



Weekly Briefing

Bulgaria economy briefing:
Half a Year Later the Law on the State Budget 2023 was Introduced
in the National Assembly
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Summary

On July 12, the Bulgarian parliament adopted the law on the state budget for 2023 in the first reading. The macroeconomic forecast of the Ministry of Finance predicts GDP growth of 1.8% in 2023 and reaching BGN 184.5 billion in 2024. GDP growth has to accelerate to 3.3%, and in 2025 it is expected to be 3.2%. The Budget law stipulates a deficit of 3% and inflation of 8.7 percent. It also foresees a 10 percent increase in wages in the public sector, but only where they have not been increased. The minimum wage remains unchanged at BGN 780. The main critics of the project were related to the lack of anti-inflationary measures.

According to Bulgarian legislation, usually in the late autumn of each fiscal year, the procedure for adopting the State Budget Law for the next fiscal year is implemented. The final proposal for the budget is prepared by the Minister of Finance and, after approval by the Council of Ministers, is submitted to the National Assembly. After that, it must receive the approval of the Budget Committee of the National Assembly, and finally be voted on by the entire National Assembly in a plenary session.

The preparation of Budget law 2023 could not take place on time due to the political situation in the country since Bulgaria went through early parliamentary elections in October 2022 and April 2023. Finally more than half a year later the Budget 2023 could be elaborated by the regularly elected on June 6, 2023 government.

One of the most important things that the Ministry of Finance notes is that the Budget 2023 is according to the Maastricht criteria, with which the government fulfills one of its main priorities to provide the state with a regular budget for 2023 with a deficit of up to 3 percent of GDP. At the same time, the government has made a commitment not to increase taxes, not to limit any social payments and to ensure the planned increase in pensions this year.

The Finance Ministry's estimates show that, reflecting the fiscal effects that predetermine revenue and expenditure, the budget balance for 2023 and 2024 is with a deficit of 3.0% of GDP. For 2025, the deficit is expected to be 3.6% of GDP, and this deterioration is due to the investment government plan to acquire a new type of military aircraft made in 2019 and 2020, which are accounted for the year of their delivery - in 2025. This influence is temporary and

does not lead to a permanent deterioration of the budget position and to a violation of fiscal sustainability in the long term.¹

According to the plans of the Ministry of Finance, in the period 2023-2025, tax policy will be oriented towards improving revenue collection, preventing opportunities for evasion and non-payment of taxes and insurance, and reducing the administrative burden and costs of businesses and citizens.

In this way, the reduction of the deficit will become possible with a significant increase in revenues due to better collection by the National Revenue Agency and the Customs Agency.

In addition, the transitional provisions of the budget envisage changes in a number of laws, which provide for measures to tighten financial discipline. In this way, 4.7 billion BGN more are the promised tax revenues compared to 2022, and 1.7 billion BGN of them will come from VAT.

Tax rates are not about to raise, except for VAT on natural gas, heating and hot water.²

The 2023 budget law provides also the preservation of the current tax relief for providing social expenses of up to BGN 200 per month to employed persons in the form of food vouchers, and it is envisaged that the total annual quota for the provision of food vouchers will be increased from BGN 1 billion BGN to BGN 1.4 billion.

The 2023 state budget bill stipulates a 100% dividend for the state from state-owned companies and enterprises for 2023.³

The macroeconomic forecast of the Ministry of Finance for the three year period envisages a slowdown in GDP growth to 1.8% in 2023, which will be in line with consumption, exports and changes in stocks. In 2024, GDP growth is expected to accelerate to 3.3%. Easing inflationary pressures will lead to higher growth in household consumption. The increase in demand will also have a positive effect on private investment activity. Under the influence of the improving external environment, the growth of exports of goods and services is also expected to accelerate, and the negative contribution of net exports to GDP growth to shrink compared to 2023. In 2025, GDP growth is expected to be 3.2%.⁴

In 2023, the number of employed persons is expected to increase by 0.4% compared to 2022, and the average annual unemployment rate to decrease to 4.1%.⁵

The main source of further employment growth in the coming years is the attraction of persons outside the labor force back into the labor market. In 2024, some acceleration of

¹ <https://www.minfin.bg/bg/1548>

² <https://www.minfin.bg/bg/1548>

³ <https://www.minfin.bg/bg/1548>

⁴ <https://www.minfin.bg/bg/1548>

⁵ Ibidem.

employment growth in the country is expected, mainly due to the acceleration of economic growth. While in 2025, a slowdown in employment growth is expected due to exhaustion of opportunities for its extensive growth.

