

POSITION OF CITUB

Re: European Commission report on Bulgaria for 2019. Including an In-Depth Review on the prevention and correction of macroeconomic imbalances

From the summary of the report three key factors can be deduced, which have a positive impact on the Bulgarian economy: a consistent and relatively high GDP growth, stability of public finances, and a continued improvement of the labour market. **According to the EC, they provide an opportunity to overcome the remaining structural challenges and increase potential growth.** However, the findings on poverty, social exclusion and inequalities are concerning. According to authoritative empirical research of the IMF¹ and the OECD² they are in a negative correlation with economic growth. Also, we cannot ignore the delayed cohesion process in recent years, which leads to a minimal improvement of Bulgaria's position by 1-2 percentage points per annum, reaching GDP per capita in terms of purchasing power standards (PPS) barely 50% of the EU average.

Economic situation and prospects

For 2018 the growth of the Bulgarian economy is 3.2%, which is below its performance in the previous 2017 (3.8%). The rise in the economy is defined as "cyclical" for a second consecutive year, which in itself does not mean long-term sustainability. At the same time, this upsurge is relied upon to reduce labour market imbalances and alleviate a number of issues such as poverty and social exclusion, deepening inequalities, skills shortages, lack of a skilled workforce, structural mismatch between supply and demand of work. **Insufficient skilled workforce** is highlighted as a major challenge that stops the growth of value added in total factor productivity.

The EC notes that low educational outcomes and inequalities related to differences in socio-economic status represent major obstacles to the **improvement of human capital**, with possible negative effects on skill levels and growth potential. CITUB agrees with this statement, sharing the view that these issues need to be increasingly addressed in the context of the Fourth Industrial Revolution and the ongoing and anticipated changes in all spheres of the economy.

The main driver of growth is domestic demand, with both **consumption and total investment contributing positively**. It should be noted, however, that the investment activity of the private business is unsatisfactory - although for the first time in the last few years an improvement has been noted, the growth rate in the near future remains at about 4% per annum. According to EC data, public investment has increased by 57.8% in 2018 and is expected to increase by about 20% in 2019 and 10% by 2020 respectively. This is mainly due to the absorption of European funds and the realization of national investment projects in the transport sector. **CITUB considers the prospect of wage and investment growth to be a leading factor for economic growth as positive.**

At the same time, however, **we have reservations about maximizing the benefits of this relatively high and consistent economic growth.** We find that it does not reach all people

¹Ostry, J, Berg, A. & Tsangarides, C. (2014). Redistribution, Inequality and Growth. IMF Staff Discussion Note

²Cingano, F. (2014). Trend in Income Inequality and its Impact on Economic Growth. OECD Social, Employment and Migration Working Papers No.163

and is distributed unevenly, including in geographical and territorial aspect. Income inequality in Bulgaria continues to grow, although along most macroeconomic indicators we are at the leading position in the EU, which increases the perception of public dissatisfaction and drastic imbalances between regions³. Here we will highlight not only the need for a fairer distribution and redistribution of GDP, but also the possibility to support domestic demand and consumption, which would improve the general state of the economy and society as a whole.

Expectations of the EC for inflation are set to decrease in 2019 and this trend to continue throughout 2020 as well. Estimates do not predict inflation above 1.8% to 2% over the next two years, which is within the healthy level for the economy. As a whole, labour market conditions are improving for a consecutive year. **Employment and labour activity are rising and unemployment continues to decline** for the fifth consecutive year - to 5.3% by the end of 2018 (as compared to 6.3% by the end of 2017). This is one of the lowest levels of unemployment across the EU, but CITUB nevertheless considers that the recovery of the labour market in terms of quality employment and income is insufficient.

The European Commission notes as a positive moment the achievement of a surplus on the state budget in 2018 and the **fiscal discipline** that the government has followed over the last 3 years. CITUB considers, however, that the public deficit within the reference values as a whole does not hinder growth; on the contrary, it stimulates it through the positive effects of the transfer payment multiplier, which has a higher impact on the real economy than the tax one, for example.

Improved tax collection is a positive moment, but the issue with the constant updating of government budgets and medium-term budget forecasts over the past few years remains. It is hard to find a year in which there was no update of one or even of the two documents, which in principle go together. This creates uncertainty among the people and analysts, inability to predict accurately the real development of the economy and the public sector, its financing, etc.

