



REPUBLIC OF BULGARIA
Ministry of Finance

CONVERGENCE PROGRAMME (2022–2025)

April, 2022
Sofia, Bulgaria

CONVERGENCE PROGRAMME

OF THE REPUBLIC OF BULGARIA
2022–2025

Contents

1.	Overall policy framework and objectives	5
2.	Economic perspectives	7
2.1	Assumptions for the development of the world economy	7
2.2	Economic prospects and cyclical development	8
2.3	Medium-term scenario	9
2.4	Sector balances	10
3.	Government balance and debt	22
3.1	Policy strategy	22
3.2	Medium-term objectives	23
3.3	Actual balances and updated budgetary plans for the current year	24
3.4	Structural balance (cyclical components of the balance, one-off and temporary measures) and fiscal position, including in terms of the government expenditure benchmark	40
3.5	Debt levels and developments, below-the-line operations	41
3.6	Budgetary implications of major structural reforms	44
4.	Sensitivity analysis and comparison with the previous update	52
4.1	Alternative scenario	52
4.2	Sensitivity of budget forecasts in different scenarios	54
4.3	Comparison with the previous programme	54
5.	Sustainability of public finance	55
5.1	Policy strategy	56
5.2	Long-term budgetary prospects, including the implications of ageing population	59
5.3	Conditional liabilities	64
6.	Quality of public finance	66
6.1	Policy strategy	66
6.2	Composition, efficiency and effectiveness of costs – COFOG	68
6.3	Structure and efficiency of revenue systems	69
7.	Institutional characteristics of public finance	78
7.1	National fiscal rules	78
7.2	Budgetary procedures	80
7.3	Other institutional developments in relation to public finances	82
8.	Annex A	84
	Table 1a: Macroeconomic prospects	84
	Table 1b: Price developments	84
	Table 1c: Labour market developments	85
	Table 1d: Sectorial balances	85
	Table 2a: General government budgetary prospects	86
	Table 2b: No-policy change projections	87
	Table 2c: Amounts to be excluded from the expenditure benchmark	87
	Table 3: General government expenditure by function	87
	Table 4: General government debt developments	88
	Table 5: Cyclical developments	89
	Table 6: Divergence from previous update	89
	Table 7: Long-term sustainability of public finances	90
	Table 8: Basic assumptions	91
9.	Annex B	92
	Table 1: Table of the RRF impact on programme's projections - GRANTS	92
	Table 2: Table on the RRF impact on programme's projections - LOANS	93
	Table 3: Table on the stock of guarantees adopted/announced at 15.04.2021 according to the Programme	94

List of Abbreviations

ASII	another systemically important institution
ATR	annual tax return
BNB	Bulgarian National Bank
CITA	Corporate Income Tax Act
CP	Convergence programme
DFI	Direct foreign investments
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
ESA	European System of Accounts 2010
EU	European Union
EUR	Euro
GDP	Gross domestic product
GS	government securities
HICP	Harmonized index of consumer prices
IMF	International Monetary Fund
LCUO	Labour costs per unit of output
LFM	Labour force monitoring
LIBOR	London Inter-Bank Offered Rate (London Inter Bank Offered Rate)
MOF	Ministry of Finance
NHIF	National Health Insurance Fund
NII	National Insurance Institute
NRA	National Revenue Agency
NRIC	National Railway Infrastructure Company
NSI	National Statistical Institute
PFA	Public Finance Act
PITA	Personal Income Tax Act
PP	Percentage point
RD	Research and development
REER	Real effective exchange rate
RRM	Recovery and resilience mechanism
SBARB	State Budget Act of the Republic of Bulgaria
SDR	Special drawing rights
SGP	Stability and Growth Pact
SSC	Social security code
SSI	State social insurance
ULC	Unit labour costs
USD	US dollar
VAT	value added tax
WTO	World Trade Organization

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Bulgaria's Convergence Programme (2022-2025) outlines the main policies aimed at providing support to businesses and citizens to overcome the consequences of the COVID-19 pandemic, stimulate economic activity in the country and at the same time preserve macroeconomic and fiscal sustainability in the medium term in order to create conditions for economic growth.

The Programme is prepared annually in April, based on the rules of the Stability and Growth Pact (SGP) – the regulatory framework for the coordination of national fiscal policies of EU member states. Unlike last year, when the format of the Programme followed the European Commission's (EC) Guidelines for refocusing and simplifying the content of the Programme as a result of the pandemic, this year's Convergence Programme has been prepared in accordance with the Code of Conduct¹, containing Specifications on the implementation of the SGP and Guidelines on the format and content of Stability and Convergence Programmes.

Fiscal policy in the medium term is aimed at maintaining the sustainability of the budgetary framework in the context of Bulgaria's commitments, both under the Stability and Growth Pact (SGP) and in relation to its status as a country under Title III of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

The medium- and long-term sustainability of public finances remains a policy priority for many reasons, including confidence-building and the creation of a predictable investment and economic environment. In the current update of the Convergence Programme, Bulgaria maintains its medium-term budgetary objective (MTO) for the structural balance on an annual basis of -1% of gross domestic product (GDP).

Based on the projected debt financing and GDP forecasts, the general government debt is projected to increase in the coming years, both in nominal value and as a ratio of the consolidated sector's debt-to-GDP, but to remain far below the maximum reference value of the Maastricht criterion of 60%.

In the context of maintaining macroeconomic stability and its participation in Exchange Rate Mechanism II, Bulgaria guarantees that it will maintain the currency board arrangement at the current level fixed exchange rate of BGN 1.95583 per 1 EUR until the country's accession to the euro area.

The current Convergence Programme covers the period 2022-2025 and consists of seven parts. This first part contains the general framework of government economic policies and objectives. The second part analyses the economic development of the country in terms of key macroeconomic indicators, and presents a forecast for their development in the medium term.

¹ <http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf>

The third part is a description of the strategic objectives of fiscal policy in terms of budget balance and government debt. Here are the current state of the budget and the expected development during the reference period, with an emphasis on the structural balance. The main guidelines for the development of the debt position during the programming period are outlined. The main highlights of the policies and the specific measures for their implementation are also presented, as well as an assessment of the expected quantitative effect of their implementation.

In the fourth part, an analysis of the sensitivity of the forecast parameters is made, and an alternative scenario for economic development of the country in the medium term is developed. The effect of the implementation of the alternative scenarios on the budget parameters is also affected. The effects on government debt of changes in assumptions under the baseline macroeconomic scenario are also presented.

Part five is dedicated to the sustainability of public finances. The main focus is on the long-term budgetary perspective in view of the effects of population aging.

The sixth part deals with the quality of public finances. Here are presented the strategy of government policy in this area, the composition of expenditures, as well as the structure and efficiency of revenue systems.

The seventh part reviews the institutional characteristics of public finances in Bulgaria – budget procedures and national fiscal rules. This part of the Programme also focuses on key legislative changes related to public finances.

The Convergence Programme takes into account measures and developments in the field of fiscal policy, reflecting the recommendation of the Council of June 2021, containing an opinion on the Convergence Programme for 2021 of Bulgaria²:

“In 2022, pursue a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. Keep the growth of nationally financed current expenditure under control. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential. Pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all. ” ●

² [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021H0729\(02\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021H0729(02)&from=EN)

2. ECONOMIC PROSPECTS

2.1 Assumptions for the development of the world economy

This Convergence Programme is based on the macroeconomic framework for the period 2022-2025, which was developed with the medium-term macroeconomic model of the Ministry of Finance (MoF), based on assumptions for key external indicators, as of March 2022.

In 2021, there was a normalization of economic activity globally after the onset of the crisis caused by the COVID-19 pandemic. The gradual intensification of the vaccination process has resulted in the easing of restrictions in many developed economies since the second quarter of the year and, accordingly, in a significant GDP growth. An increase was reported in international trade, employment and income.

Table 2-1: Assumptions on key macroeconomic indicators

International environment	Historical data	Forecast			
	2021	2022	2023	2024	2025
World economy (real growth,%)	6.0	3.8	3.3	3.4	3.3
European economy – EU (real growth,%)	5.3	3.1	2.2	2.3	1.9
Annual average exchange rate USD / EUR	1.18	1.10	1.10	1.10	1.10
International prices of basic commodities (in dollar terms, change in%)					
Crude oil, Brent	66.5	42.0	-10.1	-7.8	-5.2
Non-energy commodities	32.7	18.9	-6.3	-2.6	-1.3
Food	30.8	15.0	-8.3	-3.7	-0.6
Beverages	16.3	8.5	-2.4	-0.5	-0.5
Agricultural raw materials	9.0	24.6	-12.0	-1.1	0.0
Metals	47.1	21.3	-1.7	-2.1	-2.7
EURIBOR 3m.	-0.5	-0.2	0.8	1.1	1.1

Source: WB, Eurostat, Bloomberg, own calculations

Despite the positive signals for the development of the European and world economy at the beginning of the year, the invasion of the Russian Federation in Ukraine worsened economic expectations.

The macroeconomic forecast that is presented in the Programme is based on the assumption that high uncertainty will persist throughout the year, with expected distortions in international

trade, but no significant bottle-necks in economic sectors. In the European Union, there will be direct effects caused by lower demand and exports to both countries, and indirect, due to difficulties in imports, which will negatively affect the production process. In addition, reduced business confidence and increased uncertainty among investors will affect asset prices, limit financial flows and investment activity. Economic growth in the EU and the world is expected to slow down in 2022-2023 and move towards long-term averages at the end of the forecast horizon.

2.2 Economic prospects and cyclical development

2.2.1 Economic growth

In 2021, an economic recovery from the COVID-19 crisis was under way. Bulgaria's gross domestic product grew by 4.2% yoy and its level at constant prices reached 99.6% of that of 2019, as investments and exports of services were the components that did not reach their pre-crisis levels.

The main contribution to GDP growth during the year was final consumption. Growth in private consumption reached 8%, supported by higher disposable income of households, mainly in terms of compensation of employees and pensions. Government consumption also contributed to economic growth of 4%. At the same time, fixed capital formation fell by 11%, with both government capital expenditure and weak private investment activity contributing to this decline. The external sector had a negative contribution to the dynamics of GDP in 2021. The growth of exports of goods and services reached 9.9%, but was surpassed by the growth of imports, which was 12.2%.

On the supply side, gross value added increased by 3.6% and remained 1% below the level of 2019, as both services and industry did not recover to pre-crisis levels. Growth during the year was driven by the sectors industry without construction (9.4%) and services (2.6%) and in particular general government, real estate activities, creation and dissemination of information. At the same time, the value added in construction decreased by 7.8% yoy.

2.2.2 Cyclical development³

The growth of potential GDP in 2021 was 1.8%, and the output gap was negative at 1%. Employment and investment are expected to increase in the medium term, which will lead to accelerated growth of potential GDP and will reach 2.8% in the period 2024-2025. Total factor productivity (TFP) will be with the highest contribution to growth followed by capital, while the positive contribution of labour will decrease at the end of the period due to unfavourable demographic developments, which is a major constraint on increasing labour force.

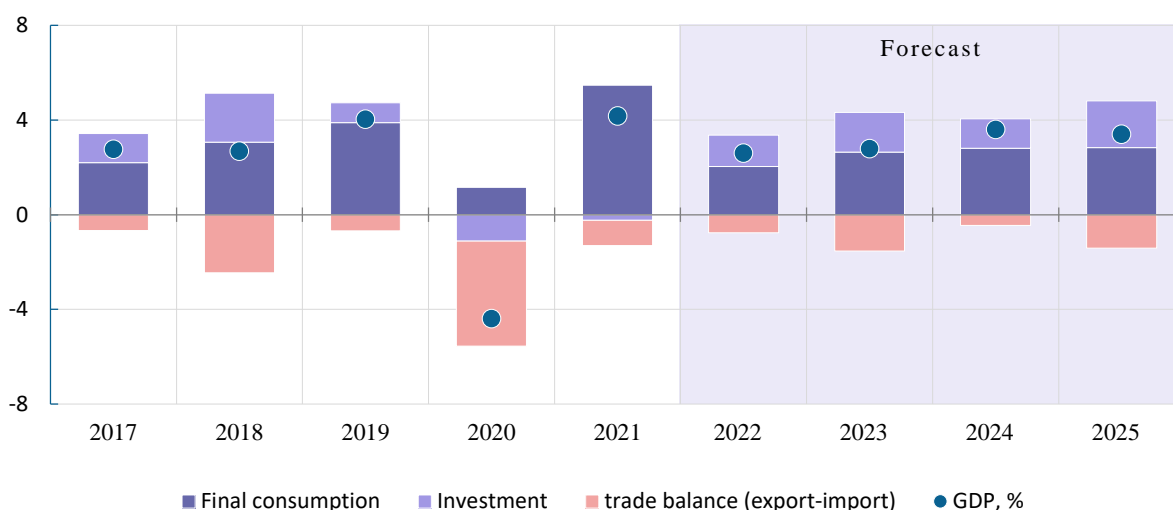
The output gap will shrink to -0.5% in 2022 and -0.3% in 2023. At the end of the forecast period 2024-2025, the output gap will be positive.

³ The cyclical development of the economy is measured by the deviation indicator. It is calculated as the difference between actual and potential GDP in relation to potential. The potential GDP for the Bulgarian economy is calculated using a production function according to a methodology developed by the EC: Havik, K., & Kieran Mc Morrow, K., & Fabrice Orlando, F., Christophe Planas, C., Rafal Raciborski, R., Werner Roeger, W., Alessandro Rossi, A., Anna Thum-Thysen, A. & Valerie Vandermeulen, V., "The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps," European Economy - Economic Papers 535, 2014.

2.3 Medium-term scenario

In 2022, Bulgaria's GDP growth is expected to reach 2.6%. The increase in inflation limits the real disposable income of households and their purchasing power, as a result of which the growth of household consumption is expected to slow down to 2.4%. Increased uncertainty, higher production costs, disrupted supplies and weaker external demand are also expected to be reflected in the postponement of investment plans. At the same time, public capital expenditures are expected to support growth in gross fixed capital formation, which is projected to reach 7.6%. Public consumption is also projected to positively contribute to GDP growth. The more moderate demand from Bulgaria's main trading partners, combined with severely limited exports to the Russian Federation and Ukraine, will be reflected in a slowdown in the pace of exports of goods from Bulgaria in 2022 (3.1%). The contribution of net exports to GDP growth will be negative.

Graph 2-1: Contributions by components to GDP growth (pps)



Source: NSI, MOF

In 2023, higher growth in domestic demand and, accordingly, GDP growth of 2.8% is expected. The increase in income combined with the weakening of inflationary pressures will stimulate the growth of consumption. A slight acceleration in exports of goods is expected, but the pace will remain moderate amid still weak growth in external demand. Exports of services will be affected to a greater extent by the one-off positive effect of refugees entering the country, and to a lesser extent by the gradual recovery of international travel. This will be reflected in lower growth in exports of services. The contribution of net exports to GDP will remain negative (1.5 percentage points (pps)).

In 2024 and 2025, GDP growth will be 3.6 and 3.4%, respectively. Household consumption will grow, supported by declining unemployment and steady income growth. The increase in demand will also have a positive effect on investment activity. With the gradual overcoming of the consequences of the military conflict and the restoration of the external environment, the overall growth of exports will increase at the end of the forecast period. Reflecting the recovery in domestic demand, the pace of imports will continue to outpace exports and the contribution of net exports to GDP growth will be negative.

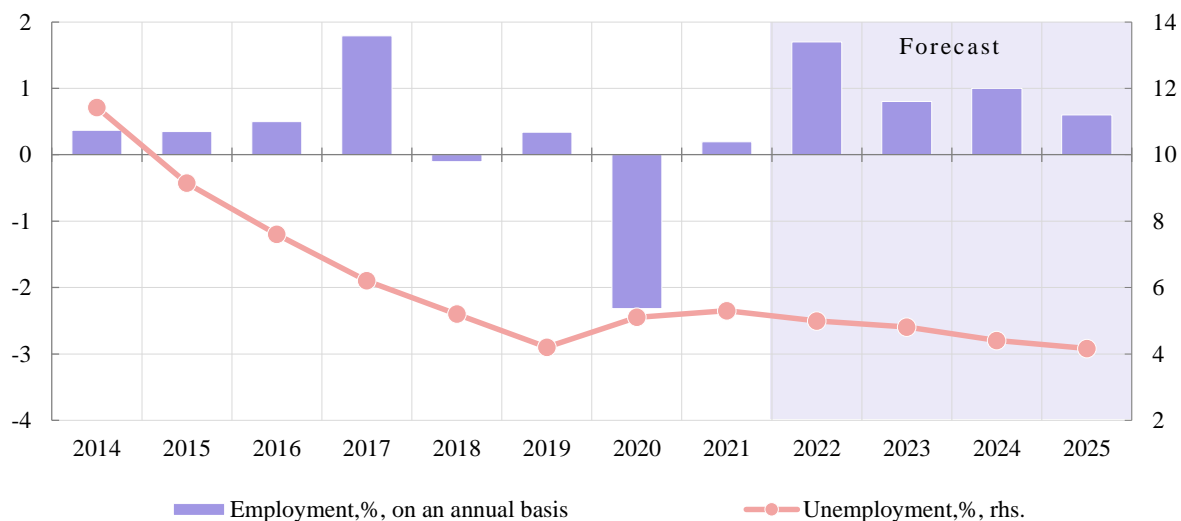
2.4 Sector balances

2.4.1 Labour market, income and productivity

In 2021, employment in the Bulgarian economy stopped the decline registered in 2020 as a result of restrictions in some economic sectors in order to limit the spread of COVID-19. The average annual number of employees for 2021 is 3458.4 thousand people and practically remains at its level from 2020 (growth of 0.2%). Almost all economic sectors registered an increase in the number of employees, with the exception of the agricultural sector and "Real estate activities", although in both cases there were high growth rates of GVA in real terms. The highest growth is observed in the sector "Creation and dissemination of information and creative products; telecommunications" (8.8%), as this is the economic sector where the dynamics of employment has not been negatively affected by the deteriorating epidemiological situation over the past two years.

