively participate in the future enlargement of the Energy Community and the implementation of projects, which contribute to the security of the energy supplies, including a project for the construction of a regasification terminal for natural gas along the North Greek coast, and for strengthening and extending the electricity and gas intersystem connections with the neighbouring countries. All these projects will be financed with own resources of the energy companies and, in case of successful applications, with resources granted under the European Economic Recovery Plan, as well as by using the possibilities for attracting funds from the EBRD, EIB and standard commercial credits.

In the area of the transport infrastructure, the implementation of a number of projects listed in the government anticrisis package, adopted at the end of September 2009, is planned.

The main focus in implementing all the activities for the construction and the modernisation of the infrastructure is the strict control over the efficient use of resources.

### — Increasing the energy efficiency

In 2010-2013 the global energy sector, including the Bulgarian one, will face the challenges of increasing dependence on imports of resources and energy, rising energy prices and climate change. This also defines the priority areas for further efforts, namely: containing the external dependence on energy imports through energy saving and promoting the use of local resources, mainly RES; developing a liberalised energy market to ensure accessible and secure energy for the consumers; neutralising the negative impact of the climate change by including the Bulgarian energy installations in the European Emission Trading Scheme (ETS).

With a view to defining clear national objectives, mechanisms, time-schedule and deadlines for their implementation in the abovementioned directions, by the end of 2009 the government will adopt a national Energy Strategy of the Republic of Bulgaria by 2020, including interim targets by 2013.

At present, the draft Strategy is being updated to reflect the latest legislative changes on the European level. The 2020 Energy Strategy will contribute to the successful transposition to the national legislation of two European packages – the Energy-Climate Package and the Third Energy Liberalisation Package.

The draft Strategy analyses the state of play in the energy sector and assesses its potential, on the basis of which strategic decisions have been defined. The latter focuses on the achievement of the national objectives and on guaranteeing the Bulgarian interests. At the same time, the efforts of Bulgaria as an EU Member State will contribute to the achievement of the transition to a more secure, more effective and low-carbon European economy.

The implementation of the objectives and the priorities of the Strategy will be achieved through the adoption, within the four-year government mandate, of strategic plans, programmes and amendments to the relevant legislation, including such aimed at achieving long-term energy security, the introduction of new and improvement of the existing mechanisms to encourage the production of energy from RES as well as the cogeneration, energy efficiency, and real market opening.

Main priority of the government is to increase the energy efficiency. To this end, we deem feasible the reduction of the GDP energy intensity by 20% by the end of the mandate of the government. In the longer-term, by 2020, a target for reduction of the GDP energy intensity by 50% will be set in the Energy Strategy. Increasing the energy efficiency is one of the main instruments to achieve the other energy and economic policy objectives – increasing the competitiveness of the economy, reducing the dependence on imports of energy and energy resources, reducing the negative impact of energy activities on the environment and the climate, opening-up new innovative production activities and creating new jobs, reducing the energy expenses of households, improving the living standards, etc. In this regard, all possibilities for supporting these policies, including financial stimuli to introduce energy efficiency measures, measures promoting the development of energy efficient products and services, regulatory measures, etc., will be sought.

The second government priority is to increase the share of local RES to 12% of total final energy consumption by the end of its mandate, and to at least 16% by 2020. This way, Bulgaria not only will achieve its targets for RES share, according to the new European legislation, but will also reduce its dependence on imports of energy resources, will encourage the establishment of new production activities and the creation of new jobs, will reduce the greenhouse emissions, etc. In this regard, a document with projections until 2020 is being elaborated - it analyses the opportunities and puts forward an optimal RES technologies mix at the lowest public cost for achieving the objectives, as well as the necessary to this end mechanisms and financial stimuli.