The EC's assessment is positive, but CITUB reminds once again that it does not approve part of the **adopted principles for public finance management**, such as maintaining a balanced budget or even surplus, maintaining tax legislation, insufficient funding for a number of state sectors of structural importance for the state, low pay, insufficient institutional intervention in the social sphere and lack of support for young people, the lack of a demographic strategy and a plan to stop emigration, lack of a strategy for transition to the Fourth Industrial Revolution, etc.

Labour market

The overall assessment of labour market improvement is dominated by the relative employment rate indicators (73.5%), unemployment rate (5.2%), long-term unemployment rate (3.1%) and youth unemployment rate (12.9%), along which we have achieved a more favorable position vis-à-vis national pre-crisis levels or against the average European values. At the same time, however, we need to highlight the **deep quantitative and structural changes in the negative direction** that have a lasting impact on the possibilities for a more rapid acceleration of the economic growth.

³Produced GDP per capita in PPS is particularly low (below 40% of the EU average) in the three northern planning regions and in one region in the south.

Absolute values show that the workforce has 200 000 people less than in 2008. We fully share the alarming findings in relation to aggravating demographic changes (a combination of low birth rates, high mortality and negative migration flows) that outline the very pessimistic forecast of an average annual rate of decline in working age population by 1.2% by 2050.

The decline of the economically active population is accompanied by **structural problems and the continuing difficult access to the labour market** of disadvantaged groups, which leads to deepening disproportions between demand and supply of skills and qualifications. Labour shortage is snowballing over the period 2013-2017 (a total of about 4-5 times), ranging between 15% in services, up to 30% in construction and 35% in industry⁴.

Labour shortages for certain professions (welders, drivers, nurses, teachers) and also the labour market as a whole lead to its contraction but at the same time it is also one of the leading factors for **increase of the cost of labour**. Together with the successive growth of minimum wage (MW) and wage increases in the budget sector, the market pressure will continue to stimulate wage growth over labour productivity.

CITUB does not share the European Commission's concerns about **reduction of the cost-competitiveness** of the Bulgarian economy. The retrospective analysis demonstrates the lack of a strictly established link between increasing labour productivity and increase of wages, with varying trends in terms of years and periods. This is due to a number of factors - structural changes in employment, in the distribution of value added, the nature of investments, management and organization of labour, and last but not least, the lack of traditions, significant scope and clearly established cycles of collective bargaining.

CITUB has always argued that competitiveness based on low labour costs has no long-term prospect, and now it has also been recognized by the government. Incomes and investments should maintain a high level of domestic demand as the main driver of economic growth, and in a comparative international perspective, our country should seek and impose other advantages - natural resources, unique products, investment and business environment, price/quality ratio

While **economic inactivity** declined, the two most at risk groups, "young people aged 15-24" and "older workers 55-64 years", still hold relatively high levels of inactivity, respectively 35% and 28.5%. Discouraged persons continue to be a target group that is very difficult to activate, usually these people accumulate several risk characteristics and the effectiveness of the measures is still low. CITUB consistently criticizes the low share of national funding of active labour market measures, but this government policy continues, relying heavily on European funds and programs.

We support **the positive changes in the work of the Employment Agency and the desire to integrate the Employment and Social Assistance Services.** At the same time, the work of the employees in them remains underestimated. The increase of salaries in Agencies working "in the field" has a positive trend over the past two years, but it is still insufficient to stimulate employees to the extent required, because their responsibilities are high and their work - hard and low paid.

The minimum wage (MW) marked a new 10% jump since the beginning of 2019 after having increased the previous year by nearly 11%, following the government's medium-term

⁴Percentages indicate the share of surveyed managers who indicated labour shortages as a factor limiting production.

budget forecast. Although the ILO/EC Convention 131 was ratified at the beginning of 2018 and the social partners hoped that this would play a catalytic role in resolving the problem of negotiating a transparent mechanism for determining the minimum wage, currently the negotiations are “in a dead end”. Just when the controversies between trade unions and employers seemed surmountable, new conditions emerged from among the nationally representative employers' organizations: to abolish extra payments for length of service and professional experience; to discontinue the practice of annually negotiating the minimum insurable earnings; the country's MW to be the result of bilateral negotiations on wages under 36 economic activities, i.e. the lowest MW contracted in an industry.