Another factor that influenced the dynamics of employment in the country in 2021 were the short-term government measures to maintain employment and especially the largest of them, the so-called "60/40" programme. The programme was active throughout 2021 (its operation was extended until the middle of 2022) and about BGN 823 million were paid for it in 2021, as the average annual number of employees who participated in it is about 97 thousand. Compared to 2020, there is a slight decrease in the average monthly number of participants in the programme (by about 22%), due to the summer months (July-October), when the number of jobs participating in the programme decreased by more than twice compared to the previous ten months. Reduction of participants in the programme is observed in all economic sectors. In the sectors that have the largest relative share in the total number of jobs protected by the programme, this decrease is respectively: "Trade" (by about 45%), "Manufacturing" (by about 25%), "Transport" and "Hotels and restaurants" – between 10 and 12%.

Graph 2-2: Dynamics of employment and unemployment rate, %



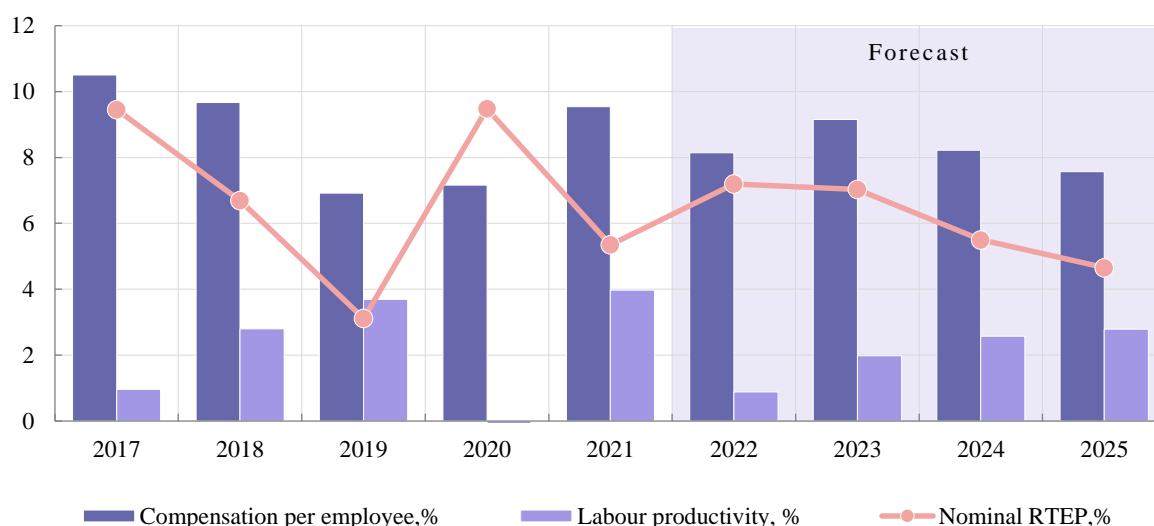
Source: NSI, MF

The unemployment rate in the country remained low in 2021 (5.3%), with Bulgaria remaining among the ten EU-27 countries with the lowest values of this indicator for the Community

countries⁴. The number of registered unemployed in the Employment Agency (EA) has significantly decreased, as in some of the summer months of 2021 were recorded historically the lowest values in the series of the indicator so far.

With the observed recovery in labour demand in the country in 2021, the growth of labour productivity moved to positive territory (4% in real terms), and that of compensation per employee accelerated to 9.5%. The most significant increase in labour productivity was reported in the agricultural sector (13.2%) and manufacturing (9.4%), while the dynamics of the indicator remained negative in construction (-9.5%) and part of the activities in the services sector, including trade; transport; hotels and restaurants (-3.5%). The positive effect of the labour market recovery on labour income was also more pronounced in the industry sector. The compensation per employee in this sector increased nominally by 12.6%. The public sector was also characterized by a double-digit growth rate (12.6%), but overall services reported a significantly lower growth rate of 8.3%. The development of income and labour productivity during the year led to a weakening of the pressure on labour costs per unit of output. The latter increased nominally by 5.4% (almost twice lower than the reported value in 2020) and even decreased by 0.8% in real terms. In the manufacturing industry, which is most exposed to competition from the external environment, there was a decrease in the indicator in real terms of 7.4% and a minimum increase of 0.9% in nominal terms.

Graph 2-3: Dynamics of nominal ULCs and components, %



Source: NSI, MF

The forecast for the dynamics of employment in 2022 is mainly influenced by the expected positive development of the economy, as well as the flow of Ukrainian citizens seeking temporary or international protection in Bulgaria. The assumptions used in the current forecast for the number of employees in 2022 are that about 135 thousand Ukrainians will remain on the territory of the country, of which about 55 thousand people will start working. The latter will have been employed for an average of about 6 months. This flow of new employees, as well as the increased number of employees among residents determine the forecast for employment growth in 2022 of 1.7%.

⁴ Due to methodological changes made in the Labour Force Survey (LFS) in early 2021, there is a break in the time series. As of the date of preparation of this document, no data are available for previous year's comparable to those for 2021.

In the period 2023-2025, the main factor that will determine the growth of employment in the country will continue to be economic growth, which is expected to accelerate and hence increase labour demand. At the same time, the assumptions used in the forecast set a certain decrease in the number of Ukrainian citizens seeking protection in the country, and the number of people employed from this group is set at 40 thousand in 2023 and then to decrease to about 22 thousand in 2025. It should be considered that in 2025 and subsequent years, increased labour demand will be increasingly difficult to meet by attracting more people from those who are unemployed or out of the workforce. Therefore, in 2025 and beyond, economic growth will increasingly be driven by increasing labour productivity and overall factor productivity.

Unemployment rates are expected to follow a steady downward trend throughout the 2022-2025 period. It is projected to be worth 5.0% in 2022 and to fall to 4.2% in 2025.

Expectations for the dynamics of labour income in the medium term will remain high, but estimates of their real growth have been revised in a downward direction. In 2022, the nominal growth of compensation per employee is estimated at 8.1% and reflects the expected demand for labour, the increase in the minimum wage and insurance thresholds, as well as some side effects of high inflation in the country. The impact of inflationary processes on nominal income growth is expected to be realized with some lag and to be realized to a greater extent in 2023. The slowdown in the growth of compensation per employee in 2022, compared to the previous year, will be the result mainly from the lower contribution of the public sector. Another factor that is expected to have a limiting effect is the inclusion of Ukrainian refugees in the labour market, as it is assumed that they will be employed in activities with relatively lower than the country's overall productivity and wages.

With the gradual acceleration of the dynamics of labour productivity in 2023, the demand for labour and the expected effect of rising prices, the compensation per employee will increase at an accelerated rate of 9.2%. In the period 2024-2025, this rate will remain high, at 8.2 and 7.6%, respectively, but will begin to slow down. The real growth of labour income is estimated to recover partially in 2023, and only in 2024-2025 can it be expected to be comparable to the pace in the period before 2021.

The slowdown in economic activity in 2022 and 2023 will reflect the lower growth of labour productivity. The latter is estimated at 2.1% on average in 2022-2025, which together with the expected increase in labour income will result in nominal unit labour costs (ULC) increase of an annual average rate of 6.1%. Real ULCs are projected to grow by an annual rate of 0.9% on average.

2.4.2 Inflation

After a clear period of disinflation in 2020, the annual inflation rate in the country has been accelerating since the beginning of 2021. The cumulative increase in consumer prices rose at the end of the year and reached 6.6%, measured by the Harmonized index of consumer prices (HICP), and the annual average inflation rate was 2.8%. In the first two months of 2022, inflation continued to accelerate to 8.4% yoy in February, with a positive contribution from all major components of the headline rate.

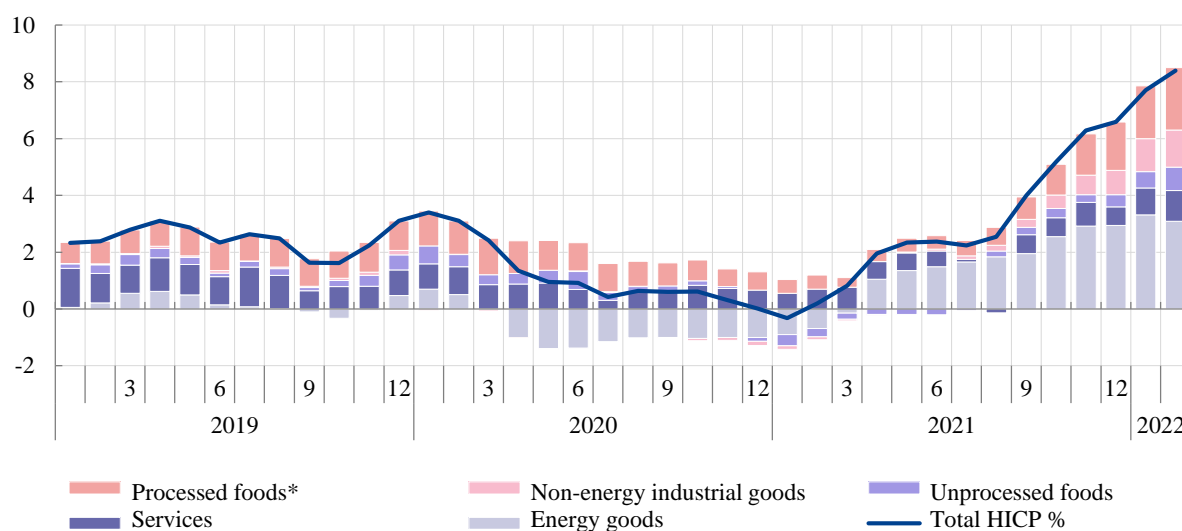
The main factor with a pro-inflationary impact was the accelerated rise in commodity prices on world markets and especially those of energy. The producer price index on the domestic market rose by 40.5% yoy in February 2022, with a significant contribution from energy and intermediate goods. In terms of production costs, this was relatively quickly transferred to the final prices of a number of consumer goods.

Energy commodities largely contributed to the rise in the overall HICP, in line with the accelerating increase in oil, natural gas and coal prices on international markets. Prices of transport

fuels went up by 33.7% yoy in February, central gas supply – up by 135.3%, and solid fuels – up by 27.7%. The moratorium on prices of electricity, water supply and heating, from mid-December 2021 until the end of March 2022, limited the rise in electricity and heating prices. The last increases in prices of these two goods were from July 1, 2021, by 4.4% and 19%, respectively.

In February 2022, the annual inflation rate of food and non-alcoholic beverages reached 13.1%, mainly due to processed foods. They were mainly affected by the increase in the price of the respective international prices, but also by the costs for their production. The increase in prices of unprocessed foods also gained speed, fuelled by the surge in prices for intermediate consumption in agriculture, incl. energy, fertilizers, etc. Prices of alcohol and tobacco increased by 1.9% for the respective period.

Graph 2-4: Annual inflation rate (%) and contributions by main components (pps)



* incl. alcoholic beverages and tobacco

Source: Eurostat, own calculations

As the direct and indirect effects of higher energy and food prices came to be, core⁵ inflation also increased – to 5.7% yoy. There was an acceleration in both its two major subcomponents. The increase in non-energy industrial goods prices was 4.3% yoy, with higher prices for durable goods as well as for non-durables. Among the factors behind this were not only the already mentioned higher costs for their production, but also their higher consumption during the pandemic as compared to services. Inflation in the latter accelerated to 3.9%, with almost all major subgroups making a positive contribution in line with the side effects considered above. Only communication services continued to report a decline on a year earlier, which reached 4.1% in February.

Currently, prices of crude oil and non-energy commodities are expected to rise further in 2022, but this will start to slow down in the second half of the year. Accordingly, the annual inflation rate will continue to accelerate until the third quarter of the year, after which it will decelerate and reach 10% at the end of 2022. Food prices will increase by 16.4% yoy in December and will have a leading contribution for the end-of-period inflation. Energy goods will also make a positive contribution, with the increase in transport fuel prices expected to reach 25.1% at the end of the year. The components of core inflation will also make a significant contribution due

⁵ The dynamics of energy goods and unprocessed foods are excluded from headline inflation.

to the expected side effects of the accelerated rise in energy prices and disruptions in supply chains. Services prices will increase by 8.1% at the end of 2022, and those of non-energy industrial goods – by 6%. The average annual inflation in 2022 is projected to be 10.4%.

Table 2-2: Forecast of HICP dynamics in the period 2022-2025

	2022	2023	2024	2025
Average annual inflation (in %)	10.4	5.1	2.7	2.3
End-of-period inflation (in %)	10.0	3.1	2.4	2.2

In line with the expectations for downward price dynamics for all major commodities in the period 2023–2025, as well as with the exhaustion of the observed second-round effects, the inflation rate in the country is also expected to continue slowing down. Energy will have a negative contribution due to the expected decrease in the international price of crude oil, which will lead to cheaper automotive fuels.

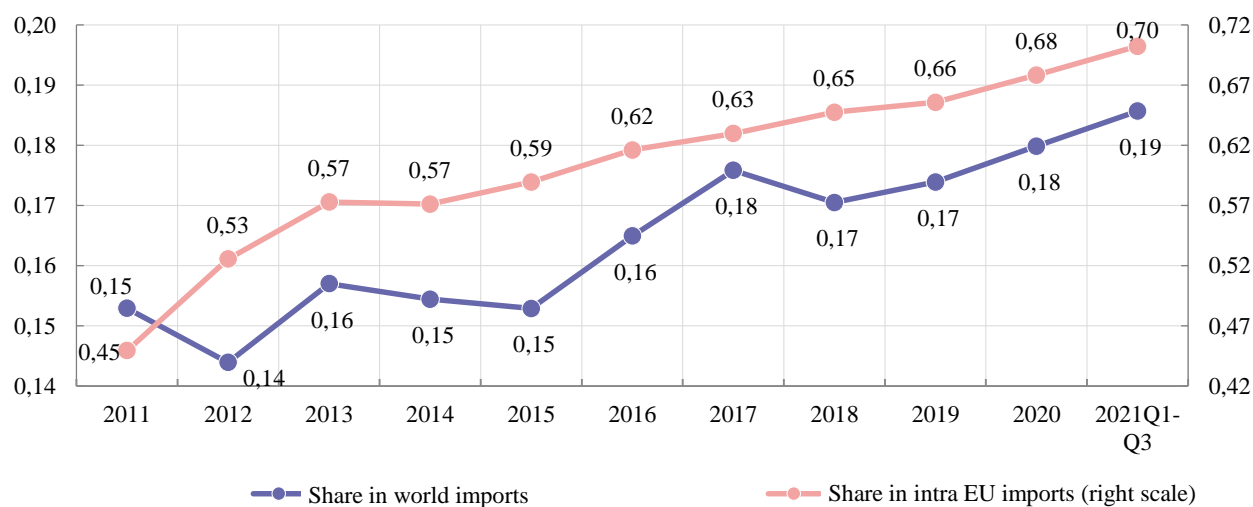
2.4.3 External sector⁶

In 2021, the overall current and capital account surplus reached EUR 219.3 million (0.3% of GDP) compared to EUR 905 million in 2020.

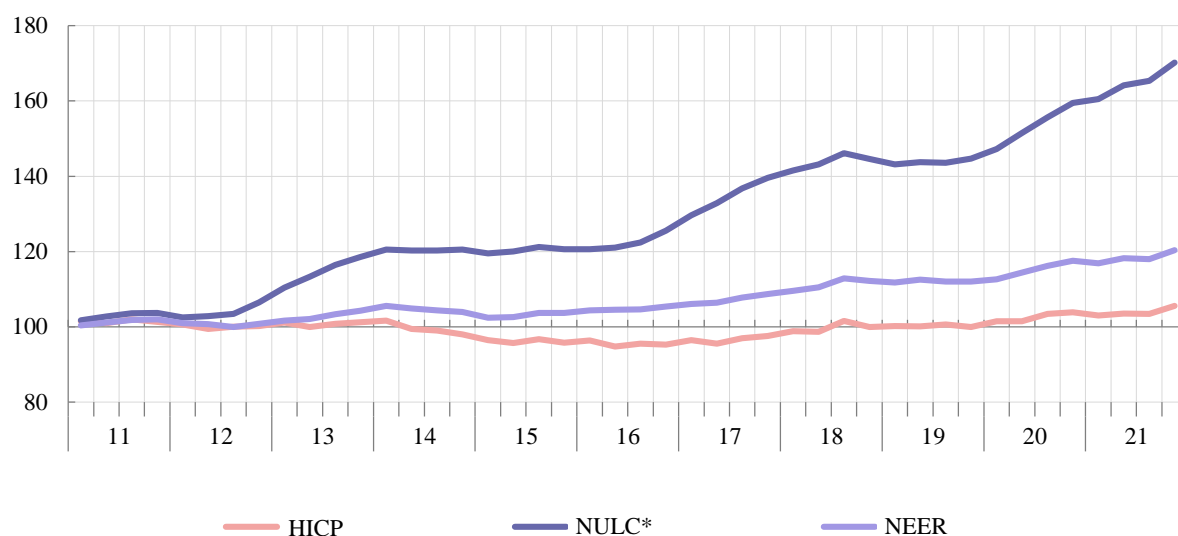
In 2021, a recovery in global economic activity was reported as a result of the gradual management of the spread of COVID-19, the intensification of international trade and travel. In Bulgaria, exports of goods increased by 25.7% and imports – by 28.6%, which determined the increase in the trade deficit by 1.8 percentage points up to 2% of GDP. During the year, trade balance was driven by the outpacing of real growth of imports compared to exports, while terms of trade were positive. The real growth in imports was driven by strong household consumption and the need for raw materials for export-oriented industries, while export growth reflected a sharp recovery in external demand.