One of the important mechanisms for achieving the abovementioned objectives will be optimising the usage of the existing opportunities for financing of projects with resources from the European funds and

programmes, mostly under the Operational Programmes financed under the EU Structural and the Cohesion Funds, the Competitiveness and Innovation Framework Programme, the Framework Programme for Research and Demonstrations (the "Energy" component). A similar approach will be also taken with regard to the existing national instruments, such as the Energy Efficiency Fund, etc.

According to the Medium-term Fiscal Framework, adopted by the government in August, all mechanisms for financial support to RES development, the improvement of energy efficiency and the introduction of clean energy technologies, will be treated as anticrisis measures.

## ψ Enhancing the competitiveness, including through investment in knowledge and skills, and better functioning of the labour market

### — Enhancing the quality and the efficiency of the labour market policies

The national policy in 2009 is directed towards the efficient use of the available resources in order to maintain and to create employment, and in addition to the traditional target groups of the labour market policy, the efforts are also directed to the newly-dismissed people and the people at risk of losing their jobs.

In June 2009 the Council of Ministers adopted the "Bulgarian Flexicurity Pathway" for the period 2009 – 2011 for achieving **better flexibility and security on the labour market**. The Minister of Labour and Social Policy approved a Mechanism for Organisation and Control of the Implementation of the Bulgarian "Pathway". The implementation of the 52 measures included in the pathway has already started and will continue in 2010 in the four pillars – flexible and reliable contractual arrangements, life-long learning, active labour market policy, and modern social security system.

For the period January – July 2009 95 529 people were included in employment under measures and programmes financed by the **active labour market policy** and 12 874 people were included in training schemes.

After the new government assumed office, the dialogue with the social partners was resumed. As a first step, a joint working group within the National Council for Tripartite Co-operation developed a package of anticrisis measures. Legislative amendments with regard to the regulation of homework labour, distance employment and other forms of flexible employment are being prepared.

In order to limit the consequences of the global crisis and to preserve the employment new measures were undertaken in 2009:

- With a view to preserving the employment, the Council of Ministers adopted a Decree No. 44 as of 2009 on the determination of the eligibility criteria and the procedures for payment from the state budget of compensations to workers and employees in the Industry and the Services sectors of the economy, for whom a part-time work has been established. As a result of the implementation of the measure, 19 482 workers and employees and 496 employers from these sectors have been supported. The implementation of this measure will continue also in 2010;
- In supporting the people dismissed as a result of the economic crisis, the implementation of "New Employment Opportunities" National Programme has started during the current year. Under this programme, a package of services, including provision of information, consultation, orientation and job matching to available free jobs, training, including also in entrepreneurship, and subsidized employment for up to 6 months, is provided. At the end of August 2009 a total of 1 900 unemployed have been included in the programme, of which 500 have been included in training and 1 400 people have been included in employment. The state budget provides the minimum wage, as well as the social security and health insurance contributions for the people, included in the employment schemes;
- The Ministry of Labour and Social Policy elaborated an Application for financing from the European Globalisation Adjustment Fund for about 1 000 workers from "Kremikovtzi" and "Port Complex Lom". Some of the services, which will be provided to the dismissed people, are: motivation and professional training, internships, employment and provision of grants for entrepreneurship. The activities under this measure will start in November 2009;