CITUB supports the increase of the MW but will continue to be a **constructive partner in the negotiations on a mechanism and procedure for determining the minimum wage for the country**. We expect the EC to address the issue in its specific country recommendations in May again (for the sixth time), although the decision should ultimately be sought within the national social dialogue with the full responsibility of the negotiating parties.

The MW dispute is only part of the complex puzzle, in which **social dialogue shows low efficiency in recent years**. Most of the sectoral social dialogue councils do not work, collective bargaining is under attack by employers' organizations, and is increasingly pushed to the periphery – enterprises and companies. Even for existing collective labour agreements (CLAs), there is no general consensus to extend them (the brewing industry is an exception). All these negative trends lead to a reduction in the coverage of CLAs, which is low anyway.

CITUB insists on the elaboration of a **methodology for calculating the CLAs coverage and monitoring of the process**. It would be best to integrate the capacities and expertise of the General Labour Inspectorate Executive Agency (GLI EA) and the National Institute of Conciliation and Arbitration (NICA), in which the entire information for concluded CLAs at different levels is collected. Bulgaria remains one of the few countries in Europe for which there is no official information on the level of CLA coverage, but only different expert estimates ranging from 20 to 30%. In this insistence of ours, **we shall expect the support of the European Commission**, for which we shall also work with our expertise potential. We recall that the ETUC in its resolution, as well as in its draft programming document, set an ambitious benchmark for national trade unions - to achieve at least 60% coverage of the CLAs in each sector and branch of the economies of the Member States.

And last but not least - CITUB relies on the active involvement of European and national social partners, European institutions and governments, well-intentioned multinational companies in the **Partnership for Collective Bargaining and Upward Convergence**, which would greatly assist the process of overcoming the huge regional and internal disparities and would speed up the cohesion process in the EU.

Education and skills

Once again, it is true that **"education and training systems are not well-prepared to meet the changing needs of the labour market"** and it is recommended "to give priority to investment in training, upgrading and retraining, and better aligning of education with labour market needs that will support long-term growth." This is a top priority that can improve the quality of the workforce, its economic activity and adaptability.

Despite the investments, **the relative share of early school leavers is declining slowly**. Leading in this negative indicator are girls of minority origin from the rural regions of

Northwestern and Southeastern Bulgaria. Overcoming of these stereotypes can be done through a continuous work and influence on young people and their families.

The most urgent massive measures are indispensable for the acquisition of language and digital skills, the development of which can be accelerated when cognitive skills are at the center of attention from the earliest childhood. They will create an environment and a basis for an upgrade. According to CITUB, there is a need to develop and implement a **National Digital Skills Strategy** covering the entire population, beginning with children and young people who have the biggest absorption capacity and reaching all age groups of the workforce and people in the third age.

Career guidance can be enhanced by strengthening the link between educational establishments and specific enterprises, which could offer "open days" to present their activity and motivate the free choice of profession and specialty, especially in industries with a shortage of labour.

At the beginning of the successful process of improvement is the **increase in targeted investments in pre-primary and primary education**, incl. sufficient and modern childcare facilities that develop the interest in learning, thinking processes and skills, using interactive learning methods that facilitate faster integration and allow expression of talents and interests.

Investments are required in order to **increase the attractiveness of the profession of the key actors in the education process - teachers** – investments to raise their wage levels, expand opportunities for skills upgrading, exchange of experience, stimulate innovative approaches, especially when working with groups with special educational needs, etc. Proper policies can attract teachers, especially for language and digital education.

According to CITUB, vocational education and training, which is planned and carried out in **co-operation with the business and social partners** involved in curriculum updating and the carrying out of learning practices and on-the-job training, is a guarantor of quality results and higher employability. This is one of the guidelines for adequate training of learners for specific jobs.

The relation between secondary and tertiary education and specific employers (who could invest in jobs for practical training during the training process) can increase the quality of training and the results of the whole process of preparation.