Export dynamics was reflected in the improvement of the country's market position. On average for the period January-September 2021, the shares of Bulgarian exports in world imports and intra-EU imports increased.

Graph 2-5: Bulgaria's share in international trade (%)



⁶ The external sector analysis was developed with balance of payments statistics (analytical presentation), except for graphs and data for which a different source is explicitly indicated.

Graph 2-6: REER of Bulgaria compared to 36 industrial countries, 2010 = 100

* Nominal unit labour costs for the total economy

Source: EC

Trends in the development of world trade show that the increase in the country's exports is linked to the continued improvement of non-price competitiveness. After a slowdown in the rate of appreciation in the period 2018-2019, the dynamics of the real effective exchange rate (REER), calculated by the HICP, and the nominal unit labour costs (NULC) again accelerated in 2020, which continued in 2021. The impact of the appreciation of the euro against the US dollar was relatively weaker, as evidenced by the nominal effective exchange rate dynamics, while the REER deflated by the nominal unit labour costs had a more significant contribution. The nominal growth rate of unit labour costs in 2021 was characterized by a sharp slowdown compared to the previous year, but the value of the indicator remained relatively higher compared to the selected group of trading partners. It should be noted, however, that the available statistics on labour costs in 2020 and 2021 do not take into account the contribution of the measures taken to overcome the negative effects of the pandemic, which makes the comparison of the dynamics of labour costs by country to some extent inconsistent at present.

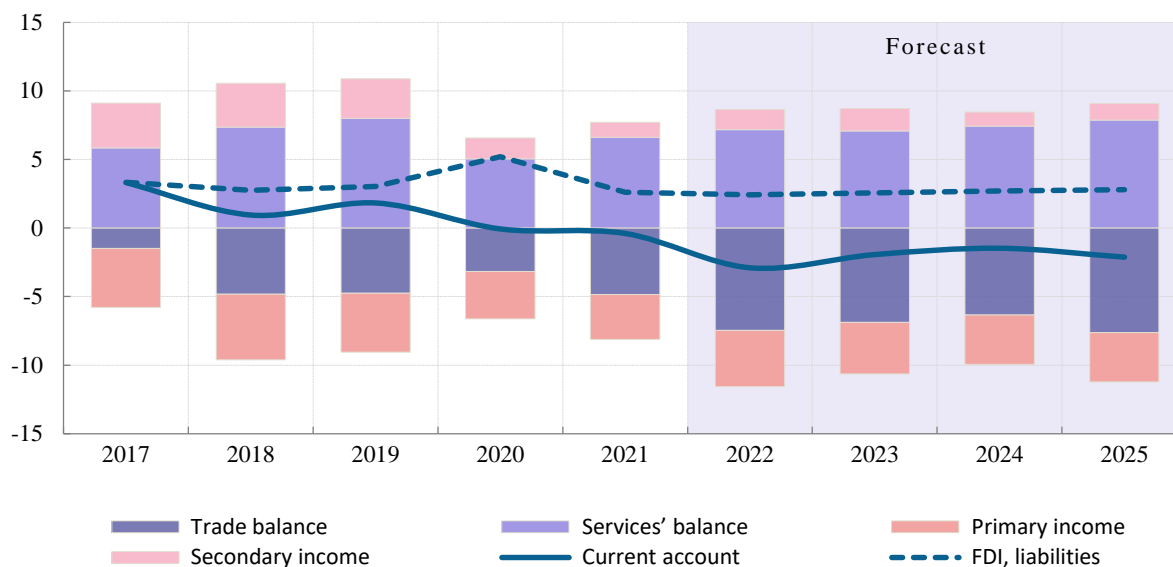
In 2021, surplus on services almost reached its 2019 level, with travel revenues as well as IT and telecommunications services having a major contribution to the improvement. As a result, exports of services increased by 27.8% yoy, while imports increased by 14.7%. The total surplus on services reached 6.6% of GDP, up from 5% a year earlier. The balance of income articles deteriorated slightly as a result of lower remittances. The current account deficit for 2021 increased to 0.4% of GDP.

In 2022, the trade balance is expected to deteriorate, driven by higher real growth in imports than in exports and negative terms of trade. As a result, nominal growth rates of imports will outpace those of exports, and the trade deficit will increase. The forecast for the dynamics of Services reflects two opposite effects – the more limited increase in revenues from foreign tourists in the country due to the conflict, on the one hand, and the reporting of refugees spending as export of travel services, on the other. The expected effect on the balance of payments from the influx of refugees is also reflected in both income articles. The funds granted by the state as aid, resp. payments to non-residents from general government are recorded under Secondary income. It is assumed that these payments will be fully covered by EU funds, which are

recorded in the same article. The current account deficit will increase to 2.9% of GDP, the main factor being trade in goods.

In the remaining years of the forecast period, the current account balance will remain negative. Its change will be determined mainly by the dynamics of the trade balance. In 2023-2024, an improvement is expected, driven by positive terms of trade. The real growth of imports will continue to outpace that of exports, and the deviation will be more significant in 2025, when the supply of defence equipment is expected.

Graph 2-7: Current account (% of GDP)



Source: BNB, NSI, MoF

In 2021, the flow of liabilities on the financial account⁷ exceeded that of assets by EUR 255.1 million. The negative balance on the financial account was determined by the increase in foreign liabilities of Bulgarian residents, which was affected by the additional 859 million Special Drawing Rights (SDRs) allocated to Bulgaria on August 24, 2021, as well as the increase in foreign liabilities of banks and the non-banking private sector. Annual inflows of foreign direct investment (FDI) reached 1.8 billion euros or 2.6% of GDP. Almost the entire flow of inward FDI in the country was in the form of reinvested earnings from parent companies.

In 2022, a slight decline in the share of FDI in GDP is expected as a result of the high level of international uncertainty. By the end of the forecast period, the share of FDI in GDP is expected to increase gradually.

2.4.4 Monetary and financial sector

The main goal of monetary policy in Bulgaria is to maintain price stability by ensuring the stability of the national currency. This goal is achieved in a currency board framework with a fixed exchange rate of the national currency to the euro.

At the end of December 2021, the market value of Bulgaria's international foreign exchange reserves - the assets on the balance sheet of the Issue Department⁸ of the Bulgarian National Bank (BNB), amounted to EUR 34.6 billion (51.0% of GDP), increasing by EUR 3.7 billion on an annual basis. According to the principles of operation of the currency board, the dynamics

⁷ Analytical presentation of the balance of payments

⁸ The market value of international foreign exchange reserves includes changes in transactions, exchange rate differences and price revaluations.

of international foreign exchange reserves corresponded to the increase in the amount of the liabilities of the Issue Department. The increase in banknotes and coins in circulation had the main contribution to the higher amount of the liabilities of the Issue Department on an annual basis. The higher amount of the Banking Department deposit, driven by the additional 859 million SDRs allocated to Bulgaria in August, as well as the increase in the government deposit with the BNB, had a lower positive contribution. At the end of December 2021, the foreign exchange reserves provided coverage of 9.8 months of imports of goods and non-factor services, while their ratio to the short-term external debt of the country amounted to 501.2%. At the end of February 2022, international foreign exchange reserves amounted to EUR 31.0 billion, posting an increase by EUR 3.5 billion compared to February 2021.

In 2021, non-government sector deposits continued to grow at a high annual rate, however posting a gradual slowdown in growth since September, which reached 9.1% at the end of the year (9.7% in December 2020). A slowdown in the growth rate of deposits was observed in both the households and the non-financial corporations' sectors, which came to 9.0% and 8.5% at the end of the year respectively. The retention of very low interest rates on deposits, combined with accelerating consumer price inflation, had the effect of shifting some of households' accumulated savings to consumption or to alternatives to deposits for investment purposes or storage of value. Lower deposit growth is probably additionally affected by the fees introduced by a large number of commercial banks for cash deposits above a certain threshold, as well as by the negative nominal interest rates on new corporate deposits.

As of December 2021, the broad monetary aggregate M3 recorded an annual growth of 10.7% (10.9% at the end of 2020). The main contribution to M3 growth had overnight deposits and, to a much lesser extent, money outside monetary and financial institutions, while the contribution of deposits with an agreed maturity of up to 2 years was negative. A factor of potential importance for the reduction of the amount of deposits with an agreed maturity of up to 2 years is the policy undertaken by some banks since the beginning of 2021 to transform time deposits into overnight deposits and to stop offering new time deposits. As of February 2022, the annual growth rate of non-government deposits slowed down to 8.5% and that of broad money to 9.9%.

The annual growth of credit to non-financial corporations and households accelerated in 2021, reaching 8.3% at the end of the year (4.5% in December 2020). The upward dynamics of private sector credit growth was mainly influenced by the strengthening of credit to households, with its annual growth rate accelerating to 13.4% (6.6% in December 2020). At the end of the year the growth of consumer loans reached 11.1% on an annual basis, and that of housing loans amounted to 17.6%. The observed trend in credit growth was affected by factors both on the demand and on the supply side. Historically low levels of nominal interest rates on loans combined with accelerating inflation and favorable housing market prospects stimulated the demand for credit. The increase in real estate demand was further stimulated by the negative real interest rates on deposits. The results of the Bank Lending Survey, conducted by the BNB, show that the factors that contributed to the easing of credit standards in 2021, after their tightening in 2020, were the significant volume of attracted funds and the low cost of funding, the competition and the high liquidity in the banking sector. At the end of 2021, the annual growth of loans to non-financial corporations did not accelerate significantly and reached 4.6% (3.0% in December 2020), influenced by the subdued investment activity of the private sector. As of February 2022, the growth rate of loans to non-financial corporations accelerated to 6.6% on an annual basis, while that of loans to households accelerated to 13.8%.

In 2021, the significant liquidity in the banking system and the high inflow of attracted funds were the main factors for the continuing decline in interest rates on new⁹ time deposits. The

⁹ The terms "new" deposits and "new" loans refer to the statistical category "new business".

interest rate on new time deposits for the household sector amounted to 0.09%, decreasing by 3 basis points compared to 2020. The interest rate on newly contracted time deposits of non-financial corporations decreased more significantly during the year (by 19 basis points compared to 2020) and reached a negative value of -0.07%. The decline in interest rates continued in early 2022 and as of February the interest rates on new time deposits for households and non-financial corporations amounted to 0.08% and -0.18% respectively. The significant volume of attracted funds and the low cost of funding, the competition and the high liquidity in the banking sector continued to influence the observed slight decline in interest rates on new loans to companies and households. On average for 2021, the interest rate on newly granted loans to non-financial corporations amounted to 2.52% (compared to 2.67% a year earlier), while interest rates on newly granted housing and consumer loans to households reached 2.73% and 8.03% respectively (2.92% and 8.15% a year earlier). As of February 2022, interest rates on new corporate, housing and consumer loans amounted to 2.44%, 2.62% and 7.74% respectively.

In 2021, the banking system in Bulgaria operated in the conditions of a gradual recovery of economic activity against the background of continuing uncertainty arising from the changing epidemic situation globally and in the country. During the year, the BNB continued to apply the macroprudential measures for the capitalization of the full amount of banks' profits, including for 2020, and for the non-distribution of elements of their own capital, formed in previous periods. The individual and aggregate limits for banks' foreign exposures set in March 2020 also remained in force in order to limit credit risk and the risk of concentration in their balance sheets.

In 2021, the downward trend in the amount of non-performing loans and advances and in their share in total loans and advances¹⁰ continued. The banks' activities related to writing off and selling non-performing loans, as well as the growth of the gross loan portfolio contributed to this dynamic. An additional effect came from the private moratorium¹¹ on bank loan payments which allowed for sharp changes in the quality of banks' assets to be avoided as a result of the deterioration in economic activity caused by the restrictive measures imposed to contain the COVID-19 pandemic. Gross non-performing loans and advances in the banking system decreased by 14.2%, amounting to BGN 4.89 billion at the end of the year. The gross amount of all non-performing exposures¹² was BGN 4.90 billion and its share was 3.8% (compared to BGN 5.7 billion and a share of 4.8% as of December 31, 2020). According to the "narrow scope" (applied since June 2020 with EU Regulation¹³), the amount of gross loans and advances in the banking system at the end of 2021 amounted to BGN 82.3 billion and the ratio of non-performing loans calculated on this basis fell to 5.9% (7.4% at the end of 2020). According to the so-called "broad scope"¹⁴ (including "cash balances with central banks and other demand deposits") the total amount of gross loans and advances at the end of 2021 amounted to BGN

¹⁰ The assessment of the state of the banking system is based on data from the supervisory reports on an individual basis at the end of December 2021, received by February 17, 2022 and at the end of December 2020, updated by February 24, 2022.

¹¹ "Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries - financial institutions". At the end of March 2021 the deadline for submission and approval of rescheduling applications expired, and according to the set maximum deferral period - up to 9 months, the deadline of the Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries - financial institutions expired on 31 December 2021.

¹² The exposures are determined on the basis of the broadest definition according to the methodology of the European Banking Authority (EBA), which includes both gross loans and advances, together with cash balances with central banks and other demand deposits, and debt securities other than "held for trading".

¹³ The changes are in line with Commission Implementing Regulation (EU) 2020/429 of 14 February 2020 amending Implementing Regulation (EU) № 680/2014 on the provision of information by the institutions to supervisors. According to the amendments, in contrast to the period June 2015 - March 2020, "cash balances with central banks and other demand deposits" should not be included in the scope of gross loans and advances, but should be reported separately.

¹⁴ The indicator used by EBA for the share of gross non-performing loans and advances is based on a broad definition covering all counterparties on loans and advances, including "central bank cash balances" and "other demand deposits".

107.8 billion. The calculated ratio of non-performing loans based on the "broad scope" decreased to 4.5% at the end of 2021 (6.0% at the end of December 2020). The net value of non-performing loans and advances¹⁵ at the end of December 2021 amounted to BGN 2.5 billion. This amount represents the potential residual credit risk in the balance sheet of the banking system, which remains fully covered by the excess of capital over capital requirements and applicable capital buffers. Compared to the end of 2020, the net value of non-performing loans and advances according to the "narrow scope" decreased by 16.3%, and its ratio to net loans and advances at the end of December 2021 amounted to 3.2% (4.2% at the end of December 2020 d.). According to the "broad scope", the ratio of net non-performing loans and advances at the end of 2021 decreased to 2.4% (3.1% at the end of 2020).

In 2021, the capital position of banks remained stable and the capital indicators of all banks in Bulgaria remained at levels that significantly exceed the regulatory requirements. The application of the measure from January 28, 2021 on the retention of banks' profits for 2020 in the context of the consistently applied conservative prudential policy of the BNB to accumulate and maintain capital buffers was of key importance for the levels of capital indicators. The levels of capital adequacy ratios remained close to those at the end of 2020. As of December 31, 2021, the levels of Common Equity Tier 1 capital ratio, Tier 1 capital ratio and the total capital adequacy ratio amounted to 21.66%, 22.04% and 22.62% respectively (compared to 21.61%, 22.02% and 22.66% at the end of 2020). The profit of the banking system as of December 31, 2021 amounted to BGN 1.4 billion (BGN 693 million for 2020), the main factors for its increase being the higher amount of net income from fees and commissions, the net interest income and net income from financial instruments. The banks' lower costs related to the restructuring and deposit guarantee funds, as well as the lower costs of impairment of financial assets also contributed to the profit increase. The higher amount of the realized financial result of the banking system contributed to the increase of the indicators for return on assets (ROA) and return on equity (ROE). At the end of 2021, the return on assets (ROA) amounted to 1.05% (0.56% as of 31 December 2020) and the return on equity (ROE) increased to 8.57% (4.57% as of 31 December 2020).

The aggregated for the banking system leverage¹⁶ ratio (with a "fully implemented" definition of Tier 1 capital) amounted to 10.50% (against 10.70% at the end of 2020) and shows a high capital coverage of total exposure (formed by banks' assets, off-balance sheet positions, derivatives, securities financing transactions and standard purchases and sales with forthcoming settlement). During the period the total risk exposure increased at a higher rate than that of Tier 1 capital. At the end of December 2021, the reported leverage ratio of all banks in Bulgaria was significantly above the minimum regulatory requirement of 3.0% of Tier 1 capital of total exposure.

As of December 31, 2021, all banks complied with the capital requirements and the specified buffers¹⁷. The excess of capital over the regulatory minimum under Pillar 1 amounted to BGN 10.0 billion, increasing by 5.5% compared to the end of 2020. The capital exceeding the minimum and mandatory capital requirements, as well as the set capital buffers, increased by 5.7%

¹⁵ The net value of non-performing loans and advances is calculated according to the EBA methodology, and their gross amount is reduced by the accumulated impairment. In calculating the share of net non-performing loans and advances, both their net value and that of total loans and advances are used.

¹⁶ The regulatory requirement for leverage ratio (with a "fully implemented" definition of Tier 1 capital) was introduced in accordance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) №575 / 2013 and has been applied since 28 June 2021. The level of 3% is defined according to the value in the Basel III regulatory framework.

¹⁷ More information on the current levels of capital buffers can be found on the BNB website: <http://www.bnb.bg/BankSupervision/BSCapitalBuffers/index.htm>

to BGN 4.8 billion at the end of 2021. The increase in regulatory capital and the decrease in net non-performing exposures during the year provided additional coverage of positions that are a source of potential residual credit risk in banks' balance sheets.

The liquidity of the banking system remained high, with the liquidity coverage ratio (LCR¹⁸) of the banking system amounting to 274.1% at the end of 2021 (278.9% at the end of 2020). In all credit institutions the liquidity coverage ratio significantly exceeded the minimum regulatory requirement of 100%. At the end of December 2021, the aggregate level of the net stable funding¹⁹ ratio (NSFR) for the banking system amounted to 166.0%, with all banks in Bulgaria complying with the minimum regulatory requirement of 100%.

