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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Bulgaria

{SWD(2025) 202 final}

Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Bulgaria

THE COUNCIL OF THE EUROPEAN UNION,

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

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: ‘net expenditure’ means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (iv) national expenditure on co-financing of programmes funded by the Union; (v) cyclical elements of unemployment benefit expenditure; and (vi) one-offs and other temporary measures.

Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making 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 Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency.

(4) 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 that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 4 May 2022, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Bulgaria[5], which was amended under Article 18(2) on 8 December 2023 to update the maximum financial contribution for non-repayable financial support[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Bulgaria has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the achievement of preceding milestones and targets for the same reform or investment has not been reversed.

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3 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, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

4 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, ELI: http://data.europa. eu/eli/reg/2023/435/oj).

5 Council Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Bulgaria (8091/22).

6 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 4 May 2022 on the approval of the assessment of the recovery and resilience plan for Bulgaria (15837/2023).

(5) On [date], the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Bulgaria[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2028 and presents a fiscal adjustment spread over four years.

(6) On 26 November 2024, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Bulgaria as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

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7 Council Recommendation of [21 January/18 February/…] 2025 [endorsing the medium-term fiscal-structural plan / setting the net expenditure path] of [Country], OJ C/2025/[6xx/xxx], [10.2/dd.mm].2025.

8 Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http:// data.europa.eu/eli/C/2025/2782/oj).)

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Bulgaria. It assessed Bulgaria's progress in addressing the relevant country-specific recommendations and took stock of Bulgaria's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Bulgaria is facing. It also assessed Bulgaria's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On [date] the Council recommended the following maximum growth rates of net expenditure for Bulgaria: 6.2% in 2025, 4.9% in 2026, 4.4% in 2027, and 4.0% in 2028, which correspond to the maximum cumulative growth rates calculated by reference to 2024 of 6.2% in 2025, 11.4% in 2026, 16.3% in 2027, and 21% in 2028. On 2 May 2025 Bulgaria submitted its Annual Progress Report[9], on relevant fiscal outturn data and projections, and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Bulgaria's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Bulgaria on 2 May 2025, on [date] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Bulgaria to deviate from, and exceed, the recommended maximum growth rates of net expenditure[10].

(13) Based on data validated by Eurostat[11], Bulgaria's general government deficit increased from 2.0% of GDP in 2023 to 3.0% in 2024, while the general government debt rose from 22.9% of GDP at the end of 2023 to 24.1% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 10.4% in 2024. In the Annual Progress Report, Bulgaria estimates the net expenditure growth in 2024 at 12.3%. The lower net expenditure growth rate in the Commission's calculations is mainly due to Commission's accounting for the recording of a one-off expenditure in 2024. Based on the Commission's estimates, the

9 The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

10 Council recommendation allowing Bulgaria to deviate from, and exceed, the recommended net expenditure path (Activation of the national escape clause), OJ (...)

11 Eurostat-Euro Indicators, 22.4.2025.

fiscal stance[12], which includes both nationally and EU financed expenditure, was broadly neutral in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Bulgaria expects real GDP growth at 3.0% in 2025, while HICP inflation is projected at 3.6% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 2.0% in 2025 and 2.1% in 2026, and HICP inflation to stand at 3.6% in 2025 and 1.8% in 2026.

(15) In the Annual Progress Report, the general government deficit is expected to decrease to 2.9% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 28.9% by the end of 2025. These developments correspond to net expenditure growth of 8.6% in 2025. The Commission Spring 2025 Forecast projects a government deficit of 2.8% of GDP in 2025. According to the Commission's calculations, these developments correspond to net expenditure growth of 9.2% in 2025. These higher projections of net expenditure growth than in the Annual Progress Report are due to a lower projected EU funded expenditure as well as a smaller anticipated impact of discretionary revenue measures, albeit against lower total expenditure, in the Commission Spring 2025 Forecast for 2025. The Commission's recording of one-off expenditure for 2024 also contributed to this difference by creating a lower starting base for 2024. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 1.1% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 25.1% by the end of 2025.

(16) General government expenditure amounting to 1.0% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.4% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Bulgaria.

