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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Bulgaria and delivering a Council opinion on the 2023 Convergence Programme of Bulgaria

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission Proposal COM(2023) 602 final.

Recommendation for a

COUNCIL RECOMMENDATION

on the 2023 National Reform Programme of Bulgaria and delivering a Council opinion on the 2023 Convergence Programme of Bulgaria

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

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

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

[1] OJ L 209, 2.8.1997, p. 1.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular to promote the green and digital transition and make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the EU and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Recovery and Resilience Facility was updated on 30 June 2022 in accordance with Article 11(2) of Regulation (EU) 2021/241.

2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey[3], marking the start of the 2023 European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 23 March 2023. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Bulgaria as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 16 May 2023, as well as the proposal for the 2023 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 13 March 2023.

(3) While the EU economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the EU stands firmly with Ukraine, the EU economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and companies in the short term, and on keeping up efforts to deliver on the green and digital transition, support sustainable and inclusive growth, safeguard macroeconomic stability, and increase resilience in the medium term. It also focuses heavily on increasing the EU's competitiveness and productivity.

[3] COM(2022) 780 final.

(4) On 1 February 2023, the Commission issued the Communication *A Green Deal Industrial Plan for the Net-Zero Age*[4] to boost the competitiveness of the EU's net-zero industry and support the fast transition to climate neutrality. The plan complements ongoing efforts under the European Green Deal and REPowerEU. It aims to provide a more supportive environment for scaling up the EU's manufacturing capacity for the net-zero technologies and products required to meet the EU's ambitious climate targets, as well as ensuring access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The plan is based on four pillars: a predictable and simplified regulatory environment, speeding up access to finance, enhancing skills, and open trade for resilient supply chains. On 16 March 2023, the Commission also issued the Communication *Long-term competitiveness of the EU: looking beyond 2030*[5], structured along nine mutually reinforcing drivers with the objective to work towards a growth enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well focused investments and regulatory measures for the long-term competitiveness of the EU and its Member States. The recommendations below help address those priorities.

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4 COM(2023) 62 final.
5 COM(2023) 168 final.

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

(6) The REPowerEU Regulation[6] adopted on 27 February 2023 aims to rapidly phase out the EU's dependence on Russian fossil fuel imports. This will contribute towards energy security and the diversification of the EU's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. They will also help boost the competitiveness of the EU's net-zero industry as outlined in the Green Deal Industrial Plan for the Net-Zero Age and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States to finance new energy-related reforms and investments under their recovery and resilience plans.

6 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024. It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination[7]. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023-2024 that ensure medium-term debt sustainability as well as raise potential growth in a sustainable manner. Member States were invited to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the 3% of GDP deficit reference value is adhered to as well as plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should target such measures much better than in the past towards vulnerable households and firms. The Commission proposed that the fiscal recommendations would be quantified and differentiated. Moroever, as proposed in its Communication on orientations for a reform of the EU economic governance framework[8], the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States should continue to protect nationally financed investment and ensure the effective use of the Recovery and Resilience Facility and other EU funds, in particular in light of the green and digital transition and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

7 COM(2023) 141 final.
8 COM(2022) 583 final.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the EU's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023, the objective is to conclude the legislative work in 2023.

(9) On 15 October 2021, Bulgaria submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 4 May 2022, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Bulgaria[9]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Bulgaria has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 5 May 2023, Bulgaria submitted its 2023 National Reform Programme and its 2023 Convergence Programme, in line with Article 8(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Bulgaria's biannual reporting on the progress made in achieving its recovery and resilience plan.

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9 Council Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Bulgaria (ST 8091/22; ST 8091/22 ADD 1).

