

Opinion on the Bill for amendment and supplement to the 2019 State Budget Act of the Republic of Bulgaria

This Opinion was prepared in pursuance of Art. 6 of the Law on the Fiscal Council and Automatic Corrective Mechanisms which requires that the Fiscal Council of Bulgaria monitor the compliance with the numerical fiscal rules and prepare reasoned opinions and recommendations on the strategic documents of the Council of Ministers related to the compliance with the numerical fiscal rules.

In response to letter № 91-00-202/09.07.2019 from the Ministry of Finance and on the grounds of the first subparagraph of article 6(3) of the Law on the Fiscal Council and Automatic Corrective Mechanisms, the Fiscal Council of Bulgaria has drawn up this Opinion related to the Bill for amendment and supplement to the 2019 State Budget Act of the Republic of Bulgaria.

The Bill for amendment and supplement to the 2019 State Budget Act of the Republic of Bulgaria proposes the following changes:

- 1) increase in the capital expenditures in the 2019 Ministry of Defense Budget by BGN 2,100.0 million for the acquisition of eight new multi-purpose combat aircraft F-16 Block 70;
- 2) reduction in expenditures by BGN 271.0 million initially intended for the implementation of other projects for the modernization of the Bulgarian Army, which will not be spent this year;
- 3) increase in the staff costs of the State Agency for Technical Operations (SATO) in 2019 by BGN 3.6 million.
- 4) additional expenditures of up to BGN 50 million in the 2019 State Budget to finance the activities for harmonized use of the 694-790 MHz (700 MHz) and 790-862 MHz (800 MHz) radio frequency bands;
- 5) increase in non-tax revenues by BGN 50 million.

The necessity of the changes to the state budget is motivated by the implementation of the decision of the National Assembly of 16 January 2019. Some basic budgetary parameters, such as the amount of public expenditure, budget balance etc., related to the compliance with the numerical fiscal rules, undergo changes.

The net increase in the state budget expenditures amounts to BGN 1,832.6 million. By the same amount is now the state budget deficit increased reaching BGN 2,231,928.7 thousand. As a result of these changes, the budget balance under the 2019 Consolidated Fiscal Program (CFP) will deteriorate and the expected deficit will amount to BGN 2 432.6 million (2.1 per cent of the projected GDP), having been initially planned to reach BGN 600 million (0.5 per cent of projected GDP). Although the general government deficit remains below the 3 per cent limit of GDP, the Public Finance Act (subparagraph 4 of Article 27) requires that the annual fiscal deficit under the CFP, calculated on a cash basis, should not exceed 2 per cent of GDP.

The increase in defense spending in 2019 represents a one-off measure on the part of the Government and does not lead to a change in the structural balance and the compliance with the medium-term budgetary objective for Bulgaria. It has no relation to the fiscal position of our country either.

As a result of the change, the expenditures under the 2019 CFP generate an increase by BGN 1,882.6 million reaching BGN 46,340 million, which is 39.81% of the projected GDP in the 2019-2021 Updated Medium Term Budget Forecast i.e. within the 40% limit stipulated in the Public Finance Act (Article 28). Taking into account the projection for the GDP of the Ministry of Finance in its 2020-2022 Medium Term Budget Forecast, the ratio amounts to 40.1% of GDP, i.e. a minimum excess of 0.1% over the fiscal rule limit is observed.

In the 2020-2022 Medium Term Budget Forecast by April the expectations for the GDP growth amount to 3.4% on an annual basis. According to preliminary data, GDP growth accelerated to 4.8% in the first quarter of 2019. In view of these economic outcomes, the Fiscal Council recommends that the real growth expectations for 2019 be revised in the 2020-2022 Updated Medium Term Budget Forecast towards increase. Higher GDP growth compared to the projections set out in the 2020-2022 Medium Term Budget Forecast implies lower risk of breaching numerical fiscal rules.

Total budget revenues by April rose by 17% on an annual basis, and the accumulated surplus under the Consolidated Fiscal Program increased to 2.3% of GDP (compared to 1.2 per cent for the previous year). The positive balance is partly due to non-implementation of the expenditures. Given the record revenue, the Fiscal Council considers that by modifying the revenue side of the budget, it is possible to partly offset

the expenditures, which will lead to a reduction of the net deficit under the Consolidated Fiscal Program.

The Fiscal Council of Bulgaria is of the opinion that the proposed approach to financing extra expenditures is conservative. According to the Council, there are also alternative options, including internal budget reallocations on the expenditure side, with a view to maintaining the targeted general government deficit and minimizing deviations from the fiscal rules.

The Fiscal Council of Bulgaria expresses its positive opinion on the Bill for amendment and supplement to the 2019 State Budget Act of the Republic of Bulgaria.

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11.07.2019

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