(17) General government defence expenditure in Bulgaria amounted to 1.6% of GDP in 2021 and in 2022, and 1.5% of GDP in 2023[13]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.4% of GDP in 2024 and 2.6% of GDP in 2025. This corresponds to an increase of 1.2 percentage point of GDP compared to 2024. The period when the national escape clause is activated (2025-2028) allows Bulgaria to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Bulgaria is projected to grow by 9.2% in 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Bulgaria in 2025 is projected to be above the

[12] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

[13] Eurostat, government expenditure by classification of functions of government (COFOG).

recommended maximum growth rate, corresponding to a deviation[14] of 1.1% of GDP in 2025. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

(19) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 2.8% of GDP in 2026. These developments correspond to net expenditure growth of 1.7% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary, by 0.8% of GDP, in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 27.1% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects a stable primary deficit above 2% and sustained disinflation over the forecast period, paired with increasing interest rates.

Key policy challenges

(20) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, finalising the effective implementation of the recovery and resilience plan, is essential to boost Bulgaria's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Bulgaria to urgently accelerate the implementation of reforms and investments by addressing relevant challenges The rapid inclusion of a REPowerEU chapter in the recovery and resilience plan is essential for the financing of additional reforms and investments in support of Bulgaria's and the EU's strategic objectives in the field of energy and the green transition. In particular, those relate to maintaining a consistent policy approach towards implementing the envisaged structural reforms as well as ensuring competitive and effective public procurement procedures to allow the timely realisation of the planned investments. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(21) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF), the European Social Fund Plus (ESF+) and the Cohesion Fund (CF), has accelerated in Bulgaria. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Bulgaria is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Bulgaria continues to face challenges, including those relating to (energy) poverty and social inclusion, quality and inclusiveness of education, skills development, labour market integration of vulnerable groups and energy transition, which remains key to long-term resilience, and competitiveness, where further focus on development of strategic technologies could provide new opportunities. In

[14] From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

accordance with Article 18 of Regulation (EU) 2021/1060, Bulgaria is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[15] extend the deadline for submitting an assessment – for each programme – of the outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(22) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU Programme supporting investments in priority areas. Bulgaria could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(23) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Bulgaria faces several additional challenges related to the quality of education and skills, healthcare, long-term care and social inclusion. Additional challenges, which undermine the business environment and competitiveness, include the functioning of the public administration, including the independence of regulators, the effectiveness of public procurement procedures and of the steering of research and innovation. Further challenges relate to the still high degree of reliance on fossil fuels, persistent energy poverty, underdeveloped sustainable transport infrastructure and poor waste and water management.

(24) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Bulgaria also needs to take action. 66% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Bulgaria[16]. The quality of services provided by the public administration remains insufficient, with significant regional disparities. The vast majority of businesses perceive corruption to be widespread and a problem when doing business. The other main challenges to the business environment include the high administrative burden and regulatory barriers. These issues could be tackled by further digitalising administrative services and reducing the cost of starting a business. Public procurement procedures often lack competition or quality, often leading to lack of bidders or to successful appeals. Corruption risks in public procurement remain high, deterring businesses from participating due to perceived bias in conditions and evaluations. Regulatory bodies face resource limitations and are often subject to political influence, which undermines

[15] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

[16] 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024).

their independence and the quality of their work. Wide differences in salaries across and between some regulators limit the scope to attract quality experts. .

(25) The level of R&D investment in Bulgaria is very low and not efficiently allocated, leading to low impact and effectiveness, notably for public R&D. In 2023, public R&D spending was 0.28% of GDP against the EU average of 0.72%. In addition, links between academia and business remain limited. The low level of R&D spending is exacerbated by public funds spread across many higher education institutions and research organisations. These weaknesses result in low innovation output as evidenced by the low patent intensity rate and the below-EU-average number of scientific publications, citations and public-private scientific co-publications.

(26) Accessing clean and affordable energy and reducing the reliance on fossil fuels continue to be priority issues for Bulgaria. The country had the fourth-highest wholesale electricity prices in 2024, partially due to continued reliance on fossil fuels, accounting for approximately 25% of electricity generation, the limited availability of non-fossil flexibility technologies, as well as limited interconnectivity between South-Eastern and Central Europe. The postponed reform of the retail electricity market liberalisation impedes the transition to clean and affordable energy as the lack of exposure to price signals drives demand up, in particular in peak hours, where it is met by marginal fossil fuel power plants. Bulgaria records sizeable fossil-fuel subsidies, representing approximately 0.82% of its GDP, with no phase-out planned before 2030. In particular, fossil-fuel subsidies that neither tackle energy poverty in a targeted way nor address genuine energy security concerns could be considered a phase-out priority. In Bulgaria, fossil fuel subsidies, such as feed-in-tariffs for combined heat and power plants, as well as the new State order to purchase electricity from the ‘Maritsa East II’ thermal power plant are economically inefficient, perpetuate reliance on fossil fuels and disincentivise the decarbonisation of the power and heating sectors.