The BNB's activities with regard to the supervision of credit institutions in 2021 were aimed at analysing and assessing the financial condition of the banking system and individual banks in order to identify potential risks and take timely supervisory measures to counter them. In addition, the implementation of the process of synchronization of supervisory practices between the BNB and the Single Supervisory Mechanism (SSM) following the accession of the Republic of Bulgaria to the SSM on October 1, 2020 continued to be a priority.

In 2021, the BNB's macroprudential policy was aimed at monitoring and studying the processes and development of inherent risks affecting the stability of the banking system, as well as at taking measures to preserve its resilience. With decisions of March and June 2021, the BNB Governing Council maintained the level of the countercyclical capital buffer applicable to credit risk exposures in Bulgaria at 0.5%. Maintaining the level of the countercyclical capital buffer was aimed at preserving the capital buffers accumulated in the banking system as they provide the capacity to absorb losses in the event of adverse macroeconomic developments and possible deterioration of banks' loan portfolios. In September 2021, taking into account the acceleration of credit growth, especially in the segment of housing loans, as well as the related preconditions for increasing indebtedness and the accumulation of cyclical risks that may manifest themselves in an increase in the volume of non-performing loans in the event of a potential future decline in economic activity, a decision was taken for an increase of the level of countercyclical capital buffer to 1.0%, effective from 1 October 2022. In December 2021, taking into account the continuing acceleration of credit growth, especially in the segment of housing loans, as well as the levels of real interest rates creating preconditions for an increase in indebtedness, which may affect the ability of borrowers to service their obligations in the event of a potential deterioration of the economic environment, the BNB Governing Council decided to increase the countercyclical capital buffer to 1.5 %, effective from 1 January 2023.

With regard to structural risks, in the 2021 review of the systemic risk buffer, the BNB Governing Council confirmed the 3% level in order to maintain the resilience of banks against the realization of structural risks threatening the stability of Bulgaria's financial system.

In 2021, an annual review of the institutions identified as other systemically important institutions (O-SIIs) and the capital buffer levels for O-SIIs set for them was performed. Eight banks were identified in the annual review. The buffer levels set for them were between 0.5% and 1.0% and came into force on 1 January 2022.

In 2021, the activity of the BNB in the field of the regulatory framework was focused on amendments to the Law on Credit Institutions, which introduced in Bulgaria Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU

¹⁸ The liquidity coverage ratio for the banking system is calculated as the ratio between the liquidity buffer and the net cash outflows.

¹⁹ The regulatory requirement was introduced in accordance with Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) № 575/2013 and has been applied since 28 June 2021.

as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures. The BNB was also participating in the preparation of amendments to the Law on Credit Institutions²⁰, based on which, in accordance with Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on prudential requirements for investment intermediaries and amending Regulations (EU) № 1093/2010, (EU) № 575/2013, (EU) № 600/2014 and (EU) № 806/2014, the definition of "credit institution" is extended to include investment intermediaries which are of systemic importance for the financial system of the European Union.

In addition, ordinances amending the following BNB Ordinances were adopted during the year: №2 of 2006 on licenses, approvals and permissions granted by the BNB under the Law on Credit Institutions, №4 of 21 December 2010 on the requirements for remunerations in banks, №7 of 2014 on the organization and risk management of banks and №20 of 2019 on the issuance of approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements for performing their duties. In addition, a new Ordinance № 8 on Capital Buffers, the Combined Buffer Requirement, Restrictions on Distributions and the Guidance on Additional Own Funds, which repeals Ordinance № 8 of the BNB of 2014, was adopted.

According to the forecast of the Ministry of Finance, the demand for credit in 2022 will slow down compared to 2021, in line with the expected deterioration of the economic situation and increased uncertainty due to the war in Ukraine. Claims on Receivables from enterprises at the end of 2022 will slow down to 4.6% (compared to 6.1% at the end of 2021) due to the negative effects on investment activity, and those of households - up to 9.9% yoy. In total, the growth of private sector claims receivables in 2022 is expected to be around 6.7% yoy. Factors that will influence the process of slowing down the growth of credit to households will be the expected lower growth of consumption and compensation of employees' slowdown in the growth of consumption and compensation of employees in 2022.

Credit to households will continue to decelerate towards the end of the forecasting period but will remain at elevated levels in line with the expected dynamics in compensation of employees. Claims on households will expand by 8.9% at the end of 2023 and by 7.7% in 2025.

It is envisaged that in the period 2023–2025, credit to non-financial corporations will gradually accelerate in line with the expected recovery of private investment, supported by the National Recovery and Resilience Plan (NRRP). The growth of total receivables from enterprises is expected to be 5% at the end of 2023. In 2024, the total annual growth of receivables from enterprises will be 5.3%, and at the end of 2025 - 5.7%. Total claims on the private sector will increase by 6.6% in 2023, and by the end of 2025 their growth rate will slow down slightly to 6.5% yoy.

²⁰ As part of the draft law amending the Law on Markets in Financial Instruments submitted to the National Assembly.

3. GOVERNMENT BALANCE AND DEBT

3.1 Policy strategy

Our country will strive to adhere to the prudent fiscal policy pursued in recent years, despite the increased economic uncertainty caused by the global COVID-19 pandemic, the conflict in Ukraine and the inability to predict and assess the short-term and long-term effects of it.

From the point of view of the sustainability of public finances during the forecast period, the setting of realistic targets for the main budgetary parameters will adhere to the established fiscal rules and restrictions set in the Public Finance Act (PFA) and those arising from the requirements of Directive 2011/85 / EU Council of 8 November 2011 on requirements for budgetary frameworks of the Member States (OB, L 306/41 of 23 November 2011) and Council Regulation (EC) № 1466/1997 of 7 July 1997 on strengthening the supervision of the state of the budget and the supervision and coordination of economic policies.

The projected easing of fiscal policy in recent years, imposed by economic, health, social and external challenges, is expected to continue this year. In the projected medium-term period, steps for fiscal consolidation are set, and thus the deficit of the General Government sector will reach from 2.9% of GDP in 2023 to 2.4% of GDP in 2025.

In the period 2022–2025, the forecasts for the dynamics of the debt indicator are determined by the continued significant contribution of the Central Government subsector debt (with a share of 98% at the end of 2021), resp. of government debt, to the General Government sector debt. On this basis, the government debt management policy continues to be determinative for the current position and development dynamics of consolidated liabilities.

The government debt management for the period under review will be aimed at fulfilling the strategic goal of providing the necessary resources for refinancing the outstanding debt, financing the planned levels of the state budget deficit and ensuring the statutory levels of the fiscal reserve. Taking into account the risks of the dynamic macroeconomic environment due to the continuing spread of COVID-19 and the conflict in Ukraine, efforts will be focused on securing market-oriented financing by pursuing a flexible and active issuance policy and diversifying domestic and external debt sources, in compliance with the legally regulated debt ceilings.

In the medium term, for the realization of the debt financing of the state budget, using mainly issues of government securities, both on the local debt market and on the international markets, is planned. Determining the structure of new debt is expected to take into account the prevailing market conditions, the investment base and the debt outstanding profile, as well as the ability to reduce the refinancing risk and minimize liquidity risks to the state budget.

In addition to the market-oriented financing of the state budget, the possibility of agreement of new external government debt through loans under financial instruments from the EU and/or international financial institutions is envisaged. With regard to the financing of new investment projects and specific programmes with government and government-guaranteed loans, the adopted conservative approach will continue to be applied.

3.2 Medium-term objectives

Fiscal policy in the medium term is aimed at maintaining the sustainability and predictability of the budgetary framework. In this period, the deficit of the General Government sector is expected to be consolidated, as the negative budget balance for 2022 is gradually decreasing in 2023-2025. In 2022, the budget balance is expected to be negative at 5.3% of GDP, and the forecast for the coming years is for a deficit of the sector of 2.9% of GDP in 2023, 2.8% of GDP for 2024 and 2.4% of GDP for 2025. If we take into account the impact of temporary revenue and expenditure measures related to preventing the spread of COVID-19 in the country and limiting the effects of the crisis, the deficit of the General Government sector for 2022 amounts to 3.2%, and for 2023 - to 2.7% of GDP.

Part of the general government deficit, which is reported on an accrual basis, is due to a time shift in the accounting of the expenditures for supplies of military equipment paid in previous years on a cash basis. According to the European System of Accounts 2010 (ESA 2010) methodology, government expenditure on military equipment is reported during the year of delivery. Therefore, the investment costs for the acquisition of a new type of combat aircraft, made in 2019 and 2020 in the amount of BGN 2,197.7 million, have an impact on the cost estimates for 2023-2025, which, together with the shifted reporting of other expenditures on military equipment, worsen the deficit by 0.2% of GDP in 2023, 0.44% of GDP in 2024 and 0.87% of GDP in 2025, respectively. This impact is temporary and does not lead to permanent (structural) deterioration of the budgetary position and to the violation of fiscal sustainability in the long run.

The main contribution to the reduction of the budget deficit in the medium term have the expenditures, which are expected to decrease by 4.7 percentage points in 2025 compared to their level in 2022 (reaching 38.6% of GDP). In terms of revenue, the ratio of total revenues to GDP will fall to 36.2% of GDP in 2025, compared to 38% at the beginning of the period, due to the outpacing GDP growth.

In the period 2023-2025, a nominal increase in all revenues is expected, which is due to an increase in revenues in the main elements, with the largest increase in tax and insurance revenues from direct taxes and social security contributions, which is a result from the increase in household incomes, the possibility to choose insurance and the increase in insurance length of service and retirement age. In the case of non-tax revenues, a more significant increase is observed in the capital transfers received, due to the increase in the revenues from the EU under the Recovery and Resilience Plan.

The largest contribution to the increase in the total expenditures of the General Government sector have the capital expenditures for gross fixed capital formation and social transfers other than those in kind, which cover pension expenditures, as well as social security benefits and allowances. Capital expenditures for gross fixed capital formation increase significantly as a share of GDP from 4.8% in 2022 to 5.4% in 2023 and remain at 5.3% of GDP for 2024 and 2025 respectively. The change in the indicator is related to the construction of the Hemus highway and other priority road infrastructure projects, the supply of military equipment, as well as with the acceleration of the pace of absorption of European funds and the Recovery and Resilience Plan.

Significant for the increase in social transfers are the measures and policies taken in previous years, which continue to have a fiscal impact during the forecast period, such as: the increase in the hourly rate for the work of personal assistants; the increase of the poverty line, as well as the recalculation of the pensions with additional length of service acquired after retirement and of those with reduced individual coefficient; the increase in allowances and benefits for households, mainly due to the rise of the poverty line.

3.3 Actual balances and updated budgetary plans for the current year

3.3.1 Update of the 2021 budget framework

Fiscal developments in 2021 were dominated by a number of difficult-to-predict factors. On the one hand, with the approval of the COVID-19 vaccines at the end of 2020, the medical risks associated with the pandemic were expected to be largely managed and, therefore, at the planning stage, allocated resources to provide for measures to combat the pandemic were foreseen with a shorter horizon of implementation. On the other hand, added to the challenges of the spread of COVID-19 and the negative effects of the pandemic on the economy and vulnerable groups was a new factor with a strong impact on the economy - rising energy prices and the unprecedented jump in electricity prices in the region and across Europe, which began to emerge after July and gained momentum in the last quarter of 2021. In addition, the year was characterized by political instability, leading to three consecutive parliamentary elections and the formation of a new regular government only at the end of the year.

As was expected, the first few months of the year passed under the new wave of the pandemic and the need to impose restrictive measures aimed at controlling the spread of the infection and avoiding overloading the healthcare system. This necessitated that the funds provided for the implementation of measures to combat the pandemic in the 2021 State Budget Act (SBA) started being spent since the beginning of the year, which, together with some expenditures related to infrastructure projects and expenditures on Ministry of Defence projects, led to a significant increase in expenditures in the first quarter of the year. A significant contribution to the reported growth of expenditures for the first quarter was made by the expenditures for pensions, which, on the one hand, were increased due to the payment of a supplement to the pensions of all pensioners in implementation of the measure to support vulnerable groups in the COVID-19 pandemic, and on the other - due to the increase in the minimum and maximum pension from January 1, 2021 with the 2021 SBA. However, the parameters of revenue implementation outlined the continuation of the trend of more intensive recovery that began in the second half of 2020, which kept the budget balance relatively stable until the first half of the year, when a minimum excess of revenues over CFP expenditures of 0.1 percent of projected GDP on cash base was reported.

In July, an analysis was made regarding the possibilities for extending and supplementing the current measures to reduce the negative effects of the pandemic on the economy, protect vulnerable groups of the society and support frontline staff in combating the pandemic, in the context of the increasing risks of a new strong wave of the pandemic in the autumn. Taking into account the almost full exhaustion of the planned resources set in the SBA for 2021 to combat the pandemic by the first half of the year and the low level of vaccination coverage in the country, the need to provide additional resources to finance such measures by the end of the year arose. The review of the parameters of the budget implementation for the first half of the year and the improved expectations for the most of the macroeconomic indicators gave grounds to expect that the forecasted overperformance of the revenues can provide adequate resources to address the risks, without further deterioration of the budget position. On this basis, a draft proposal for amendment of the SBA for 2021 was passed to the Parliament, based on the balance between the need to provide additional funds for priority and urgent policies and the capabilities of the revenue side to provide their financing. The updated estimates were finally approved by the National Assembly in September and provided additional resources for the extension of the most existing measures to combat the pandemic and supplement them with new ones by the end of 2021, fully financed by the expected higher revenue. The updated estimates envisaged that the CFP deficit for 2021 would not exceed BGN 4.6 billion (3.6 percent of the projected GDP at the time of the adoption of the law), which was an improvement of BGN 0.3 billion compared to the initial estimates to the SBA for 2021 from the autumn of 2020.

When preparing the estimates under the updated SBA for 2021 in July and early August, the Ministry of Finance still did not have an analysis of changes in trends in electricity prices, therefore no specific mechanisms were envisaged in the budget update to compensate the business. The sudden rise in electricity prices affected all consumers outside the regulated market. The beginning of the shock rise in prices began in mid-July, strengthened in August and September and continued in the remaining months until the end of the year. High electricity prices came as a sudden shock to businesses and created risks of stifling growth - part of producers took measures to shrink production and reduce costs in order to maintain their competitive position on the market. In this regard, the caretaker government and the regular government, which took office in December, took immediate action to support business by approving a programme to compensate non-regulated market customers of electricity and a programme to compensate transmission and distribution system operators for purchase of quantities of electricity needed for technological costs. The total amount of expenditures for 2021, provided for the implementation of the said programmes under the budget of the Ministry of Energy, was BGN 0.9 billion, which were provided at the expense of additional revenues and restructuring of the approved expenditures for 2021. It was envisaged that programmes will continue to be applied in the first months of 2022.

3.3.2 Budget developments in 2021

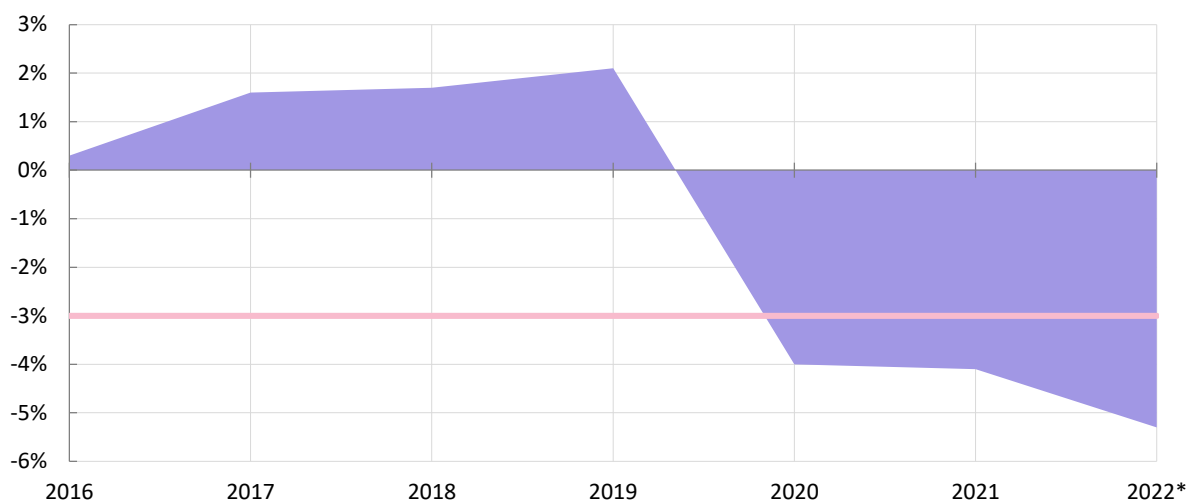
The global COVID-19 pandemic, which began in 2020, continued to put significant pressure on the budgetary position in 2021. The expenditures to combat the pandemic and support the affected sectors of the economy and vulnerable groups were implemented year-round, so they significantly exceeded those reported for the previous 2020, and accordingly put pressure on the budgetary position from the expenditure side. The new challenges related to the rise in the electricity and energy prices have further intensified this pressure, which was strongest in the last quarter of 2021. Despite the large fiscal effect of these adverse developments, Bulgaria managed to maintain the level of the General Government sector's balance in 2021 at a level close to the previous year, with a slight increase of the deficit by 0.1 percentage points up to 4.1% of GDP. At the same time, compared to the target set in the previous Convergence Programme – namely, deficit of 5.6%, the data from the April 2022 Notification Tables for Deficit and Debt of Bulgaria reported an improvement in the budget balance by 1.5 percentage points driven by the more intensive recovery in terms of revenues, while on the expenditure side there was some delay in the investment spending due to the delay of the start of the projects under the RRF.