(11) The Commission published the 2023 country report for Bulgaria[10] on 24 May 2023. It assessed Bulgaria's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Bulgaria's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Bulgaria's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) Based on data validated by Eurostat,[11] Bulgaria's general government deficit decreased from 3.9% of GDP in 2021 to 2.8% in 2022, while general government debt fell from 23.9% of GDP at the end of 2021 to 22.9% at the end of 2022. On 24 May 2023, the Commission published a report under Article 126(3) TFEU;[12] the report discussed the budgetary situation of Bulgaria, as its general government deficit is planned to exceed 3% of GDP in 2023. The report concluded that the deficit criterion is not fulfilled. In line with the Communication of 8 March 2023,[13] the Commission did not propose to open new excessive deficit procedures in spring 2023; in turn, the Commission stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Bulgaria should take account of this in the discussion and execution of its 2023 budget and in preparing its budget for 2024.

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10 SWD(2023) 602 final.
11 Eurostat-Euro Indicators, 47/2023, 21.4.2023
12 COM(2023) 631 final, 24.5.2023.
13 COM(2023) 141 final, 8.3.2023.

(13) The general government balance has been impacted by the fiscal policy measures adopted to mitigate the economic and social impact of the increase in energy prices. In 2022, such revenue-decreasing measures included reduced VAT rates for heating and gas and lower excise duty on electricity and natural and liquid gas; while such expenditure-increasing measures included subsidies to non-household consumers and electricity system distribution operators for the consumption of electricity, to households for the consumption of natural gas as well as to district heating companies. The cost of these measures was partly offset by new taxes on windfall profits of energy producers and suppliers, namely a temporary levy to energy sector state-owned enterprises. The Commission estimates the net budgetary cost of these measures at 1.5% of GDP in 2022. The general government balance has also been impacted by the budgetary cost of temporary protection to displaced persons from Ukraine, which is estimated at 0.1% of GDP in 2022. At the same time, the estimated cost of COVID-19 temporary emergency measures dropped to 1.0% of GDP in 2022, from 3.7% in 2021.

(14) On 18 June 2021, the Council recommended that in 2022 Bulgaria[14] pursue a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council also recommended Bulgaria to keep the growth of nationally financed current expenditure under control.

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

(15) According to the Commission estimates, the fiscal stance[15] in 2022 was supportive, at – 1.2% of GDP, as recommended by the Council. As recommended by the Council, Bulgaria continued to support the recovery with investments to be financed by the Recovery and Resilience Facility and other EU funds. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.8% of GDP in 2022 (0.9% of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0.5 percentage points to the fiscal stance.[16] Bulgaria therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution 0.8 percentage points to the fiscal stance. This expansionary contribution included the additional impact of fiscal policy measures to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 0.9% of GDP), as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1% of GDP). Bulgaria therefore sufficiently kept under control the growth in nationally financed current expenditure.

15 The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding Covid-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

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

(16) The macroeconomic scenario underpinning the budgetary projections in the Convergence Programme is more favourable than the Commission 2023 Spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 1.8% in 2023 and 3.3% in 2024. By comparison, the Commission 2023 spring forecast projects a lower real GDP growth of 1.5% in 2023 and 2.4% in 2024, mainly due to a more negative assumption on the evolution of inventories in the Commission forecast and despite its more favourable projection on exports and imports in 2023. For 2024 the lower real GDP growth in the Commission forecast is mainly due to large negative differences in the contributions of private consumption, investment, and exports.

(17) In its 2023 Convergence Programme, the government expects that the general government deficit ratio will increase to 6.1% of GDP in 2023. According to the Convergence Programme, the increase in deficit in 2023 mainly reflects adopted measures to increase pensions and wages, the impact of pension indexation to inflation and average wage, higher expenditure on social, health and education policy and a higher national spending on public investment. The programme does not include any other policy change or consolidation measures, as the 2023 budget that may include such fiscal policy measures was not adopted by the time of the submission of the Convergence Programme. According to the programme, the general government debt-to-GDP ratio is expected to increase from 22.9% at the end of 2022 to 26.6% at the end of 2023. The Commission 2023 spring forecast projects a government deficit of 4.8% of GDP for 2023. This is lower than the deficit projected in the Convergence Programme, mainly due to a lower expected public investment and higher revenue both from taxes and the EU. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 25% at the end of 2023. The difference is due to lower projected deficit and different assumptions on the implementation and payments from Recovery and Resilience Facility.