(27) The uptake of renewable energy has slowed down in Bulgaria. In 2024, the country added 1 GW of new renewable energy capacity (mostly solar photovoltaics), down from 1.2 GW the previous year. Complex and lengthy permitting procedures create obstacles to installing new onshore wind capacity, evidenced by the lack of new capacities in recent years. The potential of offshore wind installations remains untapped due to the lack of a regulatory framework, in particular to designate go-to areas and provide a grid development plan for coastal areas. Although Bulgaria created a legal basis for designating go-to areas for wind installations in 2023 as part of a reform under the RRP, it still has not designated these areas.

(28) District heating systems in Bulgaria are often in poor technical condition and most run predominantly on natural gas or coal.

(29) The insufficient short-term storage capacity and the need to rely on fossil-fuel generators result in one of the highest wholesale price swings in the EU with a daily average wholesale price variation of EUR 185/MWh in 2024. Limited liquidity on the wholesale market due to the partial liberalisation and the compensation scheme for business users have long impeded aggregation and demand-response potentials, decreasing the flexibility of the electricity system. Furthermore, the lack of full retail market liberalisation will continue to undermine the flexibility of the electricity system.

(30) Bulgaria’s grid connection capacity for renewable energy installations is increasingly limited, especially at distribution level, requiring additional investment in the network to manage the continuous integration of renewables.

(31) Energy poverty remains a structural challenge, with the proportion of people unable to keep their homes adequately warm still above the EU average. Although Bulgaria adopted a legal definition of energy poverty in 2023 as part of a reform under the RRP, it still needs to identify the affected population and to design effective and targeted support schemes.

(32) The energy intensity and the energy-related greenhouse gas emissions of manufacturing in Bulgaria remain among the highest in the EU. The energy intensity of manufacturing fell between 2017 and 2022 to 2.45 GWh/EUR of gross value added (GVA) but remains significantly higher than the EU average (1.05 GWh/EUR of GVA). Promoting energy efficiency in manufacturing – particularly in energy-intensive sectors – and cutting industrial energy use would contribute to productivity and competitiveness gains for the economy.

(33) Transport is the sector that generates the most emissions in Bulgaria with greenhouse gas emissions from road transport significantly increasing between 2005 and 2023, while they decreased in the EU overall. Further action is needed to incentivise the uptake of clean transport in Bulgaria, such as greater promotion of public transport, for instance by rolling out the single ticket service for public transport, by modernising the railway infrastructure and electrifying the remaining railway lines, developing cross-border rail connectivity, installing electric vehicle charging infrastructure and implementing low-emission zones in urbanised areas.

(34) Sustainable water and waste management remains a challenge in Bulgaria. It still has limited institutional capacity to tackle these challenges. More action is needed to strengthen coordination between the competent national authorities, develop monitoring and modelling tools, and improve reporting and planning at subnational level. The investment gap in water management to meet the requirements of the Water Framework Directive and the Floods Directive is estimated at EUR 439 million per year.

(35) A high share of high school students lacks basic skills in mathematics, reading and science, which poses a significant barrier for later skills development. In the 2022 OECD Programme for International Student Assessment (PISA), about half of Bulgarian 15-year-olds underperformed in mathematics, in reading and in science, with even higher rates among students from disadvantaged backgrounds. Underperformance is also linked to the school curricula, which are still heavily knowledge-based. There is an insufficient use of competence-based, learner-centred approaches, with too little focus on basic skills development and on STEM competences. Teaching quality suffers from the inability to attract talent to the profession, partly due to a lack of continuous professional development and training tailored to teachers' needs. Major inequalities based on socio-economic factors persist with a high degree of social segregation affecting schools and exacerbating learning inequalities.

(36) The Bulgarian labour market remains tight with a low unemployment rate at 4.2% in 2024 and employers reporting a total need of over 260 000 additional workers, which is roughly 9% of the persons currently in employment. Although the share of young people (15-29) neither in employment nor in education and training fell, it is still 1.7 pps above the EU average. Despite slight improvements in 2024, the gap in the employment of people with and without disability remains one of the highest in the EU at 35.4 pps in 2024. The employment rate for people with no more than a lower-secondary education is 42 pps lower than for people with a tertiary education, a

significantly higher gap than on average in the EU. Furthermore, the Roma face substantial challenges in finding work with only 47% in employment. Recent positive net migration flows are insufficient to offset the declining labour force and emigration of high-skilled young workers. These labour market challenges are exacerbated by workforce skills shortages and mismatches. Digital skills among the working population remain significantly low with 40.1% of workers (aged 25-64) having at least basic digital skills. Moreover, skills shortages are exacerbated by the low degree to which VET and tertiary education meets the needs of the labour market, especially in sectors relevant to the green and digital transition. Furthermore, Bulgaria has reported one of the lowest levels of adult participation in learning in the Union over the last decade, standing at 9.5% in 2022 compared to an EU average of 39.5%.

