

МИНИСТЕРСТВО НА ФИНАНСИТЕ

**CFP
PERFORMANCE AS
OF 31.07.2014**



August 2014

Sofia



BUDGET STANCE AS OF 31.07.2014

- **The CFP deficit as of end-July 2014 amounts to BGN 1,147.2 million (1.4% of GDP).** For comparison, the deficit planned for the whole year under the 2014 State Budget of the Republic of Bulgaria Law amounts to BGN 1,472.3 million (1.8 % of GDP).
- Compared to the same period of the previous year, the **CFP deficit deteriorates by 1.2 p.p. of GDP**, which is due to:
 - ✓ **the outstripping growth of expenditures** (including EU funds and programmes)
 - ✓ **the suspended payments under OP Environment and two axes of OP Regional Development**
 - ✓ **the lagging behind of tax revenue** against the growth planned under the 2014 State Budget Law.
- **The primary budget execution parameters are on the edge due to the optimistic assumptions at the stage of revenue planning and the underestimation of the effects from the deterioration of the economic environment, as well as the considerable expenditures under EU programmes and funds** related to the entering of the majority of projects from the 2007-2013 period into their final stage.



KEY CFP PARAMETERS AS OF END-JULY 2014

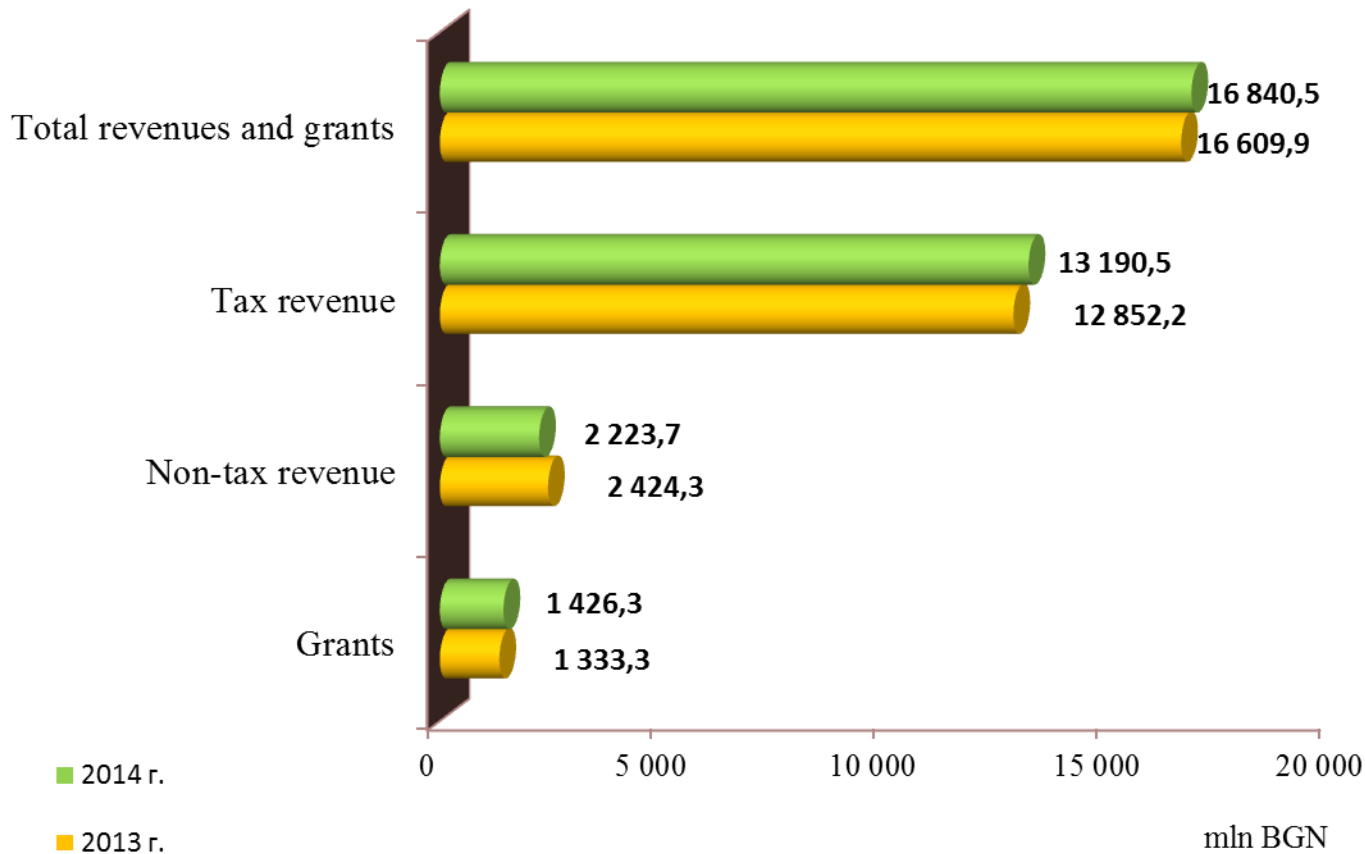
CFP	EXECUTION as of July 2013	CFP PROGRAM 2014	EXECUTION as of July 2014	Execution against program 2014	July 2014 compared to July 2013
Revenues and grants	16,609.9	31,035.4	16,840.5	54.3%	101.4%
<i>Tax revenues</i>	<i>12,852.2</i>	<i>24,328.7</i>	<i>13,190.5</i>	<i>54.2%</i>	<i>102.6%</i>
<i>Non-tax revenues</i>	<i>2,424.3</i>	<i>3,471.3</i>	<i>2,223.7</i>	<i>64.1%</i>	<i>91.7%</i>
<i>Grant revenues</i>	<i>1,333.3</i>	<i>3,235.4</i>	<i>1,426.3</i>	<i>44. %</i>	<i>107.0%</i>
Expenditures and contribution to EU budget	16,778.0	32,507.7	17,987.8	55.3%	107.2%
<i>Non-interest expenditures</i>	<i>15,577.4</i>	<i>30,933.2</i>	<i>16,907.9</i>	<i>54.7%</i>	<i>108.5%</i>
Non-interest current expenditures	13,936.1	24,798.4	14,789.2	59.6%	106.1%
Capital expenditures	1,641.3	4,994.1	2,118.7	42.4%	129.1%
Contingency reserve		1,140.6			
<i>Interest payments</i>	<i>595.5</i>	<i>669.8</i>	<i>464.6</i>	<i>69.4%</i>	<i>78.0%</i>
Contribution to the EU budget	605.2	904.7	615.3	68.0%	101.7%
Budget balance	-168.2	-1,472.3	-1,147.2	77.9%	