(18) The government balance in 2023 is expected to continue to be impacted by the fiscal measures adopted to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022 (in particular: the subsidies to non-household consumers). The cost of these measures continues to be partly offset by taxes on windfall profits of energy suppliers, namely solidary contribution under Regulation (EU) 2022/1854. Taking these revenues into account, the net budgetary cost of the support measures is projected in the Commission 2023 spring forecast at 0.8% of GDP in 2023[17]. The measures in 2023 do not appear targeted to the most vulnerable households or firms, and do not fully preserve the price signal to reduce energy demand and increase energy efficiency. Finally, the 2023 government balance is expected to benefit from the phasing out of COVID-19 temporary emergency measures of 1.0% of GDP.

(19) On 12 July 2022, the Council recommended[18] that Bulgaria take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[19], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Bulgaria should stand ready to adjust current spending to the evolving situation. Bulgaria was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds.

17 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.
18 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Bulgaria and delivering a Council opinion on the 2022 Convergence Programme of Bulgaria OJ C 334, 1.9.2022, p. 11.
19 Based on the Commission spring 2023 forecast, the medium-term (10-year average) potential output growth of Bulgaria, which is used to measure the fiscal stance, is estimated at 12.9% in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission 2023 spring forecast to be expansionary – 3.1% of GDP, in a context of high inflation. This follows an expansionary fiscal stance in 2022 (– 1.2% of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 1.9% of GDP to the fiscal stance. The expansionary contribution of nationally financed net primary current expenditure is not due to a targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council recommendation. Bulgaria is projected to finance additional investment through the Recovery and Resilience Facility and other EU funds, and to preserve nationally financed investment. Expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to amount to 1.9% of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points.[20]

(21) According to the Convergence Programme the general government deficit is expected to decline to 4.7% of GDP in 2024. The decrease in 2024 mainly reflects higher revenue from the EU and the phase-out of the energy support measures. The programme expects the general government debt-to-GDP ratio to increase to 30.7% at the end of 2024. Based on policy measures known at the cut-off date of the forecast, the Commission 2023 spring forecast projects a government deficit of 4.8% of GDP in 2024. This is broadly in line with the deficit projected in the programme. The Commission 2023 spring forecast projects a lower general government debt-to-GDP ratio, of 28.1% at the end of 2024.

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20 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.1 percentage points of GDP.

(22) The Convergence Programme envisages the phasing out of most of the energy support measures by 2024. The Commission currently assumes net cost of energy support measures of 0.1% of GDP in 2024, compared to 0.8% of GDP in 2023. These estimates hinge upon the assumption of no renewed energy price increases. The energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households or firms. They do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

(23) Council Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term objective by 0.5% of GDP as a benchmark.[21] Taking into account fiscal sustainability considerations, the need to reduce the deficit to below the 3% of GDP reference value, an improvement in the structural balance of at least 0.5% of GDP would be appropriate according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[22] in 2024 should not exceed 4.6%, as reflected in this recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 0.8% of GDP in 2023) should be phased out, contingent on energy market developments and starting from the least targeted ones, and the related savings should be used to reduce the government deficit. Based on Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth rate for 2024. In addition, according to the Commission 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the recommendation of the Council. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

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21 Cf. Article 5 of Council Regulation (EC) No 1466/97, which also requires an adjustment of more than 0.5% of GDP for Member States with a government debt exceeding 60% of GDP, or with more pronounced debt sustainability risks.