- As a measure to counterbalance the negative effects of the crisis, during the recent months the Employment Agency has activated the work of the employment intermediaries on the primary labour market. As a result of their efforts, almost 100 200 jobs have been announced on the primary labour market as of the beginning of the year until the end of August 2009. In spite of the economic crisis, the free positions on the primary market are only by 1 600 (1.6%) less than in the same period in the previous year. In January-August 2009 79 100 unemployed people have started work, which is by 3 680 people (4.9%) more as compared to the respective period of 2008;
- The elaboration of a mechanism for ensuring quality and control over the training of adults has started jointly with the social partners. This mechanism describes the procedure for organising, carrying out, certifying and ascertaining the results from the training of the adults by putting forward relative indicators for quality evaluation in each of these four stages;
- Two new centres for professional training to the MLSP have been established – in Smolyan and Tsarevo. The centres will carry out training of employed and unemployed people in professions in the field of tourism. In July 2009 a public procurement call for the selection of a supplier of the equipment and furniture of the centres has been open. The delivery is funded by the Federal Government of Germany;
- A net impact assessment of the employment services is being carried out in collaboration with the National Statistical Institute – the assessment focuses on people from disadvantaged groups. The results will be used for the development of the process work model;
- In order to contain the unemployment growth, especially among people in disadvantaged groups on the labour market, programmes and encouragement measures for employment and training are being implemented by virtue of the main law in the field of labour market policy – the Law on the Employment Promotion (LEP). The employment and training programmes are elaborated and implemented with the objective to create employment, to eliminate the illiteracy and to provide professional training of the disadvantaged groups on the labour market. The employers are being granted subsidies (wages and social security contributions) for hiring unemployed young people, mothers with children at up to 5 years of age, unemployed people with elementary or lower education and without qualification, disabled unemployed people, unemployed people above 50 years, long-term unemployed, etc., as stipulated by the LEP.

The activities, implemented within different schemes under the Operational Programme "Human Resources Development" (OP HRD), have also considerably contributed to the achievement of the objectives of the active labour market policy, in particular in the field of the adults training. The anticrisis measures with proven efficiency will be kept in the implementation of schemes under OP HRD. In the course of their planning and implementation the guiding principles are additionality and synergies, and building upon national policies. With a view to extending and improving the access to training, on 14 October 2009 the government defined the procedure for granting vouchers for training of unemployed and employed people under priority axes 1 and 2 of the OP "Human resources development 2007-2013". Vouchers will be provided for inclusion in training for attainment of professional qualification, as well as for training for attainment of key competencies according to the European Qualifications Framework.

With a view to faster overcoming of the consequences of the crisis, the MLSP has adopted measures and priorities for social policy activation of and for recovery of the Bulgarian economy in 2010. The envisaged measures for supporting the employment and the activation of the labour market will be implemented as part of the 2010 National Employment Plan . Some of the most important measures are:

- Implementation of a consistent complex of passive and active measures. Until the end of the crisis, the period for eligibility to unemployment benefits is planned to be increased by additional three months conditional on the participation of the unemployed people in training. The social security contribution is planned to be reduced in order to support the preservation of employment;
- Ensuring sustainable employment of the disadvantaged groups through subsidies for their employment in the private sector;
- Provision of specialised services by the Employment Agency and job creation in the sphere of social services for the unemployed people(including in childcare services and encouragement of hiring of young children parents );

- Development of a unified information system for labour supply and demand, and for professional qualification and re-qualification;
- The employers will have the opportunity to apply reduced working time for their employees for a period of up to 6 months pursuant to the provisions of the Labour Code also in 2010.

The results of the analysis of the active labour market policies, which has been elaborated by the Economic and Social Council, will be taken into consideration in defining the priority programmes and actions for 2010. As a result of the recommendations of the Economic and Social Council, and in order to improve their effectiveness and attractiveness to both the employers and unemployed, amendments to the currently implemented active measures and programmes will be also made, such as:

- Combining the reduced working time schemes with training activities and income support measures;
- Ensuring, against the background of a reduced labour demand, the preconditions for labour market integration of people from the disadvantaged groups , with a special focus on the unemployed young people at up to 29 years of age;
- Strengthening the capacity of the Employment Agency and its local units through improving the specialised knowledge and skills of the EA personnel in the field of project management, as well as through strengthening the public-private partnerships between the EA and other organisations which provide intermediation employment services;
- Enhancing the effectiveness of the subsidised employment schemes through policy regionalisation (increasing the responsibilities and the powers of the regional employment authorities for defining the activities implemented under the subsidised employment programmes and the potentially to be included target groups) and combining the subsidised employment schemes with measures aimed at attaining knowledge and skills.

