China-CEE Institute
中国—中东欧研究院

ISSN 2939-5933

Vol. 52, No. 2 (BG)

June 2022

Weekly Briefing

Bulgaria economy briefing: The Government has approved a draft revision of the State Budget, but its Vote in Parliament is in Question

Evgeniy Kandilarov

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.
Szerkesztésért felelős személy: Chen Xin
Kiadásért felelős személy: : Feng Zhongping

1052 Budapest Petőfi Sándor utca 11.
+36 1 5858 690
office@china-cee.eu
china-cee.eu

The Government has approved a draft revision of the State Budget, but its Vote in Parliament is in Question

Summary

On June 8 Bulgarian government approved the 2022 Budget Act revision bill prepared by the Ministry of Finance. The aim was to update the state budget, the health insurance fund and the state social security fund. The Budget Act revision was approved despite three ministers from "There is such a people", one of the junior partners in the ruling coalition, left the weekly Cabinet sitting. This was the latest sign of disagreement in Prime Minister Kiril Petkov's coalition. A coalition council was scheduled for later the same day to discuss the Budget revision again, after it became clear that the coalition partners did not fully agree on the proposed texts. Shortly after the cabinet's decisions were sent to the media, "There is such a people" leader Slavi Trifonov said in a statement from his Facebook account that he is withdrawing his ministers from the coalition. However, the revision of the state budget was submitted to the National Assembly for a vote. Whether it will be finally approved and enter into force remains to be seen.

The budget update was agreed upon at the very beginning when the ruling coalition was formed about six months ago. That time the preparation of the budget was far behind and the agreement among the parties in the coalition was to implement all the reforms agreed upon by the beginning of the summer. With Russia's invasion of Ukraine and accelerating inflation, as well as pressure from businesses and consumers for aid over high energy and other prices, the finance ministry has focused on anti-crisis measures. Thus the reforms are not seen in the proposed project. In addition, after the withdrawal of "There are such people" from the government, the fate of the project remains unknown.

The deadline agreed in the coalition for the adoption of the measures is this week for the relevant committee in the parliament to discuss the draft at first reading, and the next - in the plenary hall. According to the plan, the deadline for proposals between the first and second readings has been shortened, and the goal is for the project to be fully adopted by June 27, so that social payments can be made from July 1.

The budget update draft submitted to the Parliament does not envisage previously announced reforms in the country, the details of which were to be worked on by groups formed by representatives of the individual parties by June. The project includes the recently announced anti-crisis measures, including increased childcare benefits, updated pensions, but also raising the debt ceiling.

The Budget revision tabled by the Finance Ministry envisions a consolidated fiscal programme – which includes the state Budget, local administration budgets, healthcare and pension funds – with total revenues of BGN 58.9 billion and total spending of BGN 65.13 billion.

The spending side would increase by BGN 1.97 billion and the revenue increase is projected at BGN 1.65 billion, compared to the 2022 Budget Act passed by Parliament earlier this year.

The project's motives expect economic growth of 2.9% to BGN 150.949 billion - a worsened forecast than the one adopted for this year's budget due to the war in Ukraine. Employment is expected to increase by 1.7%, partly due to the inclusion of refugees in the labor market. Thus, the unemployment rate for the year is expected to be 4.5%.

Inflation at the end of 2022 is expected to reach an average of 11.6% per year as the leading contribution to this will have food, which price will accelerate to 23.9% on an annual basis in December, according to the draft of the Bill. The Minister of Finance Asen Vassilev announced that , the deficit remains at 4.1% of GDP.

As It was already mentioned the project envisages total revenues of BGN 58.9 billion (BGN 1.65 billion more) and expenditures of BGN 65 billion (just over 43% of the country's GDP). They increase by BGN 2 billion due to anti-crisis measures.

By the end of the year, tax revenues are expected to reach BGN 30.7 billion or 12.3% compared to the 2021 report. The reason for the weaker growth compared to inflation is that the changed expectations for key parameters in the macro framework lead to an increase in tax revenues by BGN 945.2 million compared to the current budget, but at the same time anti-crisis measures (estimated at 2.1 billion BGN) lead to a loss of revenues of BGN 597.7 million. Thus, the net effect of the change in the macro framework and the effects of the anti-crisis measures is an increase in tax revenues for the year of BGN 347.5 million.