Revenues as a relative share in GDP reached 39.0% in 2021, which is an increase of 0.9 percentage points compared to the level in 2020. The growth of revenues is mostly due to the growth of taxes on production and imports, current taxes on income, wealth, etc., and capital transfers received, while revenues from sales and other current revenues are observed reduction.

Revenues from taxes on production and imports, current taxes on income, wealth, etc. and the received capital transfers increase both nominally and as a share of GDP – by 2.1 percentage points compared to 2020. Nominal growth is also observed in social security revenues, while proceeds as a share of GDP increase by 0.1 percentage points

Taxes on production and imports recorded the largest growth both in nominal terms - by over BGN 3.2 billion and as a percentage of GDP - by 1 percentage point. An increase in revenues is observed for all taxes in the group, the most significant being VAT. This reflects the strong recovery in consumption in 2021, which was driven by a rebound in spending after the decrease in 2020. The significant increase in consumption is largely due to the restored interest in consumption after the initial shock of the COVID-19 pandemic and the imposed restrictions. The registered increase in the income of a large number of employees and retirees also contributes to the increased consumption and related tax revenues.

Graph 3-1. General Government net lending/net borrowing B9 (ESA 2010, % of GDP)



* Forecast

Source: Eurostat, Ministry of Finance

In the current taxes on income, wealth, etc. there is an increase in revenues – by 0.6 percentage points, which in nominal terms is over BGN 1.5 billion. The main reasons for the increase in personal income tax are the registered growth of wages as in the public sector (the last step of planned wage increases in the school education sector and the overall increase in public sector wages), as well as in many areas of the private sector, as well as government measures that have helped preserve the wages of some workers in the sectors most affected by the crisis, which limited the growth of unemployment. It should also be noted the growth in taxes on wealth (property taxes), which reflects the growing number of transactions for the acquisition of residential property and others. Relative to GDP, capital tax revenues increased by 0.1 percentage points compared to the previous year.

Proceeds from social and health insurance contributions increased nominally by over BGN 1.3 billion, while as a share of GDP they increased by 0.1 percentage points compared to 2020. Among factors contributing to this were income growth; the successful implementation of measures to support people with limited opportunities for labor during pandemic that has kept unemployment low; some administrative measures such as the increase of the minimum wage, the minimum insurance thresholds, etc.

The received capital transfers increased by 0.6 percentage points of GDP, which is nominally over BGN 0.8 billion. This reflects the increased amount of funds paid and reimbursed by the European Commission (EC) in 2021 under EU programmes and funds, which is related to the end of the 2014 –2021 programming period.

The total General Government sector expenditures in 2021 amount to 43.1% of GDP, which is 1.0 percentage points higher than the level reported in 2020. An increase as a share of GDP compared to the 2020 level is reported for most expenditure elements. The most significant increases in values are reported in the costs of compensation of employees, social transfers and subsidies, while in the costs of gross fixed capital formation and other current and capital expenditures there is a decrease.

Expenses for the compensation of employees increased by 0.9 percentage points as a share of GDP compared to 2020. The main reason for this is the increase in public sector wages, incl. the increase in the funds for the staff in the budget sector by 10 percent, the final step of the increase (from January 1, 2021) of the salaries of the pedagogical staff in the secondary schools, which doubles the salary according to the level from 2017, the year-round payment of additional

amounts to the salaries of doctors and medical professionals on the first line in the fight against the pandemic of COVID-19 and others.

Maintenance costs also increased nominally - by nearly BGN 1 billion, and as a relative share in GDP - by 0.2 percentage points, the main reason being the additional funds for the purchase of medicines, vaccines, disinfectants, personal protective equipment, consumer goods, medical devices and others related to the COVID-19 pandemic.

The amount of social transfers as a relative share of GDP increased by 0.8 percentage points, which in nominal terms is nearly BGN 3 billion. For social transfers in kind, which reflect payments to health care providers, the nominal increase is over BGN 460 million, and the share of spent funds in GDP remains almost unchanged compared to 2020 - an increase of 0.1 percentage points. This reflects the tense coronavirus situation throughout 2021, when the healthcare system continued its efforts to tackle the pandemic and faced a series of new waves of infection. In addition to the increase in costs, specifically related to the treatment of patients with coronavirus infection and those with concomitant complications, there was also an increase in the prices of some of the clinical pathways. The other category of social transfers, other than in kind, reflects the social payments made for pensions, benefits and allowances to households, and their share in GDP increased by 0.7 percentage points compared to 2020. This includes the increase in pension expenditures due to the updating of all pensions by 5.0% from July 1, 2021, the increase from January 1, 2021 of the minimum pension from BGN 250 to BGN 300 and of the maximum from BGN 1,200 to BGN 1,440, the payment of a monthly supplement to all pensions of BGN 50 in the period January-September and BGN 120 in the period October-December 2021, etc. Expenditures on social transfers and household benefits include an increase in the amount of temporary incapacity benefits due to general illness, care for a sick family member and quarantine; childcare benefits; social assistance and family benefits for children.

Subsidies increased by 0.4 percentage points compared to the previous year, as the main reason for this are the funds paid in the field of energy, as well as the year-round payment of funds for maintaining employment under the so-called measure "60/40" and its modifications.

Capital expenditures decreased both in gross fixed capital formation – by 0.5 percentage points, and in other elements of capital expenditures – by 0.6 percentage points. The nominal decrease in capital expenditures is about BGN 0.8 billion. The decrease in capital expenditures is determined by the changes in the economic situation in the country and as a result the changed priorities in the budget policy during the year. The emerging need for additional funds to combat the COVID-19 pandemic and to compensate businesses for rising electricity prices has led to a restructuring of spending to areas where there is an urgent need for additional costs. Some of the investment projects were delayed due to the need to analyse the extent to which the relevant legislation regarding the award of public procurements has been complied with, respectively whether the contracts with the selected contractors and others have been legally concluded. At the same time, the delay in approving the Recovery and Resilience Plan and the still ongoing process of negotiating new programmes and projects from the new programming period 2021-2027 also have an impact on the reduction of capital expenditures.

In 2021, interest expenses remained unchanged compared to 2020 in terms of GDP – 0.5%.

3.3.3 Measures to combat the COVID-19 pandemic in 2021

Based on the data on the amount of funds for 2021 allocated for measures related to the efforts to limit and control the pandemic of COVID-19, as well as social and economic measures to reduce the impact on the population and business, it can be summarized that unprecedented resources have been mobilized under the national budget (including national co-financing under

EU programmes and funds). NSI data for 2021 show that in the course of the emergency epidemic situation, which operated throughout the year without interruption, the measures on revenues and expenditures of the national budget to implement measures and fiscal incentives to control the COVID-19 pandemic and its consequences amount to about BGN 6.1 billion, which represents 4.6% of GDP. The resource for 2021 significantly exceeds that for 2020, when the incurred expenditures and fiscal incentives for measures against the pandemic amounted to BGN 3.8 billion (3.2% of GDP).

— Revenue measures

In the current emergency epidemic situation in connection with the spread of COVID-19, throughout 2021 the implementation of the measures adopted in the previous year related to the application of a reduced VAT rate on certain goods and services from 20% to 9 %, exemption from customs duties and VAT on imports of medical goods and increase in the amount of tax relief for children (Art. 22c and Art. 22d of the Personal Income Tax Act (PITA)) for income earned in 2021. With changes in the VAT Act, a zero-rate tax was adopted on the supply of vaccines against COVID-19 and services directly related to these vaccines, as well as on medical devices for in vitro diagnostics of COVID-19 and services directly related to these products on the implementation of the territory of the country. This tax treatment also applies to intra-Community acquisitions with a place of performance in the territory of the country of those goods. The reliefs are temporary and will apply until December 31, 2022.

According to preliminary data of the revenue agencies, the effect of the measures in the past 2021 is estimated at BGN 0.5 billion less tax revenues (0.4% of GDP).

— Expenditure measures

According to preliminary data, the total amount of expenditures amounted to BGN 5.6 billion (4.2% of GDP). The main categories of expenditure measures taken to limit the negative socio-economic consequences of the pandemic and to combat the spread and treatment of COVID-19 patients in 2021 are as follows:

Measures to help households and socially vulnerable groups:

- With the largest share is the cost of measures approved by the government as part of the socio-economic package in response to the epidemic crisis to support retirees, who are part of the most vulnerable to the spread of COVID-19 groups and include the payment of additional amounts to the pensions of all pensioners. Pursuant to paragraph 6, para. 1 and 2 of the transitional and final provisions of the Social Security Budget Act for 2021, CMD № 84 of 11 March 2021, CMD № 168 of 22 April 2021, CMD № 192 of 27 May 2021, CMD № 204 of 23 June 2021 and CMD № 242 of 22 July 2021, for the period January – December additional amounts were paid to the pensions of all pensioners, regardless of the amount of the received pension – BGN 50 for the months from January to September and BGN 120 for each of the months October, November and December 2021. Also, pensioners with a completed vaccination course or a booster dose against COVID-19 are paid the amount of BGN 75. The total amount of funds under these measures is BGN 1,747 million.
- Under the measure “Increase of the expenses for short-term benefits and allowances” from 01.01 to 31.12.2021, BGN 278 million were paid for cash benefits for unemployment, which arose due to the larger number of registered unemployed, as well as for payment of cash benefits for temporary incapacity for work of persons infected with COVID-19 and of persons quarantined due to close contact with a person infected with COVID-19.

- BGN 240 million were paid under the measure “Implementation of employment programmes and training measures to support the unemployed and employers”.
- Funds in the amount of BGN 112 million were used to provide vaccines and medicinal products in the fight against the COVID-19 pandemic.
- To support families with children under 14 years of age, whose parents cannot work remotely from home and are not able to use paid leave, the Social Assistance Agency has paid monthly targeted benefits totalling 68 million BGN.
- Support for children and families under the Family Allowances for Children Act – BGN 3 million.
- One-time aid for the use of tourist services for domestic tourism at a unit value of BGN 210 for persons directly involved in the treatment, prevention of the spread and overcoming the consequences of COVID-19 – BGN 1 million.
- For one-time financial support for food products – BGN 48 million.
- Providing opportunities for distance learning in the educational system – BGN 56 million.

Business support measures – the most important are:

- The largest share belongs to the expenses incurred under the measure "60/40" in aid of employers to maintain the employment of their employees in the amount of BGN 823 million.
- Under the programme "Support through working capital for small and medium enterprises affected by temporary anti-epidemic measures through the implementation of a support scheme by the National Revenue Agency (NRA)" under OP "Innovation and Competitiveness" 2014-2020 – BGN 28 million.
- Under the programme "Support to small and medium-sized enterprises engaged in bus transport to overcome the economic consequences of the COVID-19 pandemic" – BGN 3 million.
- Under the programme "Support for enterprises registered under the Tourism Act as tour operators or travel agents to overcome the economic consequences of COVID-19", funded by OP "Innovation and Competitiveness" 2014-2020 – BGN 1 million.
- BGN 89 million were provided for financial support for Bulgarian artists and performers directly affected by the cessation of mass events on the territory of the country, including cultural and entertainment events.
- BGN 73 million were paid to support the farmers affected by the negative effects of the pandemic.
- Subsidies for tour operators using air carriers with a valid operating license for charter flights to the Republic of Bulgaria for tourism purposes – BGN 61 million.
- Subsidies for enterprises that are affected by a decline in turnover in 2020 of at least 30% compared to 2019 – BGN 30 million.
- Aid for bus carriers that have a license for passenger transport – BGN 40 million.
- State subsidy for tour operators and travel agents – BGN 36 million.

Measures for the support of government bodies, charged with activities to control the pandemic and the consequences of COVID-19 – the most significant are:

- Through the National Health Insurance Fund (NHIF) budget funds have been provided for the providers of medical care, dental care and medical-diagnostic activities for work under adverse conditions in connection with the declared epidemic situation and treatment of COVID-19 – 726 million BGN.
- The costs for support of the personnel on the first line, directly engaged in activities for prevention of the spread of COVID-19, amount to BGN 714 million.
- Funds in the form of monthly supplements to the salaries of doctors (BGN 600), specialists in the professional field of Health Care (BGN 360) and nurses (BGN 120). The funds from the state budget source amount to BGN 198 million.
- Costs in connection with the implementation of the National Vaccination Plan against COVID-19 – BGN 6 million.
- To provide personal protective equipment (masks, gloves, socks, protective clothing, goggles) for the needs of the state administration and medical institutions, as well as disinfectants, disinfection of work premises, remote thermometers, consumables, reagents, medicines, PCR tests, etc. BGN 101 million have been spent.
- Costs for protective equipment (masks, gloves, etc.), disinfectants (personal and for the premises) in schools and for providing tests for COVID-19 with gentle rapid antigen tests of students from I to XII grade – BGN 55 million.
- Capital transfers and expenses to medical institutions – BGN 18 million.
- Supplements to the remuneration of the staff in the hospital establishments – BGN 1 million.

As of April 1, 2022, the emergency epidemic situation on the territory of Bulgaria was terminated due to the low number of infected and the reduced pressure on the healthcare system. This decision also terminated the anti-epidemic restrictions applied to businesses, as well as some of the socio-economic measures to reduce the negative consequences of the pandemic. The government plans to continue the operation of some of the measures of the greatest importance for the population and business until the middle of 2022 (including programmes for maintaining employment, supplements to the income of pensioners, assistance to individuals, engagement of the first line in the fight against the pandemic) after which they are to be stopped. In the second half of 2022, only direct expenditures for the healthcare sector will continue to be made for the purchase of vaccines, medicines and consumables to limit the spread and treatment of COVID-19 and others.

3.3.4 Budget highlights for 2022

The General Escape Clause of the Stability and Growth Pact, activated by the European Commission in 2020, will continue to be in force in 2022, given the still significant uncertainty regarding the development of the pandemic. Taking into account the state of the economy and the current development of the pandemic in the country, the government plans to widen the deficit to 5.3% of GDP in 2022, then it is projected gradually to shrink to 2.5% of GDP in 2025. It should be noted that the baseline scenario of the budget for 2022 does not reflect the new policies that the government intends to pursue with the forthcoming adoption of new coalition government programme. The budgetary effects of these policies are expected to be included in the fiscal framework later this year with a draft amendment of the ABL and in the medium term in the updated medium-term forecast, which will be published in the autumn. At present, an analysis of priorities and policies in the particular sectors are being made. For this

reason, when the draft budget for 2022 was submitted in February, the government announced that an amendment of the budget for 2022 will be prepared and submitted at the next stage, in which the priority policies will be linked in the fiscal framework for the year.

The baseline scenario set in the SBA for 2022 approved by the National Assembly envisages a gradual normalization of the pandemic situation in Bulgaria by mid-2022, after which the need to implement the largest part of the restrictions will be phased out, while the business support measures and vulnerable groups support measures will be gradually diminishing. In this regard, it is important to note that the emergency epidemic situation in the country has already ended, as of April 1, 2022, which terminated the main restrictions on business imposed by the pandemic. This development largely corresponds to the scenario set in the SBA for 2022, assuming the maintenance of low levels of virus spread in the third and fourth quarters of the year.

Successful pandemic management in 2022 will allow the focus of policies to shift to economic growth with a focus on public investment, innovation, growth and overall economic progress. Following this strategy, the SBA for 2022 provides for a significant increase in the expenditure for gross fixed capital formation, which in the short term leads to an increase in the planned deficit, but the expected effects of the investment expenditures multiplier will significantly exceed the temporary deterioration of the budget balance. The focus of this policy is the creation of conditions for achieving sustainable integrated development of regions and municipalities in the country, supporting the economic and social development of cross-border regions and reducing regional disparities by improving infrastructure in border areas, promoting cooperation between the regions, as well as the promotion of joint cross-border cooperation and balanced territorial development by strengthening the network of cities-centers, improving the connectivity in the regions and the quality of the environment in the settlements. An important role in achieving these goals is played by transport policy, which is aimed at improving connectivity through the development of basic transport infrastructure, improving the quality of transport services offered and sustainable development of transport.

On the other hand, to the negative effects of the pandemic on the economy after the second half of 2021 were added the effects of the significant increase in electricity prices, which is still in place in early 2022. In this regard, the programmes for compensation of non-regulated consumers²¹ of electricity and natural gas, implemented in the last quarter of 2021, will be extended by the end of April 2022. The extension of the programmes is within the approved expenditure ceilings under the SBA for 2022.

With the outbreak of the conflict in Ukraine at the end of February 2022, shocks in the markets of energy, basic raw materials, metals, etc. were added to the above-mentioned increase in the price of electricity. Rising prices and disrupted supply chains are a serious problem for both producers and consumers and pose a serious threat to the ongoing economic recovery following the COVID-19 pandemic. To these developments should be added the humanitarian aspect of the refugee flow crisis, which also requires adequate government resources. Taking into account the risks arising from the outbreak of war in Ukraine and the direct and indirect budgetary effects of the channels through which the crisis is affecting the economy and the fiscal system, in the fiscal framework for the upcoming proposal for draft amended SBA for 2022 an updated scenario will be included reflecting the changes in the main macroeconomic indicators and providing the appropriate resources to minimize the negative consequences for the economy.

The next section examines **the main priorities of the revenue policy and the main expenditure areas** set out in the SBA for 2022.

²¹ According to the national legislation the electricity for households' consumers is provided under the regulated market and the non-households consumers are obliged to buy electricity on the free electricity market.

Revenue policy has continued to adhere to the established principles and guidelines in recent years, with the main objectives again aimed at maintaining economic growth, stimulating labour supply and demand, improving the business environment, combating tax abuse and increasing fiscal sustainability in the long term. The main priorities related to improving revenue collection, tackling the shadow economy and reducing administrative burdens and costs for businesses and citizens remain. The envisaged measures are aimed at ensuring the necessary financial resources for the implementation of government spending policies.

