



TOPICAL RESEARCH AND HIGHLIGHTS

BASIC PARAMETERS OF THE 2017–2019 BUDGETARY FRAMEWORK

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BULGARIAN NATIONAL BANK

Basic Parameters of the 2017–2019 Budgetary Framework

According to the October 2016 update of the government's medium-term budget forecast for the 2017–2019 period, which constitutes the motives to the draft Law on the State Budget of the Republic of Bulgaria for 2017, the cash deficit on the consolidated fiscal programme for 2017 is planned at BGN 1330 million (1.4 per cent of projected GDP). A fiscal consolidation process is foreseen for the next two years whereby the consolidated fiscal programme cash deficit is to decrease to BGN 1 billion (1.0 per cent of projected GDP) in 2018 and to BGN 540.0 million (0.5 per cent of projected GDP) in 2019. The updated medium-term budget forecast for 2017–2019 includes for the first time a projection of the budget indicators of the general government sector made following the ESA 2010 methodology. The ESA 2010 budget balance of the general government sector is planned to improve from -0.7 per cent of GDP in 2017 to +0.1 per cent of GDP in 2019. The budget programme for 2017 and the fiscal consolidation in 2018 and 2019 envisaged in the medium-term budget forecast are in line with the requirements of the Growth and Stability Pact and national legislation.

A more significant increase in consolidated fiscal programme revenues for 2017 as compared to the expected as of October 2016 annual performance for 2016 is planned with respect to revenue from taxes and social contributions and non-tax revenue: up 5.5 and 16.7 per cent respectively, while receipts from grants are expected to go up by 3.9 per cent. Higher pension contributions (up 1 percentage point), the minimum wage and minimum insurance income increases (from BGN 420 to BGN 460) and higher excise duty rates on cigarettes are the main contributors to the planned tax and social contributions revenue rise. The 20 percentage points rise in contributions to the Pension Fund for the persons under Article 69 of the Social Security Code¹ and the increase in the share of insurance income on which the state makes health contributions under Article 40, paragraph 3 of the Law on Health Insurance² also contribute significantly to the increase of tax and social contributions revenues. These measures result in both an increase in budget revenue and expenditure and have a neutral effect on the budget balance.

The postponement of expected revenue from the concession of Sofia airport from 2016 to 2017 contributes considerably to the planned increase in non-tax revenue for 2017. The budget provides also for higher absorption of funds committed to operational programmes of the 2014–2020 programme period which will result in an increase in grants revenue in 2017 on 2016, but the proceeds of reimbursements for costs incurred during the previous year are expected to be lower than those in early 2016.

The projected 2017 increase in total expenditure (including the contribution to the EU budget) of 10.8 per cent on the expected performance for 2016 is due to the planned increase in capital spending as well as the increase in almost all current non-interest expenditure. The expected increase in capital expenditure in 2017 reflects the plans for higher capital expenditure on operational programmes and stronger national investment³. Current expenditure grow due to the better than expected 2016 performance in wage and social contributions expenses of BGN 509 million and operating expenditure of BGN 406 million, reflecting the increases in uniform cost standards in education and the effects of the changes in the minimum wages and in the pension policy on budget expenditure. The planned BGN 345.9 million increase in social payments on the expected 2016 performance is largely due to the projected increase in pension expenditure⁴ and, to a lesser extent, to the increase in healthcare payments.

¹ These are insured persons in the defence and security sector.

² These are young people up to the age of 18; students; citizens eligible for monthly social welfare benefits; persons with refugee status, and others.

³ Including BGN 402 million on defence modernisation and BGN 200 million on the establishment of infrastructure with regard to the launch of a hybrid system model of tolling for heavy goods vehicles and e-vignette for light vehicles.

⁴ As a result mainly of the indexation of the average pension of 1 July 2016 by 2.6 per cent and the 2.4 per cent increase in the weight of one year of pensionable service in the pension calculation formula from 1 January 2017 for new pensions and from 1 July 2017 for pensions granted by the end of 2016.

The budget balance is foreseen to improve in the 2018–2019 period as a result of curbing current non-interest expenditure – mainly wage costs, operating expenditure and social payments. Positive but limited budgetary effects can be expected also in terms of the further increase of pension contributions (up 1 percentage point) and tobacco excise duties.

The cumulated liquidity buffers in 2016 and the planned fiscal consolidation after 2017 are the main factors behind the projected decline in government debt. No new issue of government securities on international capital markets is planned for 2017; with the Law on the State Budget of the Republic of Bulgaria for 2017 setting out a limit on the new government debt of BGN 1.2 billion with maturing government securities on the domestic market worth BGN 0.8 billion and payments on Eurobonds issued on international capital markets in July 2012 worth BGN 950 million. According to the October 2016 update of the Government Debt Management Strategy, the government debt to projected GDP ratio is expected to decline from 29.0 per cent in 2016 to 25.9 per cent in 2017 and to 25.1 per cent at the end of 2019. The aforementioned document contains also a projection for the dynamics of consolidated general government debt. This indicator is expected to decline to 26.8 per cent of GDP in 2019 (against a projection of 30.9 per cent in 2016 and 27.7 per cent in 2017).

The estimated budget revenue and expenditure in the Law on the State Budget of the Republic of Bulgaria for 2017 and in the updated medium-term budget forecast for 2017–2019 has been prepared on the basis of a macroeconomic forecast, which does not incorporate the mid-October 2016 revised NSI data revisions on GDP.⁵ The higher level of nominal GDP recorded in 2015 and in the first half of 2016 is a prerequisite for creating buffers in the revenue side of the budget which limit the risks to its implementation in the medium term. Moreover, the better than expected budget balance for 2016 also helps form higher liquidity buffers which can curb the need for debt financing over the 2017–2019 period.

Risks to the implementation of the Law on the State Budget of the Republic of Bulgaria for 2017 could arise due to shortfalls in expected non-tax revenue from Sofia airport concession in the case spending, matched to the expected revenue from the concession is nevertheless executed. Costs for the implementation of a road fee and electronic vignette are another risk factor if expected revenue from the exploitation of such infrastructure could not be realised in full due to possible procedural delays related to the creation of this infrastructure.⁶

Risks to the implementation of the updated medium-term budget forecast for 2018–2019 relate to higher wage costs in 2018–2019 than the ones envisaged in the budgetary framework, which are estimated to remain at their 2017 level. Given the important contribution of this expenditure for the fiscal consolidation in 2018 and 2019, meeting the budgetary objectives in the medium-term could turn difficult.

⁵ For further information see the 'GDP Data Revisions Published in October 2016' Section in Chapter 5 'The Bulgarian National Bank Forecast of Key Macroeconomic Indicators for 2016–2018'.

⁶ The updated medium-term budget forecast provides for BGN 200 million revenue and BGN 200 million expenditure for 2017 due to the establishment of the infrastructure with regard to the launch of a hybrid system of tolling for heavy goods vehicles and e-vignette for light vehicles.

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.