



TOPICAL RESEARCH AND HIGHLIGHTS

BASIC PARAMETERS OF THE 2016 LAW ON THE STATE BUDGET OF THE REPUBLIC OF BULGARIA AND OF THE UPDATED MEDIUM-TERM BUDGET FORECAST FOR THE 2016–2018 PERIOD

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Basic Parameters of the 2016 Law on the State Budget of the Republic of Bulgaria and of the Updated Medium-term Budget Forecast for the 2016–2018 Period

According to the State Budget Law for 2016 and latest government's medium-term budget forecast of October 2015, the target for cash deficit of the consolidated fiscal programme for 2016 is BGN 1800 million (2.0 per cent of GDP projection). Budget balance is projected to improve on account of both higher total revenue and grants as a share of GDP (from 36.8 to 37.4 per cent) and lower total expenditure as a share of GDP (from 40.2 to 39.4 per cent).

As regards budget revenue, growth in tax and non-tax revenue (by 5.1 and 23.8 per cent compared to the expected outcome for 2015) is expected to entirely compensate declines in grants (by 23.0 per cent *vis-à-vis* 2015). The increase in minimum insurance thresholds across major economic activity and occupational groups (by 8.6 per cent on average) and in minimum wage is projected to have a positive effect on tax revenue performance.¹ Higher excise duties on cigarettes and fuels are anticipated to exert a positive, though comparatively limited, effects on indirect tax revenue growth. The increase in excise duties and in road fees (since 1 January 2016) will directly affect the inflation rate throughout the year. Similar to the 2015 budget framework, planned tax in 2016 involve positive budget effects of applying measures to improve tax collection and counteract the shadow sector and tax evasion.

The planned strong growth of non-tax revenue results mainly from projected one-off receipts of Sofia airport concession and, to a lesser extent, from increased road fees and non-financial asset sales. Estimated long-term budget projections of declining grants revenue in 2016 may be explained by the finalisation of the projects in 2015 under the 2007–2013 financial framework and still early stage of implementation of projects on operational EU programmes for the new funding period 2014–2020.²

In 2016 projected declines in total expenditure (including the EU budget contribution) as a share of GDP is driven by lower capital expenditure given the expected absorption rate of EU funds. Other factors are the projected consolidation of current operating expenditure and lack of allocated reserves for structural reform and/or additional fiscal measures as compared to the amended budgetary framework for 2015.

In 2016 social payments would have the largest contribution to current non-interest expenditure growth, driven primarily by the projected increase in pension expenditure as a result of the 2.5 per cent indexation from 1 July according to the Swiss rule, as well as the increase in minimum pensions for retirement and for old age. As pointed out in the Motives to the State Social Security draft budget law for 2016, the estimated effect of these measures on pension expenditure would be BGN 120 million. In addition, it will be influenced by the expected higher number of pensioners in 2016, given the more gradual rise in the retirement age (by two instead of four months) and the possibility of early retirement since 2016 (up to 12 months), with the effect on the expenditure side of the budget estimated at BGN 64.5 million. Health insurance payments and wage expenses are also likely to increase moderately.³

Under the updated medium-term budget forecast for the 2016–2018 period, in 2017 and 2018 budget deficit is projected to decrease as a share of GDP (by 0.6 and 0.4 percentage points respectively), with the budget balance likely to improve largely through reductions in total expendi-

¹ Minimum wage was set at BGN 360 since 1 January 2015, BGN 380 since 1 July 2015 and BGN 420 since 1 January 2016.

² According to the updated medium-term budget forecast for the 2016–2018 period, the changed EC funding approach on pre-financing and annual clearance of accounts under operation at EU programmes would contribute to EU grants' decline.

³ National Health Insurance Fund's budget law for 2016 provides for a BGN 210 million rise in pharmaceutical expenditure, with concomitant lower expenses on other activities, with net effect on boosting total health insurance payments by BGN 129 million.

ture. The ratio of government debt to GDP is projected to increase from 27.2 per cent in November 2015 to 28.9 per cent in 2018.

The budgetary framework for 2016 and projected fiscal consolidation in the medium-term budget forecast show government's intention to adhere to the limitations set in the Stability and Growth Pact. Fiscal consolidation, in its turn, will limit the growth in the government debt. The projected concentration of higher consolidation efforts in 2016 is a positive step, given the existing uncertainty surrounding external environment developments.

Risks to the 2016 State Budget Law implementation stem from a possible materialisation of a more unfavourable revenue scenario compared to the MF forecast, including in the case of continuous declines in oil and energy prices in international markets. Calculations presented in the research topic Economic and Financial Effects of Oil Price Declines, Economic Review, 4/2014, illustrate that the expected net budget effect of decreased oil prices is negative, with the expected VAT revenue decline exceeding both savings in the budget expenditure side and higher fuel excise and other tax that could be associated with revenue stimulating effect of lower energy prices on economic activity. Risks could arise in case of underperforming expected revenue from Sofia airport concession and a deviation from projected levels of current non-interest expenditure for the year. In this respect, a conservative approach is required, with no budget expenses made in full amount until the final confirmation of one-off non-tax revenue proceeds. In the medium term, risks to the budgetary framework could stem from slowly progressing structural reforms in the energy and transport sectors

THE SCULPTURAL COMPOSITION BY KIRIL SHIVAROV DEPICTING HERMES AND DEMETER ON THE SOUTHERN FAÇADE OF THE BULGARIAN NATIONAL BANK BUILDING IS USED IN COVER DESIGN.