



TOPICAL RESEARCH AND HIGHLIGHTS

MAIN PARAMETERS OF THE 2021–2023 BUDGETARY FRAMEWORK

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BULGARIAN NATIONAL BANK

Main Parameters of the 2021–2023 Budgetary Framework

The updated medium-term budget forecast of the government for the 2021–2023 period¹, which complies with 2021 budget and tax laws adopted by the National Assembly, provides for a budget deficit on the consolidated fiscal programme (CFP) and for the general government sector (ESA 2010) over the whole projection horizon. The estimates in the 2021 updated medium-term budget forecast reflect temporary discretionary measures planned by the government to address the negative fallouts of the COVID-19 pandemic and to mitigate the effects on the health system, which are estimated at 2.5 per cent of projected GDP for the year. The cash deficit in 2021 is expected to be BGN 4.9 billion (-3.9 per cent of GDP), in 2022 the deficit is projected to decrease to BGN 2.7 billion (-2.0 per cent of GDP), and in 2023 to be BGN 2.5 billion (-1.8 per cent of GDP). The budget balance of the general government sector (ESA 2010) used for the purposes of the excessive deficit and debt procedure is expected to be negative at -5.0 per cent of the projected GDP in 2021 and to improve to a deficit of -1.9 per cent of GDP in 2022. In 2023 the general government sector deficit is envisaged to increase to -2.3 per cent of GDP, reflecting mainly the expected delivery of military equipment for modernisation of the army. Primary deficits planned for the entire forecast horizon will weigh on the government debt and the general government consolidated debt growth both in nominal value and as a percentage of GDP.

According to the updated medium-term budget forecast, the structural deficit of the general government sector will account for -2.4 per cent of GDP in 2021 and it is anticipated to decrease to -1.7 per cent of GDP and -1.6 per cent of GDP in 2022 and 2023. The higher structural budget deficit in 2021 compared with the medium-term budget target of -1.0 per cent of GDP is in line with the general escape clause of the Stability and Growth Pact activated by the European Commission and remaining in force in 2021. This clause allows Member States to adopt fiscal stimulus measures in the emergency situation caused by the pandemic outbreak through a temporary departure from their medium-term budgetary objective. According to EC guidelines, fiscal measures to effectively address the COVID-19 impact at national level should be tailored to the specific situation in the country, remain temporary and be assessed regularly in terms of their effectiveness and adequacy.

In 2021 the updated medium-term budget forecast provides for a 10.1 per cent increase in total CFP revenue compared to its expected performance for 2020², with tax and social security revenue contributing most (4.9 percentage points), followed by grants (2.8 percentage points) and non-tax income (2.4 percentage points). Projected growth in tax and social security revenue (6.0 per cent) reflects mainly the MF forecast of an accelerating year-on-year increase in consumption and wages and measures to improve tax collection. Temporary discretionary measures on the revenue side of the CFP, initiated to cushion the negative effects of the pandemic on the economy, are estimated by the MF at BGN 380.6 million (0.3 per cent of projected GDP). These measures include VAT cuts from 20 to 9 per cent for certain goods and services, VAT and tariff exemption on some imported medical products³ and higher tax reduction for children on generated 2021 income. Early 2021 increases in both minimum wage and minimum social security income of self-employed persons are expected to have a low positive budget effect with regard to tax insurance income. The increase in grant revenue (by 44.7 per cent *vis-à-vis* expected performance for 2020) is projected to reflect largely the Recovery and Resilience Facility funds which have been included by the government in the 2021 budget forecast. A robust rise is also envisaged in non-tax revenue (by 18.7 per cent against the expected 2020 performance) due mainly to a transfer of proceeds from Sofia airport concession from 2020 to 2021 budget.

The updated medium-term forecast sets out a 9.0 per cent increase in total CFP expenditure for 2021 *vis-à-vis* expected 2020 implementation, reflecting the effect of planned measures in response to the COVID-19 crisis and expenses on other government's priority policies across various areas. Temporary discretionary expenditure measures for 2021, intended to tackle the aftermath of COVID-19, are estimated by the MF at BGN 2.8 billion (2.2 per cent of projected GDP), with the bulk of them related to enhanced transfers and grants to households, and planned subsidised employment payments under the so-called 60/40 measure. An important strand in government's discretionary policy in response to the pandemic is the health

¹ The updated medium-term budget forecast for the 2021–2023 period was drawn up in October 2020 as reasons to the 2021 draft State Budget Law and adopted by Decision No 778 of the Council of Ministers of 29 October 2020. To ensure compliance with the parameters of 2021 final budget and tax laws adopted by the National Assembly, amendments to the updated medium-term budget forecast were made and approved by Decision No 963 of the Council of Ministers of 23 December 2020. This box discusses the updated medium-term budget forecast parameters approved on 23 December 2020.

