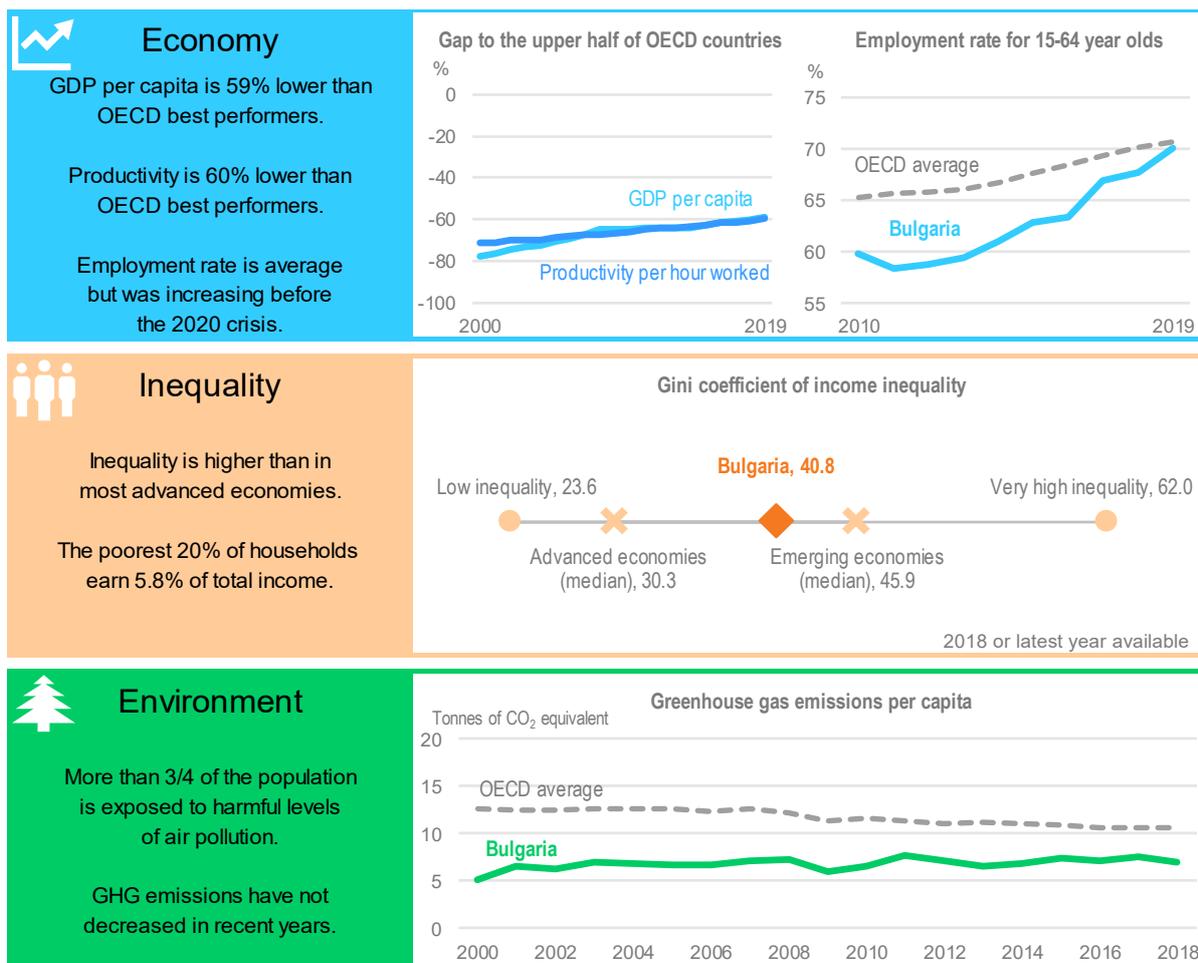


# Bulgaria

The pandemic risks interrupting impressive income convergence and raises the urgency of making growth more inclusive. Addressing long-standing patchy coverage of social benefits and improving provision and efficiency of education and training should become top policy priorities in the recovery.

## Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).

Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.

Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m<sup>3</sup> of PM<sub>2.5</sub>.

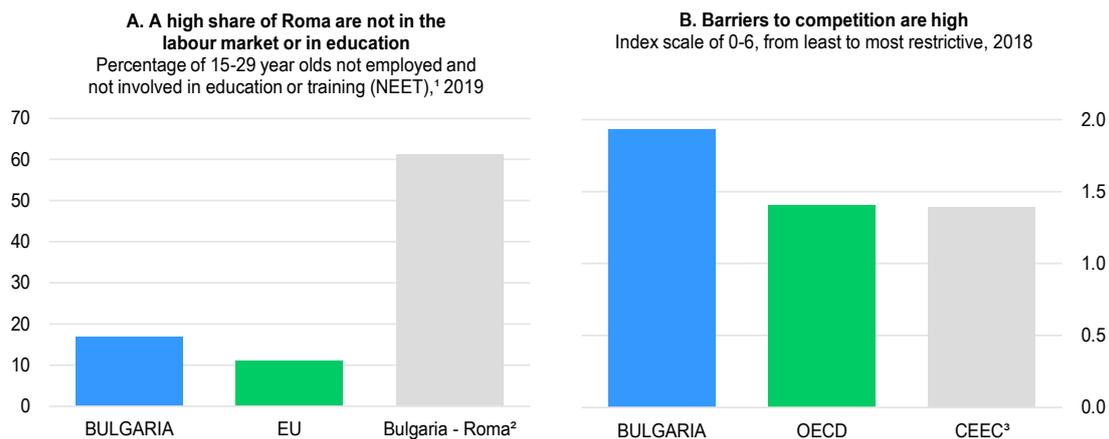
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

## Making growth more inclusive and public governance more efficient

**Reducing the high risks to poverty**, particularly elevated for ethnic minorities, the elderly and in rural areas, has become more important in light of the pandemic. Benefits to the most vulnerable are not well targeted and there is a limited use of means-tested benefits combined with high rates of non-take up among the poorest households, while coverage and spending on active labour market policies remains low. To make the recovery more inclusive and growth resilient, access to the social safety net and active labour market policies needs to increase, notably to reskilling opportunities.