22 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

(24) Assuming unchanged policies, the Commission 2023 spring forecast projects net nationally financed primary expenditure to grow at 5.4% in 2024, which is above the recommended growth rate. The adjustment projected in the Commission forecast is less than the savings from the full phasing out of energy support measures which is mainly due to the annualised impact of pension increases and planned increases in some public sector wages that more than offset the positive impact of the phasing out of energy support measures.

(25) According to the programme, government investment is expected to increase from 4% of GDP in 2023 to 4.6% of GDP in 2024. The higher investment reflects higher nationally financed investment and investment financed by the EU, namely through the Recovery and Resilience Facility.

(26) The Convergence Programme outlines a medium-term fiscal path until 2026. According to the programme, the general government deficit is expected to increase to 4.9% of GDP in 2025 and to 5% by 2026. The general government deficit is therefore not planned to return to below 3% of GDP over the programme horizon. According to the programme, the general government debt-to-GDP ratio is expected to increase from 30.7% at the end of 2024 to 37.1% by the end of 2026.

(27) In accordance with Article 19(3), point (b) and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Bulgaria's recovery and resilience plan is underway, however with increasing risk of delays. Bulgaria submitted 1 payment request, corresponding to 22 milestones and targets in the plan and resulting in an overall disbursement of EUR 1.37 billion. A high level of governmental instability has led to delays on key legislative reforms, such as those on public procurement, anti-corruption, and the accountability of the prosecutor-general. Lack of political stability and administrative capacity also translated into a slowdown in the implementation work on several important energy and transport investments and the questioning of key aspects of the plan, namely on decarbonisation of the energy sector. The second payment request has been delayed and is now planned for September 2023. However, there is a significant risk that several milestones and targets related to key reforms will not be fulfilled at the time of submission. Work on the addendum of the plan and the REPowerEU chapter is ongoing. The timeline for the finalisation of this work is still unclear because of the political situation. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Bulgaria's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(28) The Commission approved all of Bulgaria's cohesion policy programming documents in 2022 apart from the Just Transition Fund priority and Territorial Just Transition Plans, which are crucial to alleviate the impact of the transition of coal regions. Proceeding with their adoption as well as the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transition, increasing economic and social resilience as well as achieving balanced territorial development in Bulgaria.

(29) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Bulgaria faces a number of additional challenges related to the decarbonisation of the economy and of energy production.

(30) Bulgaria continues to have the most carbon-intensive economy in the EU, with greenhouse gas intensity more than four times higher than the EU average. The 2021 share of fossil fuels in Bulgaria's energy mix was 63%, with coal representing 26%, nuclear 22% and renewables 15% (lower than the EU renewables average of 18%). The Bulgarian recovery and resilience plan includes a reform of the strategic framework for decarbonisation of the economy, in particular of the energy sector. This includes the preparation of scenarios and recommendations by the Energy Transition Commission and the subsequent adoption of a roadmap towards climate neutrality by the National Assembly, with a final date for phasing out coal/lignite, at the latest by 2038. Although the Energy Transition Commission was established in 2022, its recommendation report has been delayed. Moreover, the National Assembly adopted a resolution in January 2023 obliging the government to renegotiate Bulgaria's decarbonisation commitments, including an investment in electricity storage, under its recovery and resilience plan.

(31) Bulgaria has shown a high level of security of gas supply in the face of challenging circumstances, in particular its gas supplies from Russia being cut shortly after the invasion of Ukraine. Bulgaria was able to secure short-term contracts for liquified natural gas (LNG) deliveries via Greece. The gas interconnector between Greece and Bulgaria (IGB) started operations in October 2022. This enabled Bulgaria to receive the full volumes of contracted supplies from Azerbaijan (1 bcm/year, covering roughly 30% of domestic consumption). The share of gas in the energy mix was 14%, lower than the EU average of 23%. Industry remains the largest gas consumer, with a share of 42%, including non-energy uses. District heating systems in the major towns of Sofia and Plovdiv rely on natural gas, accounting for approximately a third of Bulgaria's total natural gas consumption. Bulgaria's consumption of natural gas has dropped by 22% in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding 5 years, beyond the 15% reduction target. Bulgaria is encouraged to keep pursuing efforts to temporarily reduce gas demand until 31 March 2024[23].