² The October 2020 budget revenue estimate for 2020 under the Consolidated Fiscal Programme remained unchanged in the updated medium-term budget forecast approved on 23 December 2020.

³ VAT and tariff exemption on some imported medical products which are needed to overcome the effects of the COVID-19 pandemic is in force in the period up to 30 April 2021.

system strengthening for which additional funds are earmarked mainly in terms of larger direct payments to the National Health Insurance Fund and higher remunerations of front-line healthcare workers. The income policy remains a priority of the government in 2021, involving additional funds for planned wage increases in education⁴, for a 15 per cent rise of Ministry of Interior employees' wages and 10 per cent income growth in all other budget sectors. In addition, 2021 budgetary estimates include all-year funds to cover the 30 per cent increase since 1 August 2020 in staff costs of bodies and entities entrusted with activities to overcome the pandemic and its implications. Broken by expenditure items, projected growth in social and health insurance payments (by 11.4 per cent or BGN 2.2 billion against expected 2020 performance) will have the strongest contribution to a 4.6 percentage point increase in total budget expenditure for 2021. This growth will be driven by both greater support to households through increased pensions (supplements, raised minimum and maximum pension amounts and indexation) and higher benefits and allowances along with a projected stronger rise in health insurance payments (by 17.2 per cent). Staff costs (2.7 percentage points), maintenance expenses (0.9 percentage points) and capital expenditure (0.7 percentage points) will make a comparatively lower contribution to total CFP expenditure growth.

In case of significant deterioration in the epidemic situation resulting from the pandemic development in Bulgaria during 2021, the updated medium-term budget forecast foresees financial resources to meet eventual *force majeure* expenditure throughout the year.

Planned fiscal consolidation in 2022 to a deficit of -2.0 per cent of projected GDP (-3.9 per cent of GDP in 2021) provides for limitation of total budget expenditure as a share of GDP mainly in terms of current expenditure and, to a lesser extent, capital expenditure. Lifting the temporary COVID-19 measures set out for the current year will be decisive for reducing current expenditure by 2.2 percentage points compared to the projected level for 2021. Concurrently, total budget revenue as a share of GDP is expected to fall mainly as a result of the one-off concession receipts projected in 2021 and the lower receipts from grants in 2022 compared to 2021. In 2023 the budget deficit on the consolidated fiscal programme is projected to decline slightly compared to 2022, accounting for -1.8 per cent of GDP.

Bulgaria's debt burden is projected to increase both in nominal terms and as a percentage of GDP under the updated medium-term budgetary forecast. Government debt to GDP ratio is expected to increase from 23.5 per cent at the end of 2020 to 28.2 per cent at the end of 2023, and so is the general government consolidated debt to GDP ratio from 25.3 per cent to 29.4 per cent of the GDP over the same period. The main objectives of the government debt management policy include provision of funds to refinance the outstanding debt, financing of planned budget deficits and ensuring stability of the fiscal reserve as a liquidity buffer. In line with the MF issuing policy and the debt limits set out in the 2021 State Budget Law, the maximum amount of the new government debt that can be assumed over the year is BGN 4.5 billion.

Risks to the achievement of the budgetary targets under the updated medium-term budget forecast for the 2021–2023 period could arise in the event of a failure to contain the spread of COVID-19 globally and in the country. If the epidemiological situation deteriorates, a less favourable macroeconomic scenario compared to that in the MF forecast could materialise, which would hinder the projected tax revenue performance. This could give rise to risks to the achievement of budgetary targets over the forecast horizon and lead to a sharper rise in country's debt burden. Additional risks to the budget forecast arise from the significant increase in permanent budget expenditure (e.g. wages, pensions) under the updated medium-term budget forecast, which are hard to reverse in case of a less favourable development of the economic activity over the medium term and would limit the opportunities for budgetary consolidation. A specific risk to the 2021 budget forecast is associated with the projected receipts related to the initial concession payment under the Sofia airport agreement, which are unlikely to be realised given the expected strong negative impact of the COVID-19 pandemic on the air transport and aviation industry. Another specific risk to the 2021 budget forecast arises from possible slower than expected absorption of grants under the EU's Recovery and Resilience Facility. Finally, as specified in the updated medium-term budget forecast, the EC plans to review the fiscal developments in 2020 and 2021 forecasts and to assess which of the COVID-19 measures presented by the countries as temporary are compliant with the definitions of expenses related to extraordinary circumstances, and to make an assessment of the adjusted balance for the purposes of the excessive deficit procedure. Supplement payments to pensions and expenditure related to the increase in the minimum old-age pension amount as projected in the 2021 budgetary framework are an example of expenses, which are unlikely to be approved by the EC as extraordinary and could worsen the assessment of the adjusted general government balance.

⁴ In 2021 pedagogical staff remunerations are projected to double as planned compared to 2017.

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.