**The efforts for reducing the grey economy and for containing the size of the shadow economy** continue to be a main priority against the background of an economic crisis. The cooperation between the labour inspectorates and the tax authorities has been strengthened. The amendments to the Labour Code, in force as of 2 January 2009, contribute to this end – the new provisions aim to improve the efficiency of the control over the compliance with the labour legislation and to increase the severity of the administrative penal liability for its violation:

- The powers of the control authorities have been strengthened and now they have the right to require from the individuals in the territory of the enterprises or objects, which are controlled, to show identity documents, as well as to require the workers and the employees to make written declarations of facts and circumstances related to the performance of their labour activities, including information on their remuneration. The control authorities of the labour inspectorate can suspend the activities of an enterprise if they establish that the payroll systematically reports lower sums than those paid by the employer, until the violation is eliminated. Pursuant to Article 62, paragraph 3 of the Labour Code, the National Revenue Agency provides in real time to authorised officials from the “Labour Inspectorate” Directorates an electronic access to the register of the labour contracts and, upon request, within three business days, sends copies of the corresponding certified notifications.
- The amounts of the pecuniary penalties and fines have been significantly increased - fines of BGN 10 000 (EUR 5 113) to BGN 15 000 (EUR 7 670) are imposed on employer who violates the provisions of the labour legislation, for each individual violation. The guilty official, if he/she is not subject to a more severe penalty, is subject to a fine between BGN 2 500 (EUR 1 278) and BGN 10 000 (EUR 5 113). For repeated violation the penalty is a pecuniary penalty or a fine in the amount between BGN 20 000 (EUR 10 226) and BGN 30 000 (EUR 15 339), or a fine in the amount between BGN 5 000 (EUR 2 556) and BGN 20 000 (EUR 10 226), respectively. The obligations of the employer, the official and the worker or the employee for paying the pecuniary penalties and the fines under the penal decrees, as well as the possibilities for payment deferral of the liabilities under enacted penal decrees, are specified in detail. A possibility for the authority, imposing the

administrative penalty, and the violator to reach an agreement before the penal decree is issued, is envisaged.

Since the beginning of 2009 the Chief Labour Inspectorate Executive Agency has been implementing a campaign under the motto "Work legally", and the number of inspections for compliance with the labour legislation has doubled in comparison with the preceding year – 7 800 enterprises have been inspected. The "Work legally" campaign is mainly implemented through inspections to establish the existence of written and registered at the National Revenue Agency labour contracts, the payment of the agreed labour remuneration within the deadlines, the payment of mandatory compensations, the illegal work of third country nationals outside the EEA.

From 15 May until 15 November 2009 the Chief Labour Inspectorate Executive Agency is implementing an exclusive national campaign "Seasonal work in agriculture" with the objective to limit the violations of the labour legislation in hiring workers for agricultural activities of seasonal nature. The agricultural producers all over the country are being inspected, and the focus is on the conclusion of written and registered at the National Revenue Agency labour contracts, the availability of civil contracts, the employment of minors, the compliance with the statutory working hours, the overtime and night work, etc.

Upon an order of the Minister of Labour and Social Policy and with a view to a more efficient counteraction to the violations in the field of the labour and social security legislation, as of August 2009 the "Labour Inspectorate" Directorates at the Chief Labour Inspectorate Executive Agency started joint inspections with experts from the regional structures of the NRA. Subject to these inspections are employers, who have made many and/or serious violations of the labour and/or social security legislation as established as a result of the control exercised by CLI EA and NRA.

The control over the legal execution of the labour legal relations is by priority oriented to the issues in labour remuneration. The number of ascertained violations, related to a non-payment of the contracted labour remuneration and of the labour remuneration in amount to 60 per cent of the gross remuneration of the employee but not less than the minimum wage for the country, is increasing. In addition, in case of termination of the labour contract the unused annual full-pay leave is even more often not actually repaid. Illustrative to this is the fact that the number of the claims submitted to the Chief Labour Inspectorate for assistance precisely with regard to these issues has doubled as compared to the same period in last year. The observed trend of growing number of such violations is a result of the deepening crisis in the Bulgarian economy.