* The Contingency Reserve indicates program data only. Reported data are reflected in the relevant expenditure items according to the economic nature of the expenditures incurred on account of the reserve.



CFP REVENUES AS OF JULY 2013 AND 2014

REVENUES ON CFP as of July 2013 and 2014.



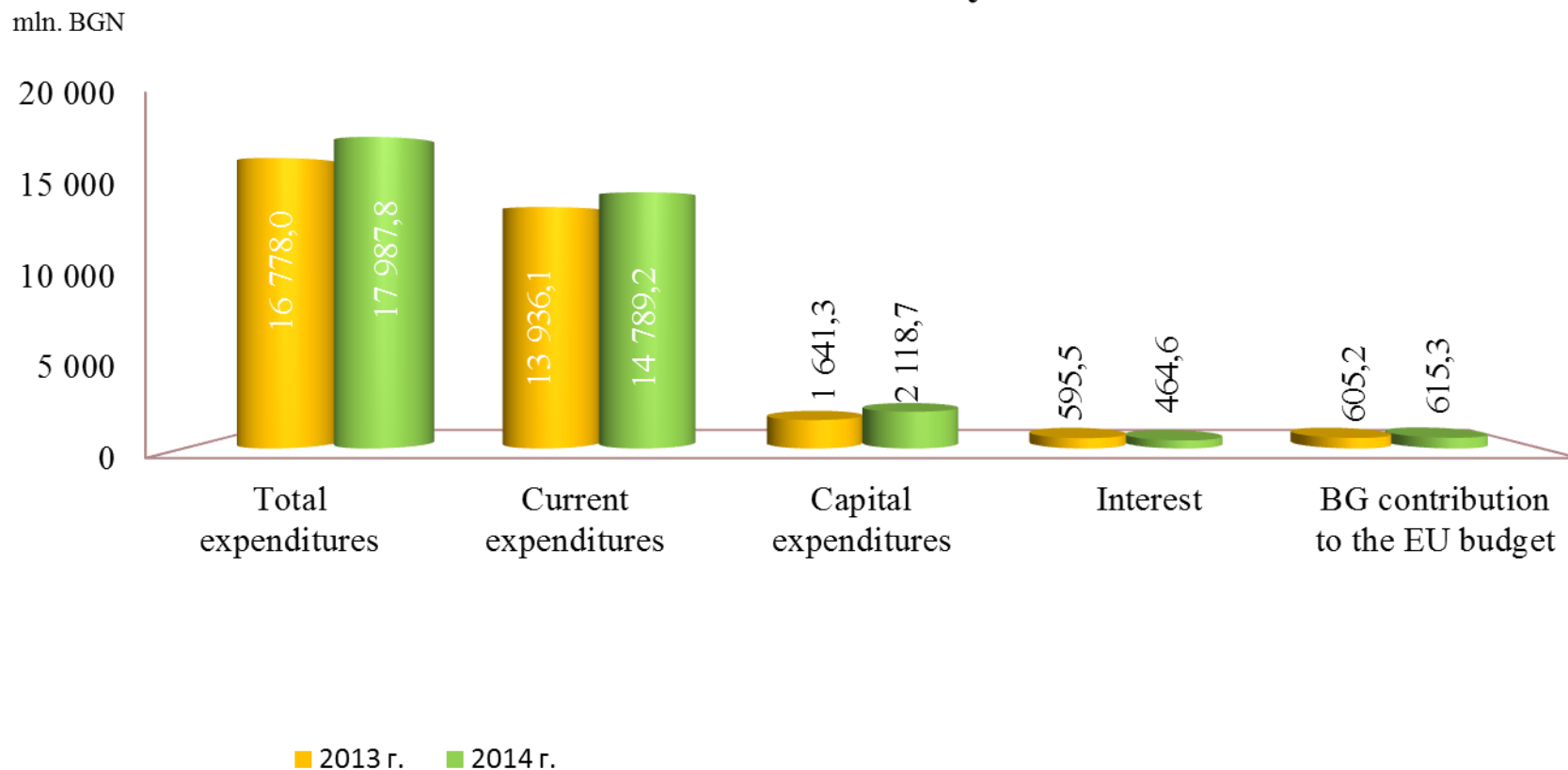
CFP REVENUES

- As of end-July 2014, **CFP revenues and grants** stand at **BGN 16,840.5 million**, or 54.3 % of the annual plans.
- **Tax proceeds**, including revenues from social security contributions, total **BGN 13,190.5 million**, or 54.2 % of the annual plans against an execution of 56.2 % at end-July.
- **Direct tax** revenues amount to BGN 2,602.1 million, which accounts for 60.2 % of the annual plans. The nominal increase compared to the same period of 2013 is BGN 217.8 million, with PIT proceeds mostly contributing to it.
- Revenues from **social security and health insurance contributions** amount to BGN 3,606.3 million, which is 57.4 % of the plans for the year, and they rise by BGN 165.2 million in nominal terms compared to the same period of the previous year.
- As of 31.07.2014, **indirect tax** revenues amount to BGN 6,423.6 million, or 50.1 % of the annual plans, and are **by BGN 77.3 million less than those in the same period of the previous year.**



CFP PUBLIC EXPENDITURES

EXPENDITURES on CFP as of July 2013 and 2014



CFP PUBLIC EXPENDITURES (Continued)