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[23] Council Regulation (EU) 2022/1369 and Council Regulation (EU) 2023/706

(32) On renewables, Bulgaria is yet to remove the barriers to installing renewable energy facilities and connecting them to the grid, part of a commitment under the recovery and resilience plan. In January 2023, the Commission referred Bulgaria to the Court of Justice of the European Union, in accordance with Article 260(3) Treaty on the Functioning of the European Union, for failing to incorporate the EU Renewable Energy Directive into national law. Greater focus on energy storage would help accelerate the deployment of grid-scale renewables in Bulgaria. Furthermore, improving grid management to make it more flexible could facilitate the integration of additional renewable energy installations. At the same time, Bulgaria should continue developing energy interconnectors with sufficient capacity with neighbouring countries. Investment into fossil fuel infrastructure needs to be limited to the strictly necessary and be designed to be future-proof, to avoid lock-in into technologies that are not consistent with the climate objectives or increasing the cost of the energy transition.

(33) The Bulgarian recovery and resilience plan includes over EUR 1 billion of investments aimed at improving energy efficiency in both public and private buildings, with calls to deliver projects on the ground being put into action. The establishment of the national decarbonisation fund, expected in 2023, is crucial for the achievement of Bulgaria's long-term strategy to renovate its building stock, along with attracting more private investment by adapting its approach to renovation programmes. Additional effort is needed to structurally address energy poverty, in particular through dedicated schemes and technical and administrative assistance to reflect the needs of vulnerable groups. For Bulgaria to be in line with the 'Fit for 55' objectives, greater ambition will be needed to reduce greenhouse gas emissions and increase renewables and energy efficiency targets.

(34) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs, and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, these measures need to be accessible, in particular for individuals, sectors and regions most affected by the green transition. In 2022, labour shortages were reported in Bulgaria for a number of occupations that required specific skills or knowledge for the green transition[24]. The European Social Fund Plus allocated EUR 152 million for measures to promote green skills and jobs for 2021-2027. The Just Transition Fund also provides an opportunity to address the social dimension of the green transition for the three eligible regions in the country.

(35) In light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[25] is reflected in recommendations (1), (2) and (3) below.

(36) Since 2005, by 2021, greenhouse gas emissions from domestic transport except aviation have grown by 19.5 % in Bulgaria, while declining by 7.5 % in the EU on average. About a quarter of the country's greenhouse gas emissions are provided by this sector. The uptake of zero-emission passenger cars is low, as is the density of public electric charging points in Bulgaria. The development of the Bulgarian section of the Trans-European Transport Network has been facing delays, especially concerning rail infrastructure: this inhibits multimodality and the potential to improve efficiency and sustainability in transport. Air pollution constitutes a significant health risk to the Bulgaria's population.

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24 Labour shortages report 2022 – European Labour Authority.

25 Under Articles 5(2) and 9(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Bulgaria take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force ,using the related savings to reduce the government deficit, in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 4.6%[, corresponding to an annual improvement in the structural budget balance of at least Y.Y% of GDP for 2024].

   Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

2. Ensure an effective governance structure and strengthen the administrative capacity to allow for a swift and steady implementation of its recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Reduce reliance on fossil fuels and accelerate the energy transition through faster deployment of renewable energy sources, together with storage capacities to increase the flexibility of the energy system. Strengthen the electricity grid infrastructure and improve its management by streamlining the connection procedures and introducing smart grid elements. Continue efforts to increase interconnection with neighbouring countries. Accelerate building renovation to incentivise energy efficiency and address energy poverty. Promote new future-proof solutions in district heating and sustainable urban transport as well as accelerate development of railway infrastructure. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council

The President