According to the results of the control activity for the first nine months of 2009, the organisation of the activities aimed to guarantee healthy and safe labour conditions, has improved. A trend of growing share of the enterprises, which meet the basic requirements with regard to the employees' health and job safety, has been observed. In January-September 70% of the inspected enterprises meet the basic requirements with regard to employees' health and job safety, 87% have prepared an assessment of risks, 83% have approved a programme for risk minimisation, 88% have provided for servicing of the employees by a labour medicine organisation, etc. The results of the carried out inspections indicate that the measurement of the labour environment factors are up-to-date in 66% of the enterprises. The data of the inspection activity point that 118,065 employed people work in working conditions which do not meet the sanitary standards and requirements.

### — Improving the quality of human capital

The government declared the education to be one of its most important priorities. The Ministry of Education, Youth and Science (MEYS) has managed to keep the level of education expenditures amid the current grave financial crisis, where a large-scale cut in public spending has been undertaken. Thus, the expenditures for education remain unchanged for 2009, and in 2010 they will be additionally increased in case that such possibility arises.

What is important at the moment is to ensure efficient use of the scarce financial resources.

Over the last two years a number of disciplining measures in the **secondary education** have been implemented, which is also a guarantee for the efficiency of the upcoming measures in this area.

The specific tasks of MEYS in the field of the secondary and the primary education are related to containing the early school leaving and providing for a quality education of children.

A new Law on the School Education is under preparation. The law will introduce the new educational structure, which was defined a few years ago. This way the primary education will be completed after the seventh grade, and the secondary education will be divided into two stages (3 + 2 years). The distribution of the school hours will be oriented towards providing for a better adaptation of the students to the labour market. The first stage of the secondary education (up to 10<sup>th</sup> grade) will provide a good general education basis, while the second stage will be more professionally oriented. The only difference compared to the previous educational plan is that the extended studying of IT, foreign languages and entrepreneurship is no longer envisaged in the 8<sup>th</sup> grade only, since this is not appropriate for all schools (with the exception of the foreign language schools). Studying these disciplines remains a priority, but they will be included in the educational plans over several years, not only in the eighth grade. Except for this change in the curriculum for the eighth grade, there are no other changes in the educational structure. Increasing the linguistic and mathematical literacy of the pupils in view of the extremely poor results during the last few years will be dealt with higher emphasis. This will be achieved by updating the curriculum with higher attention to the practical focus of education.

With the objective to enhance the **quality of education**, a national plan for raising the qualification of the teachers is being developed, in which the teachers will be obliged to participate. At the moment the first part of this plan is being implemented – the competences of the teachers in IT and foreign languages are being improved. The funding for the 2009/2010 academic year amounts to BGN 1 million and is provided by OP HRD.

The work on the improvement of the system of delegated budgets with a view to linking the financing with the achievement of certain standards for quality of education is under way. The work on the improvement of the system for **uniform external assessment** is also ongoing, and in 2009/2010 the external assessment after the seventh grade will be combined with the exams for entry into the higher schools. In order to achieve realistic results, an assessment of the results from the national examinations in Bulgarian language and mathematics after the seventh grade on part of external examiners has been introduced. With the introduction of a system for external assessment, of state educational requirements (SER), and a system for qualification of teachers, the necessary preconditions for realisation of a uniform system for evaluation of the quality of education, are in place.

With regard to containing the early-school leaving:

- A programme providing for a second chance to early school leavers is being developed;
- A programme for preventing the early-school leaving is also being developed;
- The OP HRD provides financing for the development of extracurricular activities under the motto "Let's make school attractive for young people";
- Work on improving the coverage of students from closed-down and reorganised schools is ongoing;
- The already operational system for monitoring the movement of the students is being improved.