— **Revenue measures:**

- Maintaining low corporate and personal income tax rates, as well as the basic VAT rate, as an important incentive for investment, consumption, economic growth and employment. Maintaining tax incentives for certain sectors and activities.
- The amounts and ratios of insurer/insured of the insurance contributions for the state social insurance funds (SSI) and of the health insurance contribution remain unchanged in 2022 compared to 2021.
- The measures related to the change of the income policy have the greatest budgetary effect – increase of the minimum wage from BGN 650 to BGN 710 from April 1, 2022, increase of the minimum insurance thresholds and of the minimum insurance incomes of the self-insured persons and the minimum insurance income of farmers and tobacco producers, increase of the maximum insurance income from BGN 3,000 to BGN 3,400 as of April 1, 2022. These measures lead to additional income from social security contributions in the amount of BGN 267.4 million (0.18% of the projected GDP) and from health insurance contributions in the amount of BGN 102.6 million (0.07% of the projected GDP).
- The various measures taken in the areas of tax and social security policies have different effects on PIT revenues. The increase in the minimum wage and the minimum insurance thresholds and incomes leads to an increase in PIT revenues. In the opposite direction is the impact of the increase in the maximum insurance income and the abolition of the tax on interest income from bank accounts acquired by resident natural persons. The net effect of these measures on PIT revenues is in a positive direction and is estimated at BGN 4.8 million.
- The reduction of the tax rate on expenses in kind leads to a decrease in tax revenues by BGN 11.0 million (0.01% of the projected GDP).
- In 2022 the expected additional social security contributions from a change in the choice of insurance only in the first pillar of the pension system (from a universal pension fund to a state social security fund) have a total additional positive effect of BGN 27.8 million (0.02% of projected GDP).
- The additional revenues related to the operation of the toll system in the country have a significant positive effect. In 2022, it is planned to expand the scope of the national road network, for which tolls are paid from trucks, as well as to update the tariff for distance travelled. The amount of the expected additional revenues is BGN 290.0 million (0.20% of the projected GDP).
- From April 1, 2022, as a social measure to support families with children attending kindergarten or nursery, is the abolition of fees for the use of kindergartens and nurseries. The decrease in fee revenues was BGN 35.6 million (0.02% of the projected GDP).

The parameters of the expenditure policies for 2021 are in line with the possibilities of the budget for financing state activities, the prospects for the development of public spheres, the

economic dimensions of the COVID-19 pandemic, accelerating economic growth and the need to provide resources to reduce the pressure of high electricity prices on the economy.

– Income policy

From April 1, 2022, the minimum wage (MW) for the country will increase from BGN 650 to BGN 710, which is expected to increase personnel costs by BGN 136.0 million (0.09% of projected GDP).

In 2022, an additional BGN 239.5 million is provided for the implementation of the policy for increasing the salaries of pedagogical specialists to reach an average salary in the field of up to not less than 125 percent of the average salary for the country (0.16% of projected GDP).

The indexation of the basic and additional remunerations of the employees in the judiciary is set, which are determined according to the mechanisms outlined in the Judiciary Act. The effect of this measure is an increase in the planned salary expenditures by BGN 95.0 million (0.06% of the projected GDP).

– Measures concerning pensions, social benefits and allowances, and social assistance:

In the area of pension policy, expenditure is affected by the following measures:

- The year-round payment of the increased as of July 1, 2021 by 5% pensions for labour activity, the social old-age pension, as well as the pensions and supplements related to its amount – BGN 280.0 million additional expenses (0.19% of projected GDP).
- Increase of the minimum amount of the old-age pension from BGN 300 to BGN 370, as of December 25, 2021 – the expected effect of BGN 775.0 million additional expenses during the year (0.53% of the projected GDP).
- The increase in the accrual rate in the pension formula from 1.2 per cent to 1.35 per cent has a total budget effect of BGN 760.0 million for 2022 (0.52% of the projected GDP).
- Increase of the maximum amount of received one or more pensions from BGN 1,440 to BGN 1,500, as of December 25, 2021, is expected to have an effect on expenditures of BGN 30.5 million (0.02% of projected GDP).
- The recalculation of the individual coefficient, when the person is also insured in a universal pension fund (so-called reduction), according to the new regulations and the application of a new reduction, if this is more favourable for the pensioner, is expected to lead to expenditure growth by BGN 49.5 million (0.03% of projected GDP).
- The new calculation of the individual coefficient for pensions granted after 31 August 2021 is expected to increase expenditures by BGN 35.0 million (0.02% of projected GDP).
- The increase in the amount of the social pension for old age from BGN 148.71 to BGN 170, as of 25 December 2021, and the amount of the social disability pension for persons with permanently reduced working capacity / type and degree of disability have a general effect of an increase in expenditures of BGN 56.0 million (0.04% of the projected GDP).
- Annual update of pensions by 6.1% from 1 July 2022, increase by the same percentage of the minimum amount of pension for old age and the amount of social pension for old age, as well as the related minimum amounts of pensions and supplements – BGN 416.9 million additionally (0.28% of the projected GDP).
- The change in the conditions for retirement, incl. increase of the required retirement age and length of service for those working under the conditions of the third category of work

and the minimum retirement age for persons working in the field of security and those working in the conditions of the first and second categories of work who do not meet the conditions for retirement from an occupational pension fund. The financial effect of the change in the retirement conditions is estimated at about BGN 30.0 million reduction in pension expenditures (0.02% of the projected GDP).

- The lower volume of pension lump sums paid in the event of an emergency epidemic in connection with the spread of COVID-19 and the support of the most vulnerable groups in society, including retirees, will reduce pension costs by 846.8 million BGN (0.57% of the projected GDP).
- In April 2022, all pensioners, who are one of the most vulnerable social groups in society and whose incomes are most affected by the increase in the prices of basic consumer goods, will be provided with a one-time allowance in the amount of at BGN 70 per person. The total amount that will increase expenditures amounts by BGN 142.9 million (0.10% of the projected GDP).
- The main features of the policy in the field of social benefits and benefits paid by the state social insurance in 2022 continue to be the sustainability of the assistance, predictability for the affected persons and steps towards expanding the coverage of social risks. This means maintaining the period, income and other criteria for granting the main types of benefits and allowances. The increase of the minimum daily amount of the unemployment benefit from BGN 12 to BGN 15 from April 1, 2022 and of the maximum daily amount from BGN 74.29 to BGN 85.71 from the same date will have an effect of BGN 38.8 million (0.03% of projected GDP). Increase from April 1, 2022 of the maximum amount of guaranteed receivables of employees in the event of insolvency of the employer from BGN 1,625 to BGN 1,775. The increase in the amount of the cash benefit for raising a child up to 2 years (from BGN 380 to BGN 650, as of October 1, 2021, and from BGN 650 to BGN 710, as of April 1, 2022) is projected to increase expenditures by BGN 119.2 million (0.08% of projected GDP).
- Due to the abatement of the COVID-19 epidemic and the removal of a number of restrictions to the social and economic life of the country, the measures to maintain employment are planned to continue until the end of the first half of 2022. Through these measures the state covers 60 percent, subsequently 50 percent, and in some cases 80 percent (depending on the loss of turnover of the enterprise), the amount of insurance income and insurance contributions due at the expense of the insurer of employees in enterprises whose business has suffered the most from the introduced emergency measures to control the spread of COVID-19 (so-called "60/40", "80/20", etc.). This is expected to reduce expenditures on subsidies to non-financial corporations in 2022 by BGN 528.7 million (0.36% of projected GDP).

Social assistance policy

Social assistance policy is aimed at ensuring that the basic vital needs of people in critical situations are met by applying a clear, precise and objectively justified mechanism. The scope of the assisted persons and families is expanded by increasing the individual coefficients for access to social benefits. For a gradual change, by adjusting in the direction of increasing the individual percentages that determine the access limit and the amount of social benefits received for the most vulnerable groups of the population and to supplement the funds for targeted heating benefits in connection with the increase of eligible and the rise in energy prices, an additional BGN 56.7 million is planned (0.04% of the projected GDP).

Financial support for people with disabilities is intended to compensate for the costs associated with overcoming the difficulties caused by the type and degree of disability. For 2022, an additional BGN 57.3 million (0.04% of the projected GDP) has been provided for the creation of conditions and opportunities for social inclusion and the provision of targeted and encouraging support to vulnerable groups of people with disabilities, incl. to increase financial support under the Law on People with Disabilities as a result of the increase in the poverty line and to guarantee a free translation service under the Bulgarian Sign Language Act. Another mechanism to support people with disabilities is personal assistance. In order to ensure the cumulative effect of the increase in the minimum wage for the country and the coefficient from 1.2 to 1.4 in determining the remuneration of personal assistants under the Personal Assistance Act and the remuneration of foster families under the Child Protection Act, an additional 144.5 million BGN (0.10% of the projected GDP).

An essential part of the social inclusion policy is the provision of material support for families with children and families caring for children at risk. In order to increase the efficiency of family benefits for children, it is planned to increase the income criterion for receiving family benefits for children from April 1, 2022, respectively from BGN 410 to BGN 510 – to receive the full amount of benefits and from BGN 410.01 up to BGN 510 to BGN 510.01 up to BGN 610, including – for receiving 80 per cent of the full amount of the aid. Along with the income criterion from April 1, 2022, it is envisaged to increase the amount of monthly allowances for raising a child until completion of secondary education, but not more than 20 years of age, respectively: for families with one child – by BGN 10 (from BGN 40 to BGN 50), for families with two children – by BGN 20 (from BGN 90 to BGN 110), for families with three children – by BGN 30 (from BGN 135 to BGN 165) and for families with four children – by BGN 30 (from BGN 145 to BGN 175). The additional funds provided for the implementation of this policy amount to BGN 90.0 million (0.06% of the projected GDP).

An additional BGN 111.7 million (0.08% of the projected GDP) is provided for the increased standards for financing of social services provided by municipalities, which includes maintenance of specialized institutions for providing social services, social services provided in the community and assistance support.

– Health policies

- The policies in the field of healthcare continue to be implemented in the following areas: policy in the field of promotion, prevention and control of public health, the aim of which is to ensure quality and effective response to the health needs of citizens; policy in the field of diagnosis and treatment, which is aimed at improving the health well-being and quality of life of Bulgarian citizens and reducing health inequalities through activities in the field of diagnosis and treatment of diseases and the organization of medical care; policy in the field of medicinal products and medical devices whose main scope is the provision of medicinal products that meet the standards of quality, safety and efficacy to meet the needs of the population.
- The total amount of estimated health expenditures for 2022 is BGN 8,346.7 million, which is 5.7% of GDP. In order to improve the cost efficiency and functioning of the healthcare sector, social transfers in kind increased net by BGN 139.3 million (0.09% of projected GDP). This is a result of the increase of the funds for payment of the performed activities on clinical pathways in the different sectors of the healthcare system and the decrease of the funds for the work under unfavorable conditions of the providers of medical care in connection with the termination of the epidemic situation, a part of these funds is reported as social transfers in kind (health insurance payments).

- Continuing are the provisions of the Health Insurance Act, which introduce a gradual increase in the part of the minimum insurance income, that determines the health insurance contributions for persons insured at the expense of the state budget – from 55 percent in 2016 to 85 per cent of the minimum insurance income for self-insured persons from January 1, 2022, as each subsequent year the ratio increases by 5 percentage points until reaching the full amount of the minimum insurance income for self-insured persons. Simultaneously with the increase of the minimum wage, the minimum insurance income on which the state makes contributions also increases. The total amount transferred as a result of the changes will increase by BGN 120.3 million. The effect on the balance on a consolidated basis is neutral, as revenues and expenses will increase by the same amount.

– Education policies

- Policies in education are focused on improving the educational process, personal development of students, promoting innovation, qualification of pedagogical specialists, modernization of educational institutions and improving the quality of higher education. The total amount of estimated expenditures for education for 2022 is BGN 6,428.2 million, which represents 4.4% of GDP.
- Policies in pre-school and school education are aimed at effective socialization of children from early childhood, ensuring equal access to quality education, personal development of children and students, promoting innovation, qualification of pedagogical specialists, modernization of educational institutions, digitalization of education. Emphasis continues to be placed on policies to cover children and students who are subject to education, to prevent school drop-outs and to reduce the proportion of early school leavers. In 2022, a step is taken with regards to the planned increase in funding for delegated activities in education in connection with the policy to increase the salaries of teachers so that the average salary in the sector reaches a level of not less than 125 percent of the average salary for the country. For this purpose, BGN 239.5 million are provided. The effect of this measure is indicated when considering the income policy.
- In 2022, additional funding is provided for the following priority measures and activities in the field of preschool and school education: to increase the standard for supporting the nutrition (free breakfasts) of children of compulsory preschool age and primary school students up to grade IV) an additional BGN 16.0 million are provided; BGN 80.0 million have been allocated for the construction, extension, superstructure and reconstruction of kindergartens, nurseries and schools; for construction of new sports grounds and repairs of existing ones in schools – the additional funds are BGN 15.0 million; for the maintenance of children in nurseries and kindergartens, in view of the full exemption of parents from paying fees for attending nurseries and kindergartens, as of April 1, 2022, BGN 84.8 million are provided; an additional BGN 18.0 million is provided for the continuation of the gradual expansion of the access and coverage of 4-year-olds in compulsory pre-school education; to continue the implementation of the National Programme "Together Again", aimed at improving the social and healthy lifestyle of students – BGN 22.6 million are provided; to increase the interest and number of the extracurricular activities guaranteed for each student through additional support for sports, recreation and culture and to ensure wide access to them and in case of outstanding achievements – BGN 90.0 million; for the provision of transport for children and students, including the maintenance of buses – BGN 6.5 million; for the purchase of school buses in order to provide conditions for the safe transportation of children and students to the nearest kindergarten or school – BGN 10.0 million; for remuneration and training of mediators, social workers and additional non-pedagogical specialists in schools with a lower concentration of students from vulnerable groups – BGN 10.0 million; Funds are provided to compensate for the costs of

raising and educating children who are not accepted due to lack of places in state and municipal kindergartens and schools – BGN 13.0 million. The total effect of the described measures in the field of preschool and school education is an increase of expenditures by BGN 365.9 million (0.25% of the projected GDP).

Higher education policy is aimed at encouraging the efforts of autonomous higher education institutions for the continuous development of the quality of higher education offered, the introduction, development and improvement of internal systems for assessing and maintaining the quality of education and academic staff. To continue the reforms and ensure the policies for sustainable development and expanding access to higher education, the planned additional funds for 2022 amount to BGN 109 million (0.07% of the projected GDP), distributed as follows: to increase the funds for student scholarships – BGN 5.5 million; for providing and increasing the funds for the maintenance of the training – BGN 43.5 million, incl. for a gradual increase in the differentiated standards for the maintenance of education in the humanities, technical and pedagogical sciences, to compensate for the reduced income from students exempt from tuition fees, students in professional fields and protected specialties with the highest expected shortage on the market labour, etc.; for rehabilitation and repair of student dormitories – BGN 35.0 million; additional funding for increasing the salaries of the members of the academic staff in the state higher schools – BGN 20.0 million; for the scientific or artistic-creative activity inherent in the higher schools and for publishing textbooks and scientific works – BGN 5.0 million.

– Science policies

The emphasis is on funding research in priority and competitive areas to address important societal challenges, supporting young scientists and conducting joint research with Bulgarian scientists abroad and attracting leading scientists from abroad. Increasing the size and efficiency of public spending on research and development (R&D) aims to increase the quality, operation and commercialization of research results; raising the level of research institutions and modernization of R&D equipment; the development of regional and local technology testing laboratories, the promotion of entrepreneurship in research organizations, the maintenance of successful clusters, the addressing of gaps in research infrastructure and the optimal use of shared infrastructure capacity; capacity building and human resource development in the R&D system; stimulating the cooperation between the higher schools, the scientific institutes and the business in order to effectively orient the scientific developments to the needs of the market and the society. BGN 621.2 million (0.42% of the projected GDP) is estimated for science in the budget for 2022.

Funds for 2022 are provided for attracting and retaining young scientists and specialists at the Institute of the Bulgarian Academy of Sciences, amounting to BGN 20.0 million, to increase the salaries of scientists from the Bulgarian Academy of Sciences in the implementation of indicators for scientific and innovative development, defined in an agreement between the Ministry of Education and Science and the Bulgarian Academy of Sciences and for projects developed by scientists at the Bulgarian Academy of Sciences according to criteria adopted by it.

Annually, the central budget calculates and spends funds for the National Strategy for Development of Research in the Republic of Bulgaria 2017-2030 and the National Roadmap for Scientific Infrastructure and National Research Programmes.

– Defence policy

Defence policy is connected with maintaining modern, combat-ready and interoperable armed forces. The aim is to build, maintain and use the necessary capabilities of the Bulgarian Armed Forces to carry out the country's defence tasks within NATO's collective defence, contribute to

the Alliance's collective defence, participate in NATO and EU-led operations and missions, as well as contribute to national security in peacetime. The Republic of Bulgaria will continue its participation in the decision-making process, as well as in the process of building the defence capabilities of NATO and the EU. Defence expenditures for 2022 amount to 1.73% of GDP, and in 2024 will reach 2% of GDP, which implements the National Plan to Increase Defence Expenditures to 2% of the Republic of Bulgaria's GDP until 2024 and the commitments made to NATO. The funds provided for 2022 for rearmament and modernization of the three types of armed forces and increase of the defence capabilities of the Bulgarian Army are in the following directions:

- BGN 187.0 million – for the acquisition of a multifunctional modular patrol ship for the Navy;
- BGN 100.0 million – for basic combat equipment for the construction of battalion combat groups from the mechanized brigade;
- BGN 180.0 million – for funds for the construction of an integrated system and infrastructure for the development, operation and provision of the new type of combat aircraft, including the associated costs of its acquisition;
- BGN 126.2 million for acquisition, modernization and maintenance of armaments and equipment, incl. ensuring the operation of MiG-29 aircraft;
- BGN 50.0 million – for the preparation for the implementation of tasks under the missions “Defence”, “Support for International Peace and Security” and “Contribution to National Security in Peacetime”, increase in the number of events for joint training, including international exercises, the deployment of new combat platforms, armaments and equipment and the achievement of full operational capabilities, the preparation and certification of formations designated for the NATO Response Force and the purposeful preparation for the effective implementation of support procedures and actions as a party. host NATO forces;
- BGN 77.0 million – for overcoming the shortage of personnel of the Bulgarian Army, incl. to update personnel policy.