Another familiar and concerning finding is the lack of a **forward analysis of the labour market needs, so that the education and training system could adequately respond** and build the knowledge and skills that will be sought in future. Here, perhaps, a stronger link between the Ministry of Labour and Social Policy, the Bulgarian Academy of Science and higher education institutions can help to keep track of the processes and their dynamics and respond in advance and appropriately. CEDEFOP's intervention is beneficial, but national initiative and responsibility can ensure stability of the reactions and processes.

Despite the many suggestions from CITUB, **access to adult learning is limited**. Despite the still very low levels, their participation doubled, which is largely due to voucher training. However, with the increase in co-financing of up to 50% (which is already announced and expected to happen), there will be a decrease in participation and a reduction in the quality of the training offered because it will become difficult for vocational training centers to form groups and ensure the recruitment of highly qualified lecturers.

Social policies

This year again, the comments in the report on the state in the social sphere focus on identical issues, subject to comment and criticism in previous years. The main conclusions of the overall review of the country's social development policies and data clearly indicate that the **most significant challenges** are identical to those in the 2018 report:

- **The social protection system is insufficient** to deal with the significant social problems of citizens and society;

- The huge **income inequality** and large numbers of people at **risk of poverty** call for an urgent need for social inclusion policies that allow every citizen to have the opportunity to work and be fully involved;

- Targeted support for vulnerable groups and better availability and quality of **integrated social and health services and housing** is needed;

- **The adequacy and coverage of minimum incomes** remain limited and there is no objective mechanism for their regular updating;

- **The impact of taxes and benefits on poverty reduction is well below the EU average.** This is a result of the low level of social spending, the unevenness of social services across the country, and the limited redistributive effects of the tax system, as well as the lack of a mechanism for updating social transfers. The tax burden reduction effect is only 4.13% at 11.7% on average for the EU, while social transfers reduce inequality by only 28.3% at 40%, average for the EU;

- Many citizens experience **difficulties and obstacles in their access to healthcare.** Public spending remains very low, with formal and informal direct payments from patients in favour of healthcare providers covering almost half of healthcare spending, which is one of the highest shares in the EU;

- The percentage of people at **risk of poverty and social exclusion** is still high - 38.9% (2017) at 22.5% average for the EU. **Income inequality has been steadily rising** in recent years due to steady income growth at the top of the scale and a gradual but sustainable reduction in the share of the poorest households.

Overall, the findings in the report are indisputable and do not generate a collision or conflict with the analyses and conclusions that CITUB has on the same issues. In this regard, we would note that the **assessment of the social component contained in the report on Bulgaria for 2019 under the European Semester is objective and fair.**

However, we have to note that in the social policies analysis, the report notes that the social security system does not cover all employees, referring to seasonal workers, and claims that "they are not subject to compulsory insurance for unemployment, maternity, occupational accidents and occupational disease, old age and survivors' pensions." Precision requires that

we note that in fact, "seasonal workers" are subject to compulsory insurance for all social risks listed in the report. It is a different matter that in practice it is more difficult for these workers to enforce their rights as they work at certain times of the year and the accumulated occupational record during the year is always less than 12 months. **In this regard, CITUB has for years insisted on changing some of the normative texts of the Code of Social Security**, especially in relation to access to unemployment benefits, but does not meet understanding on the issue.

In fact, those who have real regulatory restrictions on unemployment insurance are those who work under the so-called "**One-day contracts**", under which they are eligible to work up to 90 days a year. This restriction makes it virtually pointless for people to be insured against unemployment because access to compensation requires an occupational record of at least 12 months (over the last 18 months) at the time of loss of employment. **CITUB in principle considers this kind of employment contracts to be too controversial**, moreover that the whole mechanism of hiring under such a contract is not susceptible to precise control, neither in terms of days of employment nor in terms of pay.

Without continuing to list social challenges, we can point out that the report highlights and comments on them in detail, but **there is no effort to bind them directly or indirectly with economic, investment and fiscal policy guidelines**. Particularly striking is the repeated finding of overly restrictive redistribution policies, but without giving guiding elements to correct the status quo.