Special attention is paid to the integration of children from the minority groups, where the early school leaving is a major problem. Attention will be paid also to measures aimed at eliminating the gender stereotypes regarding the "male" and "female" roles, which determine the future choice of profession, and to reduce and eliminate the horizontal segregation in employment.

In the area of **professional education** a new structure to create flexible opportunities for entrance and transferability in the educational system and on the labour market will be introduced. This will be achieved by introducing module programmes for professional training as a basis for professional realisation and life-long learning. At the same time, the following schemes will be elaborated and gradually introduced:

- A credit system in the professional education and training to facilitate the transfer, the recognition and the accumulation of the studies' results;
- National Qualifications Framework as an instrument to classification of the professions;

- New model for practical training and apprenticeship of students in real working environment;
- European supplement to the certificates for attainment of professional qualification as an instrument to qualification transparency.

The system of the professional education is still very centralised. To this end, the following changes are envisaged:

- Decentralised supply of different education and training opportunities by promoting the development of territorial and sectoral networks of educational and training institutions;
- Decentralization of the changes to curricula in respect to the local and the regional needs in order to achieve greater flexibility and better matching of the required on the labour market skills and qualifications with the offered education and training at all stages and degrees; only a few professional schools of national importance will be under the central government management, while the remaining schools will be managed by the local authorities.

The work on **life-long learning** is carried out in close co-operation with MLSP. Two action plans will be adopted, and a number of measures, included in the draft action plans, are already being implemented, for example the optimisation of the syllabus, the adaptation of the curricula to the labour market needs, etc. Opportunities for validation and certification of informally and individually attained professional knowledge, skills and competences by the system of formal professional education and training, will be created.

The age at which the children must be included in compulsory pre-school education is to be reduced – from 6 years to 5 years, within two years. During the next stage of the reform, this age will reach 4 years, as the practice in Western Europe is. This reform is very important with a view to integrating the children from minority groups.

A gradual transition to an all-day schooling is also envisaged, but this requires resources and facilities, which cannot be provided at this stage. As a first step, financial resources for tutors of the children in the first grade will be provided.

The integration of children with specific educational needs is also under consideration.

With a view to the fact that about 30% of the funds under OP HRD are planned to be allocated as financing in the field of education, MEYS will provide the needed capacity for the successful absorption of this financing. Special attention will be paid to the Intermediate Body of OP HRD at MEYS for overcoming some of the problems, in particular those linked to securing the necessary staff. Securing sufficient number of people with high quality expertise in this body will ensure the high rate of return from the European Funds. At present, an audit of the Intermediate Body at MEYS linked to the implementation of the programme is being carried out. The conclusions of the audit will be the basis for formulating adequate measures for overcoming the current weaknesses. A positive signal in this regard is also the appointment of a line Deputy Minister, with working experience in the NGO sector. He will be also responsible for the IPA. Regional representatives of the Intermediate Body will be appointed (in regional offices) and continuous training for these experts will be provided. In summary, the main priority in this area is the personnel development and the constant control on the quality of their work.

## — Support for research and development and innovation

In the field of higher education, science and innovations the government is working on the implementation of several urgent measures:

- In the following few months the National Strategy for the Development of Science in Bulgaria will be adopted –its adoption is pending; it will cover the national priorities for research development. Measures to promote women participation in decision-making processes in order to abolish the vertical segregation in science will be envisaged. The higher schools as units, which develop

science, as well as the institutes at the Bulgarian Academy of Sciences (BAS), which are pending serious reform and optimisation, will also be included;