(37) The risk of social exclusion and poverty remains high in particular for children, older people, persons with disabilities, and Roma. Expenditure on social protection benefits in Bulgaria is among the lowest in the EU (18.3% against the EU average of 26.8% of GDP in 2023), particularly for social assistance, family and unemployment benefits. The adequacy of minimum income is well below the EU average (19.1% vs. 56.3% of the poverty threshold in 2023). Only 25.1% of short-term unemployed received benefits in 2024. The system's limited capacity to reduce poverty highlights the need to improve efficiency, coverage and effectiveness. In 2024, social transfers (excluding pensions) reduced poverty by just 27.7%, below the EU average of 34.4%. Addressing these challenges would also contribute to supporting upward social convergence, in line with the Commission services' second-stage country analysis of the Social Convergence Framework[17].

(38) Despite increases in healthcare spending since 2019, mortality from treatable causes has not decreased in Bulgaria, and remained more than twice the EU average, which indicates inefficiencies in the healthcare system. Despite a recent decrease of the proportion of out-of-pocket payments for healthcare, it remains the highest in the EU. The number of nurses and general practitioners in Bulgaria fell again in 2023. There is now an average of less than one nurse per doctor and the share of practising nurses per 1 000 population remains among the lowest in the EU, which undermines access to and the quality of medical services. In 2023, over 40% of nurses and 50% of doctors were aged 55 and over, which combined with the concentration of workforce and facilities in urban areas, undermines access to health services in the long-term.

HEREBY RECOMMENDS that Bulgaria take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on [date], while making use of the allowance under the national escape clause for higher defence expenditure.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, urgently accelerate the implementation of the recovery and resilience plan. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+, CF), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by the InvestEU and the Strategic Technologies for Europe Platform, to improve competitiveness.

[17] SWD(2025) 95 – Second-stage country analysis on social convergence in line with the Social Convergence Framework (SCF), 2025.

3. Create the enabling conditions to boost competitiveness by improving the functioning and the capacity of the public administration, including at regional level. Simplify regulation, improve regulatory tools and reduce administrative burden to create a level playing field for business. Improve the effectiveness of anti-corruption measures, particularly in high-level corruption cases. Improve the quality of public procurement procedures and strengthen the independence and functioning of regulators. Increase the impact and effectiveness of public R&D investment by focusing research and innovation in fewer institutions and improve the commercialisation of research output.

4. Reduce reliance on fossil fuels, including by promoting market liberalisation, accelerating the roll-out of renewables, particularly by designating areas with fast-track permitting for wind installations. Take specific steps to phase out fossil-fuel subsidies including by removing the subsidies supporting coal-based electricity production and district heating. Increase the flexibility of the electricity system to reduce wholesale price volatility, in particular by broadening the scope for aggregation and demand-response and by ensuring sufficient storage capacities. Upgrade the electricity grid infrastructure at distribution level by rolling out smart grid infrastructure and by upgrading lines and substations. Tackle energy poverty by developing an up-to-date information system on energy-poor and energy-vulnerable households and supporting them with targeted policy measures. Encourage energy efficiency measures in industry. Promote the roll-out and uptake of sustainable urban, public and rail transport, including by accelerating the development of the necessary infrastructure. Improve water and waste management by tackling institutional weaknesses and investing in infrastructure to ensure the sustainable use of resources.

5. Strengthen competence-based teaching and learning. Improve teaching quality with initial, continuous and needs-based teacher training. Improve the quality, labour market relevance and inclusiveness of education and training, including for Roma and other disadvantaged groups. Address labour shortages, by effectively implementing measures to increase the employment level of persons with disabilities, people with a lower level of education, Roma and inactive persons. Reinforce skills acquisition to boost competitiveness and support the green and digital transition. Address social inclusion by improving access to integrated employment and social services, and by providing more effective minimum income support. Improve access to health services, including by reducing out-of-pocket payments and tackling the shortages and uneven distribution of health professionals with a view to boosting the effectiveness, accessibility and capacity of the health system.

Done at Brussels,

For the Council
The President