Expectations are that at the end of 2023, inflation will decrease to 5.6%, and the average annual rate will be 8.7%, which will be due to a significant reduction in the contributions of the groups of food and energy goods, which are expected to have a slight decline at the end of the year. Inflation is expected to continue to decline in 2024, reaching 3.2% at the end of the year, and the annual average - 3.8%. In 2025, the average annual inflation will continue to slow down to 2.8% respectively. Energy commodity prices are expected to decline until the end of the forecast horizon.⁶

In terms of income, growth in nominal terms is observed in the current forecast for the entire three-year period. As a relative share of GDP for 2023, the incomes are 37.7%, for 2024 - 38.2% and for 2025 - 37.0%.

Expenditures for the period 2023-2025 as a share of GDP are respectively 40.1% in 2023, 41.9% in 2024 and 40.9% in 2025. The minimum amount of the fiscal reserve as of 31.12.2023 is expected to remain unchanged compared to the provisions of the Law on the State Budget of Bulgaria for 2022 in the amount of BGN 4.5 billion.⁷

Based on the assumptions for the period 2023-2025, it is planned that the maximum amount of the government debt at the end of 2023 will not exceed BGN 40.6 billion, and at the end of 2024 and 2025 it will respectively reach BGN 49.6 billion and BGN 59.5 billion. The ratio of government debt to GDP from 22.5% at the end of 2021 decreases to 21.8% at the end of 2022 and is expected to reach 22.0% at the end of 2023. As a result of the expected significant increase in capital expenditures in 2024 and 2025, which are expected to reach BGN 13,413.6 million and BGN 12,655.5 million, respectively. It is expected that the public debt will reach 25.1% at the end of 2024 and 28.3% of GDP at the end of 2025. These investments correspond to the full amount of funds foreseen in the new programming period of the EU operational programs and the National plan for resilience and Sustainability. The investment costs for 2024 and 2025 are expected to be refined based on project readiness in the respective annual budgets.⁸

The Minister of Finance emphasized that social payments and transfers from the budget are preserved, and some are even inflated. Among them, he pointed out the indexation of pensions and teachers' salaries, the minimum salaries of doctors and nurses, etc.

⁶ Ibidem.

⁷ Ibidem.

⁸ Ibidem.

The pension policy is based on the assumptions of updating all the amounts of pensions according to the current legislation by 12 percent for 2023, and as a result, for 2023, pension costs under the budget of State Social Insurance budget will increase by BGN 3,657.4 million compared to the law for 2022. In 2024 and 2025, these increases compared to the previous year were BGN 2,145.9 million and BGN 1,812.3 million, respectively.⁹

For 2023, an increase in the funds for salaries and remuneration of the personnel for the elected positions and for those employed in the judicial system, for which a mechanism for the formation of the remuneration is regulated by law, has been calculated as well.¹⁰

In the field of health care, efforts continue to improve health prevention in order to guarantee quality and effective health care. According to the budget of the National Health Insurance Fund for 2023, more than BGN 900 million are additionally provided for improving access and ensuring the health needs of the population.¹¹

Defense expenditure for 2023 amounts to 1.88% of GDP (by 0.03% more than the reference rate of 1.85% of GDP), and in 2024 it is expected to reach 2% of GDP according to the National plan to increase defense spending to 2 percent of the GDP by 2024, approved by the Council of Ministers back in 2018.¹²

Conclusion

According to Bulgarian Finance Minister, Budget 2023 will meet expectations, does not cause surprises, does not introduce revolutionary changes and seeks to prevent economic shocks. It brings sustainability to public finances, and a reduced deficit is realistically feasible.¹³

Most political parties in the parliament welcomed the commitment to a 3% deficit because it brings Bulgaria closer to the Eurozone, but at the same time many reservations were expressed as well. The main critics of the project were related to the lack of any anti-inflationary measures. Inflation remains high - 8.7% on average for the year, and there are no steps to reduce it, which is also a requirement for adopting the euro.

⁹ <https://offnews.bg/ikonomika/biudzhet-s-3-protcenta-defitcit-bez-povishavane-na-danatcite-i-bez-or-803746.html>

¹⁰ Ibidem.

¹¹ Ibidem.

¹² Ibidem.

¹³ <https://bnr.bg/vidin/post/101850262>