



TOPICAL RESEARCH AND HIGHLIGHTS

BASIC PARAMETERS OF THE 2018–2020 BUDGETARY FRAMEWORK

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BULGARIAN NATIONAL BANK

Basic Parameters of the 2018–2020 Budgetary Framework

The updated medium-term budgetary forecast of the government for the 2018–2020 period,¹ which corresponds to 2018 budget law parameters adopted by the National Assembly, sets the cash deficit on the consolidated fiscal programme (CFP) for 2018 at BGN 1100 million (-1.0 per cent of projected GDP). A fiscal consolidation process is foreseen for the next two years, whereby the CFP cash deficit will decline to BGN 610 million (-0.5 per cent of projected GDP) in 2019 followed by a balanced budgetary position in 2020. The ESA 2010 budget of the general government sector is planned to remain in a close-to-balance position over the whole forecast horizon (0.0 per cent of GDP for 2018, 0.3 per cent of GDP for 2019 and 0.1 per cent of GDP for 2020). Fiscal targets of the updated medium-term budgetary forecast on a cash and accrual basis are assessed as fully compliant with the EU framework for fiscal policies and national legislation.

The increase in CFP budget revenue for 2018 compared to its expected performance for 2017² is projected to be 9.6 per cent and is mainly on account of planned tax and social security revenue growth of 6.6 per cent. Upward tax and social security revenue dynamics reflects both the anticipated growth of domestic consumption, wages and employment and positive budget effects of increased pension contributions (by 1 percentage point), minimum wage and minimum social security income (from BGN 460 to BGN 510)³ and excise duties on cigarettes. The planned growth of non-tax revenue by 11.8 per cent in 2018 is due to a large extent to the estimated one-off revenue (BGN 480 million) from Sofia airport concession. There is also a significant increase in revenue from grants by 63.9 per cent *vis-à-vis* expected performance for 2017, reflecting estimated acceleration in absorption of funds under EU 2014–2020 operational programmes.

Total expenditure for 2018 (including the contribution to EU budget) is planned to increase by 12.8 per cent against the expected performance for 2017. Capital expenditure will increase most significantly (by BGN 2122.5 million) reflecting estimated costs on major EU co-funded infrastructure projects and higher national investment expenditure including planned defence modernisation. Social and health insurance payments are expected to rise by BGN 857.4 million from the anticipated 2017 performance, including National Health Insurance reserve, mainly as a result of additional healthcare expenditure, the 3.8 per cent increase in the weight of one year of pensionable service in the pension calculation formula from July 2017⁴ and carry-over effects of the two-step increase in minimum pension from 1 July and 1 October 2017 (up to BGN 180 and BGN 200). More significant increases in both operating expenditure by BGN 583.0 million and staff costs by BGN 551.9 million are also projected as compared to the expected performance for 2017. Higher staff costs reflect the continuation of wage increase policy in the budget sector with the main focus on remunerations in the education sector and effects of increased pension contributions and minimum wage on budget expenditure. A projected decrease in other staff payments by 15.3 per cent compared to the expected 2017 performance helps limit growth of employee compensation costs in the budget sector.

The projected improvement of budget balance in 2019 and 2020 reflects mainly reduced current non-interest expenditure, particularly through operating expenditure, social payments and subsidies. CFP revenue as a share of GDP is also expected to decline, which in 2019 will mainly reflect the base effect of projected one-off revenue from Sofia airport concession in 2018.

Budgetary consolidation planned for 2019 and 2020 contributes to the government debt reduction under the updated medium-term budget forecast from 22.3 per cent of projected GDP at the end of 2018

¹ The updated medium-term budget forecast for the 2018–2020 period from October 2017 constitutes the motives to the draft 2018 State Budget Law and was adopted by the Council of Ministers with Decision No 654 of 30 October 2017. To ensure consistency with both the parameters of 2018 final budget laws adopted by the National Assembly and tax laws, amendments to the updated medium-term budget forecast were made and adopted by the Council of Ministers with Decision No 808 of 22 December 2017. This box discusses government's medium-term budget forecast approved on 22 December 2017.

² The October 2017 budget revenue estimate for 2017 remained unchanged in the updated medium-term budget forecast approved on 22 December 2017.

³ The minimum social security income of BGN 510 will also apply to self-employed persons, and the differentiated amount of minimum social security income for such persons determined on the basis of their annual taxable income is no longer applicable. The minimum social security income for farmers and tobacco producers is increased from BGN 300 to BGN 350.

⁴ From 1 January 2018 for new pensions, and from 1 July 2018 for all other pensions.

to 20.0 per cent of projected GDP at the end of 2020. Concurrently, the relatively high level of the fiscal reserve by the end of 2017 allows partial coverage of 2018 government's gross funding needs by the government deposit at the BNB, with net debt financing estimated to be negative.

Risks to the 2018 State Budget Law implementation could arise in case of lower than projected revenue from Sofia airport concession, provided expenditure are incurred equal to the expected concession revenue. An additional risk to 2018 budgetary targets is the projected decline in other staff payments, which could be difficult to implement given the expected higher than projected performance of this expenditure for 2017. Medium-term risks to the planned fiscal consolidation could arise if the international environment is less favourable than that in the Ministry of Finance macroeconomic forecast used in budget framework estimates. Lower than expected tax revenue would make more difficult to achieve budgetary targets given hard-to-reverse effects of increased budget wages and social payments under the updated medium-term budget forecast and risks of excessive expenditure on EU project implementation for the 2014–2020 period.

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.