- A draft Law on the Academic Staff Development and a new Law on the Higher Education, which introduces changes to the financing, governance, independence and accreditation model of the higher schools, are under preparation. A (long-term) strategy for higher education development, which takes into account the latest trends and needs, will be elaborated jointly with many interested parties;
- The work on the elaboration of a higher schools' rating system, taking into account their contribution to research, is under way. The project "Developing of a rating system of the higher schools in Republic of Bulgaria" is financed under Operational programme Human Resource Development. The rating system, based on a system of indicators for an independent assessment of the real quality of the higher education, will provide for a real comparative basis of the provided educational services as well as opportunities for improving the quality of education. This on its part will improve the competitiveness and the employability of the students on the national and the European labour markets. Within the project, a general report has been prepared that discussed the necessity for planned marketing surveys, sociological research and analyses, as well as the needs of the target groups, successful EU practices, and the expectations to the higher schools on part of the interested groups,. Public bodies on the project have been established; technical assignment has been elaborated and implemented. A tender for the selection of a contractor has been carried out. A competition for selection of external experts was organised in September 2009;
- The "Higher Education Policy" Directorate implements the project "Improving the qualification of higher schools lecturers" under the OP "HRD". This project aims to improve the quality of the educational services provided by the Bulgarian higher schools and to establish an effective system for qualifications and career development of the lecturers. The specific objectives are linked to improving the lecturers' competences in three key areas (foreign language skills, ICT skills in teaching and specific professional competences, linked to creating modern teaching programmes with higher European dimension), as well as to introducing monitoring, assessment, forecasting and planning of training with a view to improve the quality of the educational services. The necessary tools comprising clearly-defined criteria and mechanisms for selection, assessment and monitoring, which to assist the effective implementation and the results of the training, have been defined. A tender for the selection of training contractors has been organised;
- A new financing model of higher schools and state research organisations is being elaborated with a view to concentrate the resources and to eliminate the fragmentation. The changes in the financing model of higher education include higher enrolment of students, greater power to higher schools to determine the fees for education and provision of subsidies on the basis of the real number of the students enrolled instead of an administrative enrolment number. These changes will promote the competition among the higher schools, will create preconditions for future cancellation of the entry exams and for endorsing the state matriculation exams as "entrance" to higher education; they will allow for reducing the pressures to establishing new higher schools and will create preconditions for enhancing the process of higher schools' consolidation ; they will also contribute to the outflow of students from the illegal structures (the so called "subsidiaries of foreign higher schools");
- At the moment an external audit of the Scientific Research Fund is under way and the recommendations are expected to point to the improvement of the efficiency of its operations;
- An audit of the BAS, initiated by the Academy itself, is also carried out. MEYS will use the results in order to formulate its policies in this regard;
- The preparation of the second stage of the national scientific roadmap for research infrastructure and participation in large infrastructure projects at European level with regard to the link between the research infrastructure and the needs in this area is forthcoming.

All measures are directed towards ensuring link between the results and financing. The reforms in the field of education and innovations will be financed from several main sources: the national budget, the EU Structural Funds (under OP HRD and OP "Competitiveness"), the Seventh Framework Programme. Of key importance for the success of the reform and for the efficient absorption of these resources is the improved co-ordination of policies among institutions, as well as the inclusion of external auditing experts.

With a view to ensure an efficient transfer of knowledge from science to business MEET is working on the implementation of the following more important measures, which are included in the programme for innovation and R&D development:

- The operation of the National Innovation Fund (NIF) continues. As of 1 November a new competition for project proposals under the Rules on Managing the NIF and in conformity with the provisions of Regulation 800/2008 will be launched.
- Introduction and use of the European practices in this area, including the membership of Bulgaria in the "EUREKA" Initiative. EUREKA is an organisational-management network, a system of mechanisms, which provides services for finding partners, information dissemination, and other services to the industrial enterprises, the scientific research organisations and the higher schools for cooperation in the field of applied technological research;
- Promotion of the joint "EUROSTARS" Programme - it aims at supporting these small and medium-sized enterprises, which will manage joint research or innovation projects in partnership with other SMEs or a large enterprise, or research organisations;
- Preparation of young people in Bulgaria in the field of innovations. This will be accomplished by developing entrepreneurship centres at higher schools, which will provide consulting services to graduates on how to transform the results of their scientific research into real market products.
- The implementation of the measure "Cultivating entrepreneurial skills of the young people to establish competitive small and medium-size business" aims to create entrepreneurial culture and skills among students in professional (non-economic) secondary schools, to establish entrepreneurial centres ("educational companies") for training and attainment of practical professional skills, to promote the link between professional secondary schools and the companies in the respective region and sector. □