The total amount amounts to BGN 720.2 million (0.49% of the projected GDP).

— Energy measures

The energy policy is aimed at sustainable energy development of the country, efficient use of energy and energy resources, meeting the needs of society for electricity and heat, natural gas and fuels, establishing cleaner and more efficient energy production through rational use of conventional and renewable energy sources (RES), minimizing the impact of energy production, transmission and use on the environment, improving the management of natural resources. The trend is to ensure a stable, secure and sustainable energy supply. In order to mitigate the economic consequences of the sudden instability of electricity and natural gas prices, in 2021 were created a Programme for Compensation of Non-Regulated End Customers of Electricity, a Programme for Compensation of Transmission and Distribution System Operators for the Purchase of Electricity Quantities Required for Technological Costs, a Programme for Compensation of Household Customers for Natural Gas and District Heating Companies Using Natural Gas as a Main Fuel with a Fixed Amount of Support per MWh and a Programme for Compensation of Unforeseen Costs of Companies from Water Supply and Sewerage Industry. The programmes provide a mechanism to support non-residential end customers through electricity traders, suppliers of last resort, electricity producers selling directly to non-household end-users, and the operator of an organized electricity exchange market. These programmes helped all non-residential end customers to cope with the

consequences of significant and adverse fluctuations in electricity prices, as well as natural gas consumers for the multiple increase in prices for this type of fuel. There are about 633,000 non-residential end-users benefiting from the programmes, and they are supported by a fixed amount of one MWh by compensating on the basis of the amounts of active electricity on which the "public debt" price is charged. The compensation reduces the amount due for payment by non-household end customers. In implementation of the programmes, the disbursed funds in 2021 amount to BGN 860.0 million, and the funds planned for 2022 amount to BGN 1,320.0 million, i.e. the effect of these programmes is an increase in expenditures by BGN 460.0 million (0.31% of projected GDP).

– Environmental measures

The policy in the field of environmental protection and water aims to preserve the Bulgarian nature and improve environmental sustainability, monitoring the balance between business development and biodiversity conservation and resources to achieve maximum possible benefits for the economy and society. Additional funds in the amount of BGN 85.1 million (0.06% of the projected GDP) are planned for the implementation of the priorities of the environmental policy.

– Cultural measures

In order to optimize the current system of financing in the performing arts network and increase the efficiency of marketing and the attractiveness of the offered cultural products, expand equal access to culture and cultural heritage, preserve and socialize cultural heritage and stimulate its connection with tourism products are provided additional funds in the amount of BGN 142.1 million (0.10% of the projected GDP).

– Measures in the field of youth and sports

Youth and sports policies are aimed at promoting economic activity and development of young people, the development of sports for learners and leisure sports, the development and promotion of sport for excellence. The additional financial resource for the implementation of the objectives and activities in connection with the implementation of the priorities of the implemented policies in the field of youth and sports amounts to BGN 41.2 million (0.03% of the projected GDP).

– Transport, communications and e-government policy

Transport policy is aimed at developing basic transport infrastructure, which is an important condition for maintaining sustainable economic growth. The main priority of the transport policy is to increase the quality of the offered transport services and the sustainable development of the transport. The transport sector is key for the Bulgarian economy both because of its connecting role in relation to other sectors and because of its own contribution to gross value added and employment.

The existing toll system covers highways and class I roads. For 2022 it is planned to change the current scope of the national road network, for which tolls are paid, and to update the tariff for distance travelled. This will increase resources for effective maintenance, modernization and development of transport infrastructure.

For 2022, additional funds are provided from the budget of the Ministry of Regional Development and Public Works, respectively the Road Infrastructure Agency, which are the institutions responsible for the construction and maintenance of the road network in the country. The additional funds amount to BGN 1,671.4 million (1.13% of the projected GDP), of which BGN 1,001.4 million for current expenditures, incl. BGN 952.3 million for current repairs and

maintenance of the national road network and BGN 670.0 million for capital expenditures, incl. BGN 640.8 million for major repairs of the national road network and for the construction of priority infrastructure projects.

The state participation in the financing of the activities for the construction, maintenance, development and operation of the railway infrastructure is carried out through the granting of subsidies and capital transfers for the National Railway Infrastructure Company (NRIC). A subsidy in the amount of BGN 278.8 million is envisaged for the current maintenance and operation of the railway infrastructure in 2022. The additional funds are for the maintenance and safe operation of the new systems and facilities, acquired with grants from the state budget and the European Structural and Investment Funds, including the attraction of more qualified staff.

The funds for subsidies are also provided to BDZ-Passenger Transport EOOD to ensure the fulfilment of its assigned obligation to provide public transport services under a contract concluded between the Minister of Transport and Communications and the company. For 2022 the planned funds have increased by BGN 5.6 million to BGN 196.2 million compared to the previous year. The capital transfer for BDZ-Passenger Transport EOOD for 2022 amounts to BGN 49 million.

A key priority of the Government of the Republic of Bulgaria is the introduction of e-government as the main platform for state modernization, a factor and an irrevocable condition for the success of sectoral reforms, for which additional financial resources amounting to BGN 32.3 million have been provided (0.02% of the projected GDP), as follows: BGN 2.7 million – to increase the level of information security and cybersecurity policies; BGN 6.4 million – for the implementation of the activities for shared services in the state administration and BGN 23.2 million – for software products and licenses for the needs of the state administration.

3.4 Structural balance (cyclical components of the balance, one-off and temporary measures) and fiscal position, including the expenditure benchmark

The estimate for the structural budget balance in 2022 is for a deficit of 3.1% of GDP. The actual balance of general government has a negative contribution to the structural balance. One-off measures in response to the pandemic are significant in terms of GDP and lead technically to a positive adjustment in the structural budget balance. The cyclical position of the economy, which is formed by the negative deviation from the potential and sensitivity of the budgetary position to the economic cycle, is also reflected in an upward adjustment of the structural budget balance.

In 2023, a significant reduction in the general government deficit is planned. Expenditure on one-off measures is expected to decline to 0.2% of GDP in 2023, the negative deviation from the potential growth – to shrink further, bringing the economy closer to its potential and, consequently, the cyclical component will have a minimum positive contribution. As a result, the structural budget deficit will improve to 2.7% of GDP in 2023. Over the last two years of the forecast period, the general government deficit will gradually get smaller. No one-off measures are planned. A positive deviation from the potential is projected, which will be reflected in a correction to a lower structural balance compared to the planned actual budget deficit. The structural budget deficit will reach 2.9% of GDP in 2024 and 2.7% at the end of the forecast period.

The medium-term budgetary objective (MTO) for the structural balance of the general government sector is a deficit of 1% of GDP. This goal is in accordance with the requirements of Art. 23, para. 2 of the PIA, taking into account the relatively low amount of consolidated debt of the General Government sector, as well as the low risks to the long-term sustainability of public

finances. According to Art. 24 of the PFA, the non-fulfilment of the medium-term budgetary target for the structural deficit on an annual basis is allowed in exceptional circumstances. In 2020, the General Escape Clause of the Stability and Growth Pact was activated, which allows Member States in 2020 and 2021 to deviate from the step towards achieving the medium-term budgetary objective. In the spring of 2021, the EC decided to continue the application of the escape clause in the EU in 2022.

The assessment of compliance with the requirements of the Stability and Growth Pact and the Public Finance Act regarding the growth of budget expenditures is based on the general methodology for the so-called expenditure benchmark, taking into account the division between national and EU-funded public investments. The expenditure benchmark is compared to the level of potential medium-term GDP growth calculated by the EC.

Based on calculations made by the Ministry of Finance, the change in real terms of the expenditure indicator used for the purposes of fiscal governance in the EU is estimated at -1.1% for 2022, -5.2% for 2023, 1.3%, respectively for 2024 and 0.8% for 2025. According to EC calculations, the level of reference growth is estimated at an average of 2.1% for the forecast period.

The expenditure benchmark is part of the indicators monitored in the assessment of compliance with the rules in the preventive arm of the SGP, and as such falls under the general escape clause, which was activated in the period 2020-2021 and will continue to operate in the current year.

3.5 Debt levels and developments, below-the-line operations

At the end of 2021, based on the data from the April Notification Tables for the Deficit / Surplus and Debt of Bulgaria, the General Government sector debt increased compared to the level of the previous year. In nominal terms, the debt level increased from BGN 29.6 billion in 2020 to BGN 33.3 billion, and the General Government sector debt to GDP ratio increased by 4 percentage points respectively to 25.1% (against 24.7% at the end of 2020). The highest contribution to the nominal increase in debt has the new domestic and external debt financing received during the year, which exceeds the amount of repayments.

In the debt of the sector with the largest share of about 98.0% at the end of 2021 and a component with a leading contribution to the debt of the sector continues to permanently occupy the Central Government subsector debt. In its structure, the government debt is dominated with share of about 95%, which objectively justifies the importance of government debt management policy in determining the current position and assumptions for the development of consolidated liabilities. The debt indebtedness of the units included in the scope of the subsector continues to occupy a relatively low share and has a minimal impact on the total sector debt. The other two sub-sectors forming the general government sector debt: the local government subsector and the social security funds subsector also have neutral impact of the general government sector debt. This trend continues in the medium term.

In 2021, debt financing of the Central Government subsector in the total amount of BGN 5.0 billion was realized, incl. BGN 3.8 billion in the form of government securities issued on the local market (issues with maturities of 3 years and 6 months, 5 years, 7 years and 6 months, and 10 years and 6 months, denominated in BGN), providing good investment opportunities to a wide range of participants in the domestic sovereign debt market. The remaining part of the new debt financing received during the year is in the form of disbursements from the government loan received under the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak, amounting to EUR 511.0 million (BGN 999.4 million), as well as on loans to institutional units in the subsector

amounting to BGN 0.2 billion. For the same period, the debt repayments of the subsector amounted to BGN 1.3 billion, of which BGN 0.8 billion are maturities of government securities issued on the local debt market and BGN 0.5 billion are loans, incl. government loans and loans on institutional units included in the scope of the subsector.

Throughout the period under review, 2021–2025, the debt portfolio of the General Government sector was dominated by instruments denominated in risk-neutral currencies (EUR and BGN) and those with fixed interest rates. The relative share of debt denominated in currencies other than EUR and BGN declined from 0.2% at the end of 2021 to 0.1% at the end of 2025, and the share of debt with fixed interest rates increased to 99.6% at the end of 2021. 2025 (against 97.8% as of 31.12.2021). Respectively, the share of debt in BGN and EUR and those with floating interest rate as of 31.12.2025 represent 98.0% and 0.4% (compared to 97.6% and 2.2% at the end of 2021).

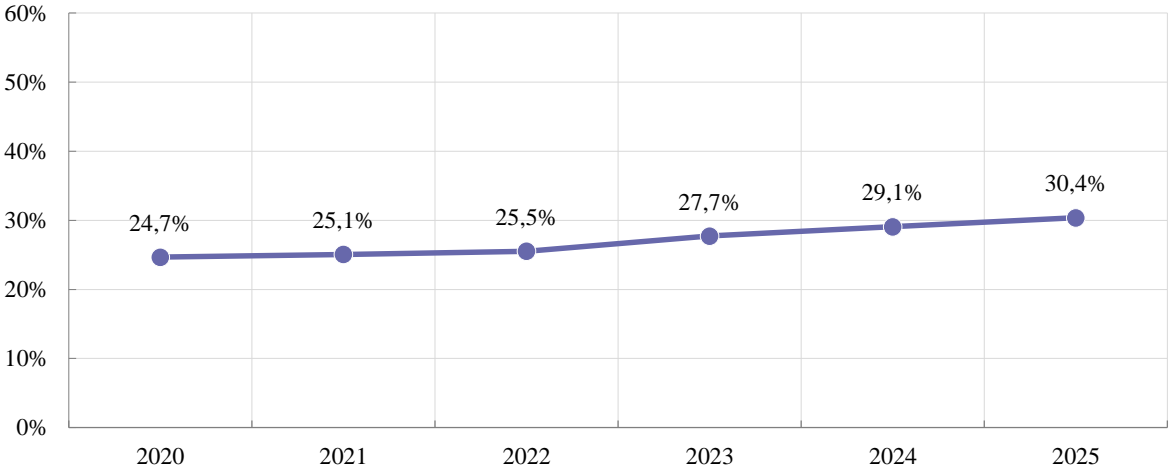
Interest payments on an accrual basis for 2021 relative to GDP are expected to amount to 0.5%, and in the period 2022-2025 to remain below 1% of projected GDP.

As a result of the debt operations carried out during the year, as of December 31, 2021 the average residual maturity of the General Government debt is 8.0 years, and by the end of 2025 it is expected to be gradually extended to 10 years.

In the period 2022–2025, issuing new government debt in the range of BGN 7.3 billion to BGN 10.0 billion per year is planned. The amount of debt outstanding to be refinanced in each of the years varies between BGN 3.0 billion and BGN 3.5 billion, incl. upcoming payments of maturing Eurobonds amounting to BGN 2.4 billion in 2022, BGN 2.2 billion in 2023 and BGN 2.9 billion in 2024. As a percentage of GDP, these repayments represent of about 2.0%. During the period under review, no planned new debt financing through government loans and in the form of financial leasing or other forms of debt from the first level spending units whose budgets are included in the consolidated fiscal programme and are part of the state budget.

As a result of the identified needs for significant financing from debt sources, for the period 2022-2025, the amount of debt follows a sustainable trend of increase. In nominal terms, its value ranges from BGN 37.6 billion at the end of 2022 to BGN 55.7 billion at the end of 2025. The total debt burden of the general government sector, relative to GDP, is also projected to grow to 27.7% in 2023, 29.1% in 2024 and 30.4% in 2025. Despite these developments, projections for the dynamics of the debt indicator remain below the maximum reference threshold of 60% and strengthens expectations for maintaining the leading position of the Republic of Bulgaria among the EU member states, with a low debt level.

Graph 3-2: General Government Debt to GDP Ratio



Source: MF

The realization of the presented forecast is highly dependent on the development of the conflict in Ukraine and the epidemic situation, respectively economic recovery, which may lead to different than expected dynamics of the general government debt. The forecast for this period could be further affected by a possible expansion of the scope of the sector through reclassifying of institutional units in compliance with the Eurostat requirements and the implementation of the European System of Accounts 2010.

The annual debt ceiling set in the annual state budget laws contribute to the controlled increase of the debt. According to the provisions of the 2022 State Budget Act of the Republic of Bulgaria, the maximum amount of government debt at the end of the year may not exceed BGN 35.5 billion, and the maximum amount of new government debt that can be assume during the 2022 is BGN 7.3 billion.

In the three-year perspective, the Local Government subsector debt is not expected significant changes compared to the level of about BGN 1.3 billion reported at the end of 2021, with a slight increase at the end of 2025 to about BGN 1.7 billion. The assumptions show that the legal regulated restrictions as well as the expected flexible schemes for financing the municipalities in the new programming period will keep its ratio to GDP in the range of about 1% in 2021 to 1.3% in 2025. The restrictions, set in the Public Finance Act and the Municipal Debt Act, stipulate that the annual amount of municipal debt payments for each municipality in each year may not exceed 15 percent of the average annual amount of own revenues and the total equalization subsidy for the last three years, calculated on the basis of data from the annual reports on the implementation of the municipal budget, as well as that within the current budget year the municipalities can assume new debt for debt realization of long-term contracts with guaranteed result (ESCO contracts) in the amount of up to 15 per cent of the average annual amount of the reported capital expenditures for the last four years under the respective municipal budget.

The Social Security Funds subsector has no debt obligations and it is not expected to take on new ones in the coming years. The subsector will continue to exert its influence in the direction of reducing the General Government sector debt through the accumulation of financial assets in the form of government securities issued by the Central Government subsector. For 2021 they amount to about BGN 370 million.

Taking into account the forecasts for the amount of debt of the subsectors “Local Government” and “Social Security Funds” in the period 2022–2025, no negative impact of these subsectors is expected when measuring the debt burden of the General Government sector.

Table 3-1: Revenues from privatization and post-privatization control of the central budget, BGN million

Report 2021	LSBRB* 2022	Forecast 2023	Forecast 2024	Forecast 2025
8.5	1.0	0.8	0.5	0.4

*Law on the State Budget of the Republic of Bulgaria

The values set in the table are based on the forecast for revenues from privatization and post-privatization control for the period 2023–2025, prepared in February 2022 by the Public Enterprises and Control Agency.

The main revenues by years are expected from the sale of:

- 2023 – separate parts (BGN 0.6 million), properties – private state property (BGN 0.2 million);

- 2024 – properties – private state property (BGN 0.4 million), separate parts (BGN 0.1 million);
- 2025 – properties – private state property (BGN 0.3 million), separate parts (BGN 0.1 million).

Proceeds from the implementation of post-privatization control under concluded privatization contracts are also expected.

3.6 Budgetary implications of major structural reforms

3.6.1 Effects on the expenditure side of the budget

– Pension policy:

Ensuring the sustainability of the pension reform adopted in 2015 contributes to the stability of revenues in the pension system, as well as to achieve greater adequacy of pensions in view of the demographic, economic and social challenges facing the country. The increase in the retirement age and the required length of service, set in 2015, contributes not only to increasing the stability of the pension system in the long run, but also to preserving solidarity between generations and reducing the risk of poverty among older retirees. At the same time, in 2021 changes were adopted, further increasing the adequacy of pensions.