European Pillar of Social Rights (EPSR)

The **Headline Social Scoreboard indicators** set out in support of the European Pillar of Social Rights have been extensively commented on. There is a positive development in terms of the number of indicators, which last year were 12, and this year - 14, which CITUB regards as satisfying the claims our Confederation expressed in its position for 2018. The two new indicators added indicate long-term unemployment rates, as well as the annual net earnings of a full-time worker earning an average wage.

The review of the table largely illustrates what is stated in the findings and comments of the report. As far as the new indicators are concerned, long-term unemployment is at an average level, according to the table, and the net earnings of a full-time worker with average wage is at a low ("weak") level but with improving values. It is interesting to note that the "best result" has the growth of the gross disposable income of households in real terms per capita which, on the one hand, corresponds to the reality but in no way alters the fact that the country is the last one in terms of income per capita in the EU.

It is strange what data does the EC have in mind when ranking Bulgaria at the "average level" in the table on the indicator "**Patients reporting unmet medical needs**", as the findings in the text regarding healthcare indicate a very difficult access to healthcare, unreasonable and unjustified level of regulated and unregulated payments by patients and, once again, the health system is seriously criticized in the European Semester documents.

CITUB finds it necessary to remark once again that the comments on the European Semester and the state of the social indicators for assessing progress on the EPSR should be expressed and bound, both with recommendations for national policy orientations and especially with specific and detailed wording in the forthcoming Country Specific Recommendations. In this way, it will be possible to achieve the necessary **linking of macroeconomic and social imbalances** so that they can be managed in the direction of social cohesion and achieving the

desired adjustment by the European citizens in the trajectory of European policies and the revival of the "welfare state".

Public finances

According to the EC, the level of taxation in the country is relatively low, which favours growth. CITUB is not of the same opinion and considers that **tax changes and a change of ideology is necessary** in this direction, since Bulgaria continues to be the country with the lowest tax revenue in the budget as a share of GDP. At the same time, indirect taxes (on consumers) represent the largest share of all tax revenue, which speaks of an unfairly distributed tax burden between low-income and high-income groups. The EC recognizes that the ability of the current tax system to correct poverty and social disparities is very limited, but at the same time expresses its principle support for maintaining the status quo.

We have repeatedly stated that the current taxation system in Bulgaria is ineffective and leads to the deepening of inequalities in society, to lower tax revenues without diminishing the share of the "gray" economy. CITUB has an official position and a clearly expressed and consistent view over the years on the issue and will continue to insist on this change.

Regarding the **effectiveness of public spending**, the EC notes that too little money is spent to promote the social and economic development of our country. The budget for social policies, education and health is much smaller as a percentage of the GDP compared to the EU average. Here we agree with the Commission's statement, which confirms our view of the rather neutral governmental position in respect to the market. **CITUB considers that the role of the state in the economy and the social sphere should be much more active and purposeful.**

The fiscal 'toolbox', being one of the two components of this economic policy, should be applied in such a way as to promote the most effective and fair improvement of market imbalances that are constantly occurring. The transfer payment multiplier is one of the most effective tools to stimulate domestic consumption (which is currently driving our economy). Ignoring this tool in a favourable phase of the business cycle can be qualified as a missed public benefit.

Investments and competitiveness

CITUB shares the concerns expressed in the Report regarding the investment activity in the country. The overall level of investment has fallen below the EU average and is expected to remain low. The main reason for this is the **significant decrease in private investment over the years**, despite the gradual recovery of public investment to a level, which countries similar to Bulgaria have. The prognoses are that public investments will continue to grow with the acceleration of EU funds absorption, but not so much that they can offset the lag in private investment.

Investments are still insufficient to reduce capital differences with the rest of the EU. Another important point is that high added value activities attract a relatively small share of investment. More than half of the investments in tangible assets are in buildings, about 30% - in machinery and equipment, whereas investments in ICT that would lead to high competitiveness, innovation and quality for companies and would increase their export opportunities, are insignificant.

According to CITUB **the overall profile of the country's investment activity is experiencing structural problems:** still insufficiently strong institutions, political and regulatory uncertainty, insufficient protection of property rights, including intellectual, judicial independence, administrative burdens, corruption, etc. Despite the progress made in the business environment and in some of these fields, they still require comprehensive measures to significantly improve the above-mentioned indicators, which would help generate higher economic growth.