With the anti-crisis measures, the government is putting 0% VAT on bread, reducing the rate from 20% to 9% on gas and heating, reducing the excise tax on electricity and gas.

The largest share of expenditures in the revised budget is mainly for financing the planned increase and recalculation of pensions - almost BGN 1.5 billion for half a year. However, according to the working calculations of the National Social Security Institute, the same changes will require an additional BGN 3.8 billion next year, so that the total expenditure on pensions will increase to over BGN 18.7 billion.

According to the draft of the revision of the state social insurance all pensions granted until December 31, 2021 are updated by 10 percent. To this amount are added the so-called Covid supplements of BGN 60. They will be included in the amount of pensions granted in the first 6 months of the year, as well as those after July 1. The minimum amount of the pension is raised from BGN 370 to BGN 467 (increase of 26.2 per cent), the maximum amount of the received one or more pensions is increased from BGN 1,500 to BGN 2,000 (increase of 33.3 per hundred).

From October 1, 2022, the maximum amount of pensions should be raised from BGN 2,000 to BGN 3,400. Employment pensions granted with a starting date until December 31, 2021 are recalculated as the average monthly insurance income for the country from which the pension was granted is multiplied by an individual coefficient.

All these measures actually encourage consumption and have a pro-inflationary effect, instead of focusing only on supporting the incomes of the groups in society that are in a great need.

Next issue in the draft of the new budget bill is related to the energy sector. If it is impossible to fully compensate the import of energy raw materials from the Russian Federation with one from alternative sources, there will be violations in production processes both in the country and in major trading partners, which may result in limited exports, deteriorating financial results of companies, increase in unemployment and lower investment activity, the report said.

It is reminded that the lack of raw materials will form greater than expected effects on prices, will limit disposable income and further reduce consumption.

The state gas companies Bulgargaz and Bulgartansgaz are expected to take state-guaranteed loans totaling EUR 532 million. The gas supplier will take EUR 150 million to provide alternatives to Russian quantities, and Bulgartransgaz – EUR 382 million, which will be used for three projects - the expansion of the Chiren storage facility, the gas connection with Serbia and to fulfill the obligations under the European directive on the conditions for access to gas transmission networks.

There was another controversial point in the budget update - expenditures related to the maintenance of departments, salaries, pensions, are growing too fast and will reach almost 36% of GDP with a total of 43% of expenditures. This leaves little room for maneuver in a crisis if budget revenues start to fall. For this year the government has a buffer - the money for investment. A few days ago, Finance Minister Asen Vassilev said that they will not be reduced with the update. This year, a record BGN 8.2 billion has been set for capital expenditures, but as of April they have been met about 10% of the plan.

One of the issues often used for attacks by the opposition in the face of GERB is taking on new debt. After a ceiling of BGN 7.3 billion new debt for the year was set in the current budget, the update project now envisages increasing it to BGN 10.3 billion. It is stated that the additional funds raised will be used to refinance future payments in the first quarter of 2023 on maturing government bonds on international financial markets. The other explanation is that the conservative strategy in government debt management involves adapting the issuance policy to the changed environment of the financial markets, which has been strong since March 2022 and the intention of the central banks to start raising interest rates. "In this context, earlier 'market entry' and pre-financing of maturing debt would save future government debt service costs," the project report said.

Thus, the maximum amount of government debt by the end of the year will reach BGN 38.5 billion, or 25.6% of GDP.

Conclusion

The attitude of the economists from the Bulgarian Academy of Sciences was very critical of the revised budget. According to them, anti-inflationary measures, based mainly on compensating for the loss of purchasing power due to higher prices and not so much on developing production capacity to provide higher incomes, would lead to macroeconomic instability with serious consequences and fiscal sustainability.

However, the exit of the party "There is such a people" from the ruling coalition calls into question the prepared update. In a statement, the party's leader, Slavi Trifonov, said he would support social measures, but not pro-inflation ideas. On June 9, the draft update of the budget for 2022 was rejected by the relevant parliamentary committee at first reading. However, the bill enters the plenary hall, where it will be considered next week at an extraordinary session of parliament.