- The total **expenditures on CFP** as of July 2014 amount to **BGN 17,987.8 million**.
- In nominal terms, **expenditures have increased by BGN 1.2 billion (7.2 %) compared to the same period of last year**.
- The reported expenditure growth is mostly due to:
 - ✓ **The growth of expenditures under EU programs and funds** – 2014 is a key year for the absorption of EU funds in the 2007-2013 programming period as the majority of projects enter into a final stage.
 - ✓ **The growth of social security and health insurance payments** – mostly due to the higher health insurance payments in the past months of 2014, including due to the payment of liabilities from previous years and the baseline effect of the increase in pensions as from 1 April 2013 for pension expenditures.
 - ✓ **Considerable additional expenditures under the FLSU budgets approved by Council of Ministers' acts** as passed by the former government



KEY STATE BUDGET PARAMETERS AS OF END-JULY 2014

State Budget	2013			2014			Planned growth of the 2014 State Budget Law against the report for 2013	Execution 31.07.2014 against 31.07.2013
	2013 Law	Execution as of 31 July	% of Law implementation	2014 Law	Execution as of 31 July	% of Law implementation		
Revenues and grants	18,354.4	10,513.1	57.3%	19,262.7	10,370.4	53.8%	106.3%	98.6%
Tax revenues	16,085.9	8,967.9	55.8%	17,337.0	9,117.9	52.6%	111.0%	101.7%
<i>Direct taxes</i>	<i>4,034.1</i>	<i>2,374.5</i>	<i>58.9%</i>	<i>4,306.6</i>	<i>2,593.2</i>	<i>60.2%</i>	<i>110.8%</i>	<i>109.2%</i>
Corporate taxes	1,567.4	1,020.1	65.1%	1,673.8	1,041.6	62.2%	107.8%	102.1%
Personal income tax	2,466.7	1,354.4	54.9%	2,632.8	1,551.5	58.9%	112.8%	114.6%
<i>Indirect taxes</i>	11,918.1	6,500.9	54.5%	12,829.0	6,423.6	50.1%	110.7%	98.8%
VAT	7,655.0	4,222.7	55.2%	8,281.7	4,126.6	49.8%	112.4%	97.7%
Excise duties	4,115.0	2,184.2	53.1%	4,377.9	2,195.1	50.1%	107.9%	100.5%
Tax on insurance premiums	28.1	13.0	46.3%	33.3	16.4	49.2%	149.0%	125.9%
Customs duties and charges	120.0	81.0	67.5%	136.2	85.5	62.8%	93.2%	105.5%
<i>Other taxes</i>	132.7	91.4	68.9%	200.3	100.2	50.0%	140.0%	109.6%
Sugar taxes	1.0	1.0	104.6%	1.0	1.0	95.5%	100.0%	95.6%
Non-tax revenues	2,224.3	1,493.2	67.5%	1,874.1	1,235.1	65.9%	78.3%	82.7%
Grants	44.3	52.0	67.1%	51.6	17.3	33.5%	49.3%	33.3%
Expenditures, transfers and contribution to the EU budget	19,648.2	10,992.6	55.9%	20,598.9	11,326.1	55.0%	106.8%	103.0%
Expenditures	9,294.4	4,946.4	53.2%	9,899.6	4,886.2	49.4%	114.1%	98.8%
<i>Non-interest expenditures</i>	8,453.2	4,370.6	51.7%	9,234.9	4,441.7	48.1%	115.2%	101.6%
Non-interest current expenditures	7,034.2	3,988.4	56.7%	7,326.3	4,182.8	57.1%	102.5%	104.9%
Capital expenditures	1,012.4	382.2	37.8%	1,047.5	258.9	24.7%	119.7%	67.7%
Contingency reserve	406.6			861.1				
<i>Interest payments</i>	841.2	575.9	68.5%	664.7	444.5	66.9%	101.8%	77.2%
Transfers	9,445.6	5,441.0	57.6%	9,794.7	5,824.6	59.5%	101.1%	107.1%
Contribution to the EU budget	908.2	605.2	66.6%	904.7	615.3	68.0%	96.9%	101.7%
Budget balance	-1,293.7	-479.5		-1,336.2	-955.7		114.3%	

* The Contingency Reserve item indicates Budget law data only. Reported data are reflected in the relevant expenditure items according to the economic nature of the expenditures incurred on account of the reserve.