The country faces dwindling numbers of youth entering the labour market due to population ageing. In such context, poor PISA scores and high percentage of dropouts in secondary education, means that the local talent is not used in full. Labour market exclusion is also a concern, as reflected in the high proportion of NEETs (young people neither in employment nor in education or training) among the Roma population, who make up a considerable share of new labour market entrants (Panel A). Moreover, a shortage of skilled workers was the biggest obstacle to business activity prior to the pandemic. Increasing the **effectiveness and provision of education and training** across the lifecycle can ensure drawing on all available talent, smooth the reallocation of workers and improve resilience of the economy to face demographic challenges.

### Vulnerabilities and areas for reform



1. The numerator refers to persons who are not employed (unemployed or inactive according to the International Labour Organisation definition) and who have not received any education or training (formal and non-formal) in the four weeks preceding the Labour Force Survey. The denominator includes the total population aged 15 to 29.

2. Data for the Roma population refer to 15-34 year olds and the latest available year is 2017.

3. CEEC refers to the average of the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia. Source: Panel A: Eurostat and Institute for Market Economics (2019), "Assessment of the People not in Employment, Education and Training (NEETs) in Bulgaria and Policy Measures to Effectively Address their Integration", European Commission, VC/2019/017; Panel B: OECD, Product Market Regulation 2018 Database.

Regulatory barriers to competition, large administrative burden for start-ups and lengthy business insolvency procedures hinder business dynamism (Panel B). Despite the impressive income convergence, productivity lags behind Bulgaria's peers. **Reducing red tape and barriers to competition** would stimulate business dynamism and support a more efficient allocation of resources in the economy. Insolvency should be made more accessible and less costly to help non-viable firms to shut down quickly and increase the share of viable businesses in solvency problems that can restructure obligations and continue operating.

Considerable reforms to fight corruption and organised crime have been put in place. To reap their full benefits the challenge now is efficient implementation, as **improved governance** would provide an impetus to growth. **Increased public investment** can also provide a short term stimulus, lift potential growth and make it more sustainable. As Bulgaria will benefit from funding from the European Union Recovery and Resilience Facility, it can improve lagging areas of transport infrastructure and digital connectivity. To reap full benefits of such investment, the right projects need to be selected, accounting for life-cycle costs and benefits. Then, these projects need to be implemented efficiently.

## Bulgaria: Summary of *Going for Growth* priorities and recommendations

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### Recommendations on the Top Five Reform Priorities

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#### \*Social protection: Reducing poverty and social exclusion\*

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- Relax entitlement criteria and increase generosity of social benefits.
- Streamline and simplify multiple and complex means-tested social benefit schemes, notably for families with children.
- Expand coverage and quality of active labour market policies.
- Consider reducing the tax burden for lower-income households in the medium or longer term.

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#### \*Education and skills: Increasing skills at all ages\*

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- Provide universal access for four-year olds to early childhood education.
- Ensure quality and relevance of vocational education and training and skills development for digital and green transition and deepen the role of workplace training.
- Improve outreach of current support services and expand the Youth Guarantee Programme.
- Increase secondary school teacher training for teaching special needs students.

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#### \*Competition and regulation: Enhancing the business environment to facilitate reallocation\*

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- Increase the Competition Authority's detection and enforcement of sanctions on cartels and firms abusing monopoly/market dominant positions.
- Ease access to bankruptcy and rehabilitation proceedings.
- Extend reforms put in place with the operationalisation of the One-Stop Shop to cover the issuing of all licences and permits, and to accept all notifications necessary to open a business.

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#### \*Governance and legal system: Improving governance for a stronger post-COVID-19 recovery\*

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- Provide the integrity and anti-corruption institutions with the necessary responsibilities, coordination mechanisms and resources to fulfil their role.
  - Following recent legislative reforms to the Criminal Procedure Code implement an effective and transparent accountability mechanism for the Prosecutor General in line with international standards.
  - Implement the EU whistle-blower Directive and launch a campaign to enhance officials and the public's acceptance of whistle blowing.
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## Recommendations on the Top Five Reform Priorities

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### \*Fiscal framework and infrastructure: Increasing public investment to support growth\*

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- Ensure an effective and rapid use of the available European Union funding to support the recovery.
  - Increase the level and efficiency of investment in publicly financed research and innovation.
  - Promote the connection of remote regions to national and international supply chains with investment in transport infrastructure and digital connectivity.
  - Gradually remove support for fossil fuels and align carbon prices for sectors outside of the EU Emissions Trading System, while protecting poorer households.
  - Continue to support housing renovation and improve targeting to low-income groups. Provide information about the benefits of energy saving investments to households.
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\*The asterisk signals a new priority. Since this is the first Going for Growth note for Bulgaria, all priorities are new.