A positive finding is the reported **improvement in the country's external competitiveness.** Our participation in international trade is increasing, and a major factor for this is the increased competitiveness of Bulgarian products. There is diversification of exports and quality improvement. Here, it is extremely important to highlight the EC's conclusion that the increase in wages so far has in no way affected our external competitiveness.

CITUB shares the EC's view that **Bulgaria is among the lowest performing countries under the Digital Economy and Society Index DESI** (European Commission, 2018). The main challenges are the very low level of digital skills of citizens and the low level of integration of digital technologies by enterprises.

We the Commission's conclusion that the overall **reform of the public administration is slow** and has not yet led to many concrete changes. Although steps have been taken to implement reforms in eGovernment, they have been made slower than planned. However, this process is about to happen in the next few years.

With regard to **public procurement**, CITUB continues to maintain the view that despite the progress made with the introduction of the new Public Procurement Act - PPA (the transposition of two EU directives from 2014, enhancing legal reliability and the addition of ILO Convention No 95 on Wage Protection as part of Annex 10), as well as the implementation of many other measures of the national strategy for development of the sector, its effectiveness is still low. In our view, there is a need for improvement in terms of guaranteeing the rights of the employees involved both in the implementation of potential public procurement contracts and in relation to potential candidates or participants in PPA procedures in view of their lawful behavior towards the workers and employees hired by them.

Public procurement in Bulgaria **still has a negative reputation and is associated with corrupt practices** that in itself poses a serious challenge for the country and is subject to detailed commentary in this Report. In this regard, CITUB agrees with the EC and expresses its concern that the introduction of eProcurement platforms is likely to suffer further delays, yet they are a major tool for greater transparency, less corruption and easier access to procedures under the PPA, especially for SMEs, which are the so-called "backbone of the economy".

Implementation of 2018 country specific recommendations (CSRs)

With regard to Bulgaria's progress in meeting the 2018 country-specific recommendations:

1) CSR 1: Improve the efficiency of tax collection and public spending, including by stepping up enforcement of measures to reduce the extent of the informal economy. Upgrade the State-owned enterprise corporate governance framework in line with international good practices.

- Improve tax collection - Some progress;
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- Improve the efficiency of public spending - **Some progress;**
- Stepping up enforcement of measures to reduce the extent of the informal economy - **Some progress;**
- Upgrade the State-owned enterprise corporate governance framework in line with international good practices - **Limited progress.**

2) **CSR 2:** Take follow-up measures resulting from the financial sector reviews and implement the supervisory action plans in order to strengthen the oversight and stability of the sector. Ensure adequate valuation of assets, including bank collateral, by enhancing the appraisal and audit processes. Complete the reform of the insolvency framework and promote a functioning secondary market for nonperforming loans.

- Take follow-up measures resulting from the financial sector reviews - **Significant progress;**
- Implement the supervisory action plans in order to strengthen the oversight and stability of the sector - **Some progress;**
- Ensure adequate valuation of assets, including bank collateral, by enhancing the appraisal and audit processes - **Some progress;**
- Complete the reform of the insolvency framework - **Limited progress;**
- Promote a functioning secondary market for nonperforming loans - **Limited progress.**

3) **CSR 3:** Increase the employability of disadvantaged groups by upskilling and strengthening activation measures. Improve the provision of quality inclusive mainstream education, particularly for Roma and other disadvantaged groups. In line with the National Health Strategy and its action plan, improve access to health services, including by reducing out-of-pocket payments and addressing shortages of health professionals. Introduce a regular and transparent revision scheme for the minimum income and improve its coverage and adequacy.

- Increase the employability of disadvantaged groups by upskilling and strengthening activation measures - **Some progress;**
- Improve the provision of quality inclusive mainstream education, particularly for Roma and other disadvantaged groups - **Some progress;**
- In line with the National Health Strategy and its action plan, improve access to health services, including by reducing out-of-pocket payments and addressing shortages of health professional- **Limited progress;**

- Introduce a regular and transparent revision scheme for the minimum income and improve its coverage and adequacy - **Limited progress.**

Out of the 13 specific recommendations made to Bulgaria, at least "some progress" has been achieved on 7 of them. One of the recommendations was found to have achieved "significant progress" and five - "limited progress". Compared to the previous year, implementation of the CSRs is better.