The most important highlights for 2022 are the following:

- The minimum amount of old-age pension for 2022 has been increased from BGN 300 to BGN 370, as of December 25, 2021. Further increase by 6.1 percent is envisaged as of July 1, 2022;
- The social old-age pension has been increased from BGN 148.71 to BGN 170, as of December 25, 2021. Further increase by 6.1 percent is envisaged as of July 1, 2022;
- The maximum amount of one or more pensions received for 2022 has been increased from BGN 1,440 to BGN 1,500 as of December 25, 2021;
- Annual update of the pensions for labor activity, granted by the end of 2021, as of July 1, 2022 by 6.1%.

Expenditures for pensions in the State Social Security Budget Act for 2022 are BGN 1,072.5 million or 8.2% more than the State Social Security Budget Act for 2021. The dynamics of pension expenditures is also influenced by the decisions taken of BGN 850.0 million to be transferred to the account for third party funds of the National Social Security Institute (NSSI) for payment of additional amounts of BGN 60 to the pensions of all pensioners and BGN 75 one-time amount to the pensions of vaccinated pensioners. The amounts are planned to be paid for the period from January to June 2022, but are reflected in the expenditure indicators of the budget of the State Social Security for 2021, as stated in the adopted decrees of the Council of Ministers. Moreover, BGN 102.0 million are provided in the central budget for the payment of additional amounts, representing compensation for the difference between the income from pensions before and after December 25, 2021 (including lump sums of BGN 120 for December 2022 and BGN 60 - for January-June 2022). In addition, Decree № 43 of the Council of Ministers of 1 April 2022 approved an additional BGN 142.9 million for a lump sum of BGN 70 in April 2022 to the pensions of all pensioners. The indicated amounts of BGN 102.0 million and BGN 142.9 million are not included in the State Social Security Budget Act for 2022 and will be reflected in the course of budget implementation.

As for the difference between the State Social Security Budget Act for 2022 and the updated State Social Security Budget Act for 2021, it represents the net result of the measures implemented in 2021 and 2022, the change in the retirement conditions, as well as demographic processes leading to -higher or lower cost for 2022 compared to 2021.

Circumstances leading to an increase in pension expenditures in 2022:

- BGN 696.9 million – the year-round payment of the increased from 1 July 2021 by 5% the amount of pensions for labour activity; annual update of pensions from July 1, 2022 by 6.1%;
- BGN 118.1 million - recalculation of pensions with reduced individual coefficient in full (§9, para 2 of the TFP of the State Social Security Budget Act for 2021); recalculation of pensions with reduced individual coefficient, as the individual coefficient will be calculated according to the new rules of art. 70, para. 10, 11 and 19 of the SSC (effective from September 1, 2021) and if it is more favorable for the person; possibility to choose a methodology for determining the individual coefficient (§22c of the TFP of SSC);
- BGN 775.0 million – increase of the minimum of old-age pension under Art. 68, para. 1 of the SSC, as of December 25, 2021, from BGN 300.00 to BGN 370.00;
- BGN 760.0 million – accrual rate of 1.35 per cent for each year length of service without conversion, according to §13 of the final provisions of the Law on Amendments to the Law on the Social Security Budget for 2021;
- BGN 30.5 million – increase of the maximum amount of the received one or more pensions to BGN 1,500, as of December 25, 2021;
- BGN 31.6 million – increase in the amount of the social pension for old age from BGN 148.71 to BGN 170.00, as of December 25, 2021.
- BGN 20.4 million – increase of the percentages under Art. 90a, para. 2 of the SSC for determining the amount of the social disability pension in two steps (from 16.09.2021 to 31.03.2022 and as of 01.04.2022).

Circumstances leading to a reduction in pension expenditures in 2022:

- BGN 1,168.0 million – the funds paid in 2021 for additional amounts of BGN 50 to the pensions of all pensioners in the period January, February, March and September, and BGN 120 each for the period from October to December 2021, as well as the transferred to the account for third party funds of the National Social Security Institute and reflected in the expenditure indicators under the budget of the Social Security for 2021 BGN 850.0 million for payment of lump sums of 60 BGN to the pensions of all pensioners and BGN 75 to vaccinated pensioners for the period January-June 2022, are not set in the State Social Security Budget Act for 2022 and respectively lead to a reduction in pension costs compared to the State Social Security Budget Act for 2021;
- BGN 161.7 million – decrease in the number of pensioners, incl. due to the change in the conditions for retirement and the demographic processes.

In developing the forecast for pension expenditures for the period 2023 – 2025, the parameters of the current legislation, the updated Law on the State Social Security Budget for 2021 and the Law on the State Social Security Budget for 2022 have been taken into account:

- From January 1 of each calendar year, the increase in the age for acquiring the right to a pension by 2 months for women and by 1 month for men continues, as well as the required length of service for acquiring the right to a pension by 2 months and for both sexes. The

necessary conditions for retirement of persons who worked under the conditions of the third category of work in the period 2023 – 2025 are listed in the table below:

Table 3-2: “Conditions for retirement under Art. 68, para. 1-2 of the SSC, 2023-2025 ”

Year	Men		Women	
	Age	Length of service	Age	Length of service
2022	61 years and 10 m.	36 years and 2 m.	64 years and 5 m.	39 years and 2 m.
2023	62 years	36 years and 4 m.	64 years and 6 m.	39 years and 4 m.
2024	62 years and 2 m.	36 years and 6 m.	64 years and 7 m.	39 years and 6 m.
2025	62 years and 4 m.	36 years and 8 m.	64 years and 8 m.	39 years and 8 m.

Source: NSSI, MF

- The retirement age for incomplete seniority continues to increase by 2 months by the age of 67 in 2023. In 2024 and 2025, the retirement age remains at the level reached in 2023.
- The minimum retirement age for those working in the Defence and Security sector continues to increase by 2 months to 54 years and 4 months in 2025.
- The minimum retirement age of the persons who worked under the conditions of the first and second category of work, who do not meet the conditions for retirement from a professional pension fund under Art. 168 of SSC or have changed their insurance under Art. 4c of SSC, continues to increase by 4 months for women and 2 months for men until reaching in 2025 51 years for women and 54 years and 4 months for men in the first category and 56 years for women and 59 years and 4 months for men in the second category of work.
- In the period 2023–2025, the value of the percentage under Art. 70, para. 1 of the SSC in the pension formula is maintained at 1.35, effective from 25 December 2021, for each year of insurance without conversion and the corresponding proportional part of this percentage for the months of insurance without conversion. For the rest of the credited length of service the percentage remains at 1.2.
- In the period 2023–2025, the pensions for labour activity, granted until 31 December of the previous year, shall be updated from 1 July each year, under Art. 100 of the SSC (the so-called "Swiss rule"), with a percentage defined as the sum of 50 percent of the increase in insurance income and 50 percent of the consumer price index in the previous calendar year. With the growth of the average insurance income and the level of the average annual harmonized index of consumer prices set in the forecast, the percentages under Art. 100 of the SSC are as follows:
 - for 2023 – the pensions for labour activity, granted until 31 December of the previous year, as well as the pensions, not related to labour activity, are planned to be updated from July 1, 2023 by 9.1 per cent (percentage determined by Article 100 of the SSC), as the necessary funds amount to BGN 651.1 million;
 - for 2024 – the pensions for labour activity, granted until 31 December of the previous year, as well as the pensions, not related to labour activity, are planned to be updated from July 1, 2024 by 6.9 per cent (percentage determined by Article 100 of the SSC), as the necessary funds amount to BGN 522.6 million;

- for 2025 – the pensions for labour activity, granted until 31 December of the previous year, as well as the pensions, not related to labour activity, are planned to be updated from July 1, 2025 by 5.4 per cent (percentage determined by Article 100 of the SSC), as the necessary funds amount to BGN 453.9 million.
- In the period 2023–2025, it is envisaged that the amounts of the minimum pension for old age and the social pension for old age, as well as the related pensions and supplements, will be increased from 1 July of the respective year by the per cents under Art. 100 of SSC;
- In the period 2023–2025, the maximum amount of one or more pensions received remains at the level of BGN 1,500.00 reached in December 2021.

As a result of the above assumptions, in 2023 the expenditures for pensions in the budget of the Social Security will increase by BGN 848.4 million compared to the law for 2022.

In 2024 and 2025, the increases in the expenditures for pensions under the budget of the Social Security compared to the previous year are BGN 1154.0 million and BGN 958.9 million, respectively.

Within the reference medium-term programme, cash expenditures for pensions and allowances remain at levels between 9.3% and 9.6% of GDP.

Table 3-3: Estimated expenditure on pensions and allowances, 2021-2024²²

Year	Pension expenditure	
	million BGN	% of GDP
2022 (LSSB*)	14 119.2	9.6
2023	14 967.6	9.3
2024	16 121.6	9.3
2025	17 080.4	9.3

* Law on the Budget of the State Social Security Budget
Source: NSSI

– Measures in connection with the military invasion of the Republic of Ukraine

1. By Decision № 145 of 10 March, the Council of Ministers approved the Programme for the Use of Humanitarian Aid for Persons Seeking Temporary Protection in the Republic of Bulgaria as a Result of the Military Actions in the Republic of Ukraine. The programme is administered by the Ministry of Tourism and is financed by instruments of the European Union and / or the state budget under the Public Finance Act and the State Budget Act of the Republic of Bulgaria for 2022. The aid is paid by the Ministry of Tourism of categorized or registered accommodation places, entered in the National Tourist Register and of the sites, entered in the Register of Accommodation Places created for the purposes of the programme implementation of three reporting periods. The humanitarian aid amounts to a total of BGN 43.60, incl. VAT per person per night and food (breakfast, lunch and dinner), including tourist tax and transportation, when done. The funds under the Programme are provided for three reporting periods, after an inspection by a commission for compliance with the criteria for disbursement of humanitarian funds in accordance with the requirements of the Programme. Currently, the Programme covers the period from February 24, 2022 to May 31, 2022.

²² The data until 2025 are based on the forecast of revenues and expenditures of the consolidated budget of the Social Security for 2023 - 2025 from April 2022.

2. By Decision № 129 of the Council of Ministers of 09 March 2022, in force since 24 February 2022, road vehicles of the Republic of Ukraine, regardless of their category and technical characteristics, are exempt from tolls under the Law on roads for the purpose of providing humanitarian aid or convoying convoys intended for the provision of humanitarian or medical assistance.

*The indicative amount of the funds under the Programme is BGN 196 million, with an estimate for the provision of humanitarian aid in the amount of **BGN 43.60, incl. VAT** per day, for approximately 50 thousand persons, for a period of 3 months and is expected to be financed by instruments of the European Union and / or the state budget under the Public Finance Act and the State Budget Act of the Republic of Bulgaria for 2022.*

— Measures in response to the COVID-19 pandemic

For 2022, the highest costs in the fight against the COVID-19 pandemic are related to the provision of vaccines, medicines and rapid antigen tests and amount to BGN 416.4 million, followed by the costs of supporting first-line personnel directly involved in activities to prevent the spread of COVID-19, incl. for vaccination against COVID-19 – BGN 378.0 million. Significant funds have been provided for business support and employment programmes – in the amount of BGN 400.0 million. Funds are also provided to support the tourism industry in amounting to BGN 25 million

An additional BGN 102 million has been provided for a one-off amount to compensate for the income from pensions up to the level of December 2021 for the period until June 2022.

3.6.2 Effects on the revenue side of the budget

Estimates of the amount of tax revenues for the period 2022-2025 are based on the forecasts of the Ministry of Finance for the main macroeconomic indicators and the impact of the measures implemented by the revenue agencies to improve collection and compliance with legislation. The priorities in the tax policy in the medium term are taken into account and the effects of the changes in the tax legislation, related to the implementation of measures for improving the collection, stimulating the economic recovery and development, reducing the administrative burden and introduction in the national legislation of provisions of European tax law are taken into account. The effects of the continued implementation of some measures related to the COVID-19 pandemic have been taken into consideration.

— Corporate taxes

The forecast for the amount of corporate tax revenues is based on maintaining the basic tax rate of 10%. The main impact on corporate tax revenues is exerted by the reported financial results (taxable profit / loss) and the amount of advance payments made by taxable persons under the Corporate Income Tax Act (CITA).

From 2021 the provisions of CITA have been changed regarding the deadline for declaring advance payments (according to Art. 87a, para. 1 of CITA in the period from March 1 to April 15 of the same year) and for submitting the declaration under Art. 88 of CITA for changes in advance payments for corporate tax. The deadlines for the monthly and quarterly payments have not changed, except for the deadline for paying advance corporate tax for December and for the third quarter of the current year, which changes from December 15 to December 1 of the year.

The date of filing the annual tax returns under CITA and the date for the corporate tax payment have been moved - from March 1 to June 30 of the following year.

When planning the revenues from other taxes under CITA, the reduction of the rate from 10% to 3% of the tax on expenses in kind under Art. 204, para. 1, item 4 of CITA, which also applies for 2022, with a negative effect on the budget of BGN 11 million, is taken into account.

— Personal income taxes

The income tax plan for 2022 and the forecast for the period 2023–2025 have been prepared while maintaining the uniform tax rate of 10% (without tax-free minimum) for all income of taxpayers, except for income from business activities of persons engaged in economic activity as traders within the meaning of the Commerce Act, including sole proprietors or natural persons registered as farmers, have chosen to tax the income from their economic activity with tax on such annual tax base for which the rate remains at 15%. The amount of revenues from personal income taxation also includes revenues to local budgets from patent tax and tax on taxi transport of passengers.

The amount of tax revenues from personal income tax is mainly influenced by the development of labour market parameters and the legislative and administrative measures taken in the field of labour, social and tax legislation. Influenced by the size of the average salary, the level of unemployment in the country, the results declared with the annual tax return (ATR) of individuals, the amount of dividends paid and liquidation shares, the level of interest rates on deposits of citizens and the volume of deposits.

The available information on the effects of the permanent measures of the National Revenue Agency (NRA) to comply with tax legislation and improve revenue collection, including the thematic campaigns conducted by the Agency (cash checkings, checks on owners of luxury cars, inspections of individuals who have bought expensive properties, etc.).

In forecasting PIT revenues, the expected negative annual budget effect of BGN 230 million from the application of the increased amount of tax relief for children for income earned in 2021 and 2022, as well as the effect of a 2.8 million loss for the budget from the abolition of the final tax on interest income from local individuals on bank accounts under Art. 38, para. 13 of the Personal Income Tax Act are taken into consideration.

— Value added tax

When forecasting the revenues from the value added tax (VAT) for the period 2022-2025, the assumptions about the changes in the economic activity in the country, the dynamics of consumption, imports, exports, the impact of the adopted legislative changes and the impact of factors due to changes in the external environment are taken into account. Both the forecasts for the macroeconomic indicators and the effects of the changes in the legislation have been taken into account.

For the period until 31.12.2022, the tax rate has been reduced from 20% to 9% for the supply of restaurant and catering services, books, food suitable for babies or young children and baby diapers and similar hygiene items, as well as for the consumption of beer and wine in drinking establishments, and for the supplies of services for the use of sports facilities and for the supply of general tourist service in the cases under Art. 136 of the VAT Act.

Exemption from VAT and customs duties on imports of certain medical devices necessary to combat the effects of the COVID-19 pandemic applies in accordance with Decision 2020/491 of 03.04.2020 of the European Commission. It is envisaged that the deadline for implementation of the measure will be 30.06.2022.

The VAT Act establishes legal norms for exemption with the right to deduct a tax (i.e. by applying a zero tax rate) to the following supplies taxable on the territory of the country: 1. The supply of vaccines against COVID-19 and services directly related to these vaccines; 2. The

supply of medical devices for in vitro diagnostics of COVID-19 and the services directly related to these devices. The measure is also temporary and will apply until December 31, 2022.

When forecasting VAT revenues, the expected negative budgetary effect of BGN 265.3 million for 2022 was taken into account from the temporary measures taken in response to COVID-19.

— Excise duties

In preparing the forecasts for excise revenues, in addition to the macroeconomic indicators, the positive effect of the measures for improving the control over the trade in excisable goods was taken into account, as well as the legislative changes made. It is accepted that the excise rates for taxation of the different groups of excisable goods will be maintained throughout the period and that the structure of the consumption of excisable products within the different groups of excisable goods will be relatively stable.

The Law on Excise Duties and Tax Warehouses (LEDTW) has been amended in order to eliminate problems arising from its implementation, to continue the harmonization of Bulgarian tax legislation with the requirements of European directives and decisions of the Court of Justice of the European Union and with a view to reducing the administrative burden in compliance with the provisions of the law.

No revenue discretionary measures in the field of excise taxation are planned for the forecast period. For 2022, the amount under the state aid scheme "Aid in the form of a discount on the value of excise duty on gas oil used in primary agricultural production" of BGN 100 million has not changed.

Table 3-4: Expected budgetary effects of discretionary measures and measures related to the Covid-19 pandemic in the area of revenue on an accrual basis for the period 2022-2025, BGN million

Revenue measures – change compared to the previous year	2022	2023	2024	2025
Increase of the tax relief for children under art. 22c and the tax relief for children with disabilities under Art. 22d of the Personal Income Tax Act for 2021 and 2022	230.0			
Reduction of the VAT rate to 9% for supplies of certain goods and services; exemption from VAT and customs duties on imports of certain medical devices to combat the effects of COVID-19; application of a zero rate of VAT on supplies and intra-Community acquisitions of diagnostic kits and vaccines against COVID-19, and services directly related to these products	265.3			
Revenues from pension insurance contributions from the change in the income policy (including increase of the minimum wage, the minimum insurance thresholds and the minimum insurance incomes of the self-insured persons and the minimum insurance income of the farmers and tobacco growers, increase of the maximum insurance income)	267.4	129.0	57.8	56.0
Revenues from health insurance contributions from