## Contribution of the Structural and the Cohesion Funds to the Implementation of the National Reform Programme

Even though Bulgaria, as a new Member State of the European Union, is not obliged to set in its 2007-2013 programme documents any specific amounts from the EU Structural Instruments for financing measures related to the achievement of the goals of the Lisbon Strategy, more than 60% of financial resources available under the Operational Programmes – BGN 7.982 billion, is allocated precisely for such topics. These measures are under five of the operational programs - "Transport", "Development of the competitiveness of the Bulgarian economy", "Human Resources Development", "Regional Development" and "Administrative Capacity".

According to data from the Information System for Management and Monitoring of the Structural and Cohesion Funds as of 12 October 2009:

- Under OP "Human Resources Development" 17 procedures on priority themes, which contribute to the achievement of the Lisbon Strategy goals, have been announced. So far 1 000 contracts with a total value of the European financing in the amount of BGN 141.266 million have been concluded;
- Under OP "Development of the competitiveness of the Bulgarian economy" six procedures on priority themes, which contribute to the achievement of the Lisbon Strategy goals, have been announced, and 623 contracts with a total value of the EU financing of BGN 265.006 million have been concluded;
- Under OP "Transport" six contracts under procedures, which contribute to the achievement of the Lisbon Strategy goals, have been concluded. The total value of the EU financing amounts to BGN 358.808 million;
- Under OP "Administrative Capacity" one procedure on a theme, which contributes to the achievement of the Lisbon Strategy goals, has been so far announced, and 48 contracts with a total value of the European financing of BGN 25.479 million have been concluded.

The allocation of funds in terms of individual priority themes is as follows:

<b>Code of the priority theme</b>	<b>Priority theme</b>	<b>Value of the concluded contracts in BGN thousands (EU financing)</b>
4	Assistance to research, technological and development activities (R&TD), particularly in SMEs (including access to R&TD services in research centres)	19 146.049
5	Advanced support services for firms and groups of firms	57 181.340
7	Investment in companies directly linked to research and innovation (innovative technologies, creating new enterprises from the higher schools, the existing R&D centres and enterprises, etc.)	7 697.163
8	Other investment in companies	170 553.357
9	Other measures to stimulate research and innovation and entrepreneurship in SMEs	10 428.004
13	Services and applications for citizens (e-health, e-government, e-	25 479.499

	learning, e-inclusion, etc.)	
16	Railways (TEN-T)	46 666.174
21	Motorways (TEN-T)	3 840
26	Multimodal transport	308 301.453
62	Development of life-long learning systems and strategies in companies; training and services for employees	35 991.254
65	Modernising and strengthening the labour market institutions	1 324.861
66	Implementing active and preventive measures on the labour market	84.177
67	Measures encouraging the active ageing and prolonging the working lives	20 613.380
68	Support for self-employment and business start-up	17 000
71	Pathways to integration and re-entry into employment for the disadvantaged people	25 996.763
73	Measures to increase the participation in education and training throughout the life-cycle	4 483.326
74	Developing human potential in the field of research and innovation, in particular through post-graduate studies	29 482.978
<b>OVERALL AMOUNT:</b>		<b>784 269.8</b>

The concluded so far contracts on the themes, which contribute to the achievement of the goals of the Lisbon Strategy, amount to BGN 784.27 million. They represent 9.83% of the funds programmed for these themes in the operational programmes and 35.7% of the total value of the EU financing under all contracts, which have been so far concluded under the programs. □