In conclusion, it can be said that social indicators are creating more prerequisites for concern and critical attitude than others. CITUB is concerned about the direction in which people's income, the state of the labour market, inequalities, integration of minority groups, etc. are developing. According to the EC, the critical moments for Bulgaria are precisely income inequalities, people at risk of poverty and social exclusion and young people who neither work nor study. Individual levels of digital education are also critical for our country, with only two more countries falling in this group - Croatia and Romania. What is worrying in terms of data is that 44% of the EU population can be classified as "digitally incompetent".

Europe 2020 (national targets and progress)

The EC's assessment is that Bulgaria continues to overachieve its targets for reducing greenhouse gas emissions and increasing the share of renewable energy. A number of measures have been taken to improve energy efficiency, but energy consumption remains above the indicative national targets.

Bulgaria is making a progress in the field of employment, higher education and early school leaving. Although targets have not yet been achieved, there are real opportunities to get close to them at the end of the period:

- Employment rate target: 76% in 2020 (71.3% in 2017);
- Tertiary education target: 36% in 2020 (32.8% in 2017);
- Early school leaving target: 11% in 2020 (12.7% in 2017).

The situation continues to deteriorate with regard to poverty reduction and research and development (R&D) intensity targets. The prospect of poverty reduction by 260 000 people is catastrophic. Moreover, in 2017 the number of people at risk of poverty is 1 665 thousand, i.e. by 33 thousand more. No progress has been made with regard to the R&D target (1.5% of GDP in 2020). R&D intensity fell from 0.78% of the GDP in 2016 to 0.75% in 2017, which is among the lowest levels in the EU. **Undoubtedly, these two targets need to be specially addressed by the EC's Specific Recommendations in May.**

SUMMARY ASSESSMENT

Overall, the assessments in the European Semester Report for Bulgaria are realistic and reflect the country's real economic and social situation.

However, as we noted in our previous position on the Report on Bulgaria, **the general impression is that there is a certain internal contradiction when reading the assessments of macroeconomic and fiscal policies and the recommendations for the social sphere, especially with regard to social indicators.** The report praises Bulgaria and encourages it for strong economic growth, stable fiscal position, progress in tax collection, but does not direct

towards making a more profitable use of these policies and results to improve the country's social indicators.

The finding of **serious challenges with regard to social indicators on the EPSR**, which are expressed in a very high level of poverty, social exclusion and critically profound inequalities in income, along with the low tax reallocation effect and low level of social protection expenditure remain "hanging" because they are not accompanied by clear recommendations - to take advantage of the stable financial state of the country in order to improve these indicators.

In this regard, CITUB stresses **the need to implement specific measures and policies that will lead to a more equitable use of economic performance:**

- Reforming the tax system and introducing a non-taxable minimum to the amount of the country's minimum wage;
- Priority budget financing of important social spheres and increasing the intensity of public spending on R&D;
- Reforming the system of social assistance and linking with the official poverty line;
- Changing the business orientation of healthcare institutions and eliminating patients' fees;
- Improvement of the legal framework concerning the social security of non-traditional forms of employment - one-day contracts, seasonal workers.

CITUB believes that in the context of the European Semester, the comments on social policies and especially on the state of the social indicators for assessing progress on the EPSR need a strong link with national social policy recommendations that are in line with the objectives of the EPSR. **We find it appropriate and insist that the procedure for macroeconomic imbalances be combined with a procedure for social imbalances.**

We insist on the following: **when developing a National Reform Program to create a specific section**, which would respond to the monitoring of the results in the context of the EPSR and contain specific measures and policies for overcoming the critical values of the leading indicators of the Social Indicators Scoreboard.

We expect the EC and the government of the Republic of Bulgaria to actively participate in the **Partnership for Collective Bargaining and Upward Wage Convergence Initiative** initiated by the ETUC. The specific targets for our country are: to restore and increase the efficiency of the social dialogue at the national and sectoral/branch level, encourage and stimulate the collective bargaining, use all instruments to double the CLA coverage of salaried employment and accelerate the cohesion process in the sphere of income and working conditions.

Executive Committee of CITUB

15 March 2019