KEY STATE BUDGET PARAMETERS AS OF END-JULY 2014 (Continued)

- As of 31.07.2014, state budget **revenues and grants** amount to BGN **10,370.4 million**, which is 53.8 % of the annual plans compared with 57.3 % for the same period of 2013.
- **The tax proceeds on the state budget at end-July 2014** amount to BGN 9,117.9 million and grow by just 1.7 % compared to the same period of 2013 against a planned growth of 11 percent of the 2014 Budget Law estimates against 2013 reported data.
- Some delay in the execution of the estimates for the group of indirect taxes, mostly VAT and excise duties, is expected:
 - ✓ **Value added tax** – 49.8% performance against the annual plans and BGN 96.1 million less than the proceeds reported in the same period of the previous year at a planned growth of 12.4% compared to the 2013 reports.
 - ✓ **Excise duties** – 50.1% performance against the annual plans and remain at the level of proceeds in the same period of last year at a planned growth of 7.9% compared to the 2013 reports.
- Given the greater relative weight of indirect taxes in the overall tax revenues, there is a risk for non-performance of the annual plans in the tax revenue part **by around BGN 900 million**.



KEY STATE BUDGET PARAMETERS AS OF END-JULY 2014 (CONTINUED)

- The **expenditures under the state budget** (including transfers to other budgets and the contribution to the EU Budget) for the first seven months of 2014 total BGN **11,326.1 million**, which is 55.0 % of the planned with 2014 State Budget Law.
- The part of **Bulgaria's contribution to the EU budget**, as paid as of end-July 2014 amounts to BGN **615.3 million**, the plan being for 2014 BGN 904.7 million in total.
- **The state budget stance is negative** as of end of July, amounting to BGN **955.7 million**. For comparison, the deficit for the same period of 2013 amounted to BGN **479.5 million**.
- The framework under the 2014 State Budget Law provides for an increase of tax revenues by BGN **1.7 billion** compared to the ones reported for 2013 on the basis of which higher expenditure have been planned.
- At the moment expenditure are implemented based on these optimistic revenue assumptions while the actual revenue performance is not on track. This leads to the formation of a higher deficit.
- The amendments of the National Health Insurance Fund Budget Law 2014 made during the last meeting of the 42nd National Assembly approve the **further limitation of expenditures under the budgets of lines ministries totaling BGN 225 million** for the year. This may result in an difficulties for some budgetary systems to operate in a normal way in the last months of the year.



- **The Caretaker Government is undertaking active measures to improve the work of the revenue administrations and revenue collection.**
- **An analysis is being made of the NRA and the Customs Agency;** weaknesses have been found and actions taken for addressing them and strengthening the tax and customs administrations.
- Due to the unsatisfactory state of **the Customs Agency activity its management has been changed.**
- **Along with the administrative measures efforts are made to improve the control over excise goods, to strengthen the combat against contraband** and to improve the effectiveness of the interaction between the Customs Agency, the NRA, the Ministry of Interior and others.



FUNDS UNDER EUROPEAN PROGRAMMES AND FUNDS

INDICATORS	REPORTED AS OF 31 JULY 2013			REPORTED AS OF 31 JULY 2014		
	CFP	National budget	European funds	CFP	National budget	European funds
Revenues and grants	16,609.9	15,356.6	1,253.3	16,840.5	15,460.8	1,379.8
Tax revenues	12,852.2	12,852.2	0.0	13,190.5	13,190.5	0.0
Non-tax revenues	2,424.3	2,417.8	6.5	2,223.7	2,221.3	2.4
Grants	1,333.3	86.6	1,246.8	1,426.3	49.0	1,377.3
Expenditure and contribution to the EU Budget	16,778.0	15,227.5	1,550.5	17,987.8	15,737.8	2,250.0
<i>Non-interest expenditure</i>	<i>15,577.4</i>	<i>14,026.8</i>	<i>1,550.5</i>	<i>16,907.9</i>	<i>14,657.9</i>	<i>2,250.0</i>
Non-interest current expenditure	13,936.1	13,340.8	595.2	14,789.2	14,069.5	719.7
Capital expenditure	1,641.3	686.0	955.3	2,118.7	588.4	1,530.3
<i>Interest payments</i>	<i>595.5</i>	<i>595.5</i>	<i>0.0</i>	<i>464.6</i>	<i>464.6</i>	<i>0.0</i>
Contribution to the EU Budget	605.2	605.2	0.0	615.3	615.3	0.0
Transfers	0.0	-184.1	184.1	0.0	-370.5	370.5
Budget balance	-168.2	-55.0	-113.2	-1,147.2	-647.5	-499.7



PROBLEMS WITH THE FINANCING OF THE SUSPENDED BY THE EUROPEAN COMMISSION PAYMENTS UNDER THE OPERATIONAL PROGRAMMES

- **As of 31.07.2014 the EC has suspended the reimbursement of funds to Bulgaria under OP Environment and under two axes of OP Regional Development**
- **The payments to beneficiaries and contractors of projects under these programmes have been suspended for the period March-July 2014 under OP Environment and June-July 2014 under the two axes of OP Regional Development.**
- **In order to resume payments to beneficiaries and contractors of the stopped projects they will be temporarily financed on account of the resources from the national budget (Fiscal Reserve) to finance the activities until the payments from the EC to Bulgaria are resumed :**
 - ✓ **around BGN 900 million by the end of 2014** in case the payments are not resumed by the end of the year
 - ✓ **around BGN 300 million by the end of 2014** in case the EC reimburses the certified expenditure within the calendar year
- **The temporary provision of funds from the national budget is required to minimise the risks of loss of funds under the n+2 rule**



- Fiscal reserve as of 31.07.2014 is BGN **8,886.1 million**, including **BGN 8,254.1 million deposits in BNB and banks** and **BGN 632.1 million** receivables under the EU Funds for certified expenditure, advance payments, etc.
- The resource available in the fiscal reserve is planned to cover the payments on the government debt and the current liquidity in the process of the budget implementation, including the substantial payments under the Global Bond and the direct payments to farmers in January next year.



ACTIONS TAKEN UNDER THE 2014 BUDGET

- **Improvement of the work and the results of the revenue administrations;**
- **Financing of the activities under the frozen OP – BGN 167 million have already been provided in August by the national budget under OP Environment and BGN 188 million under OP Regional Development;**
- **Review of the implementation of the Public Investment Programme “Growth and Sustainable Development of the Regions”;**
- **The Public Financial Inspection Agency (PFIA), together with the internal audit units of ministries and agencies, has started audits of the expenditures made by the FLSU and the financial obligations and commitments made, as well as an analysis for their compliance with the Budget Law and subsequent impact on the budget parameters, including on the deficit on an accrual basis;**
- **Improved budget discipline in respect of public expenditure**



CONCLUSIONS BASED ON THE PARAMETERS OF BUDGET IMPLEMENTATION

- Given the trends **the CFP deficit could exceed the target of 1.8% of GDP, but must be contained within the framework of 3% of GDP.**
- Other things being equal, **the deficit for August will worsen by BGN 355 million** due to the payment of the delayed payments to beneficiaries and contractors under OP Environment and OP Regional Development.
- The lack of flexibility to ensure additional financing by the end of the year and the need to strengthen the fiscal buffers require **reconsideration of the debt limits in the 2014 State Budget Law.**
- **A revision of the 2014 Budget is required** which is to reflect :
 - more realistic revenue forecasts;
 - change of the fiscal target in respect of the CFP deficit;
 - a statutory possibility for additional debt financing to ensure funds to finance the suspended payments under certain OPs, to finance the higher deficit and last but not least to strengthen the buffer in the fiscal reserve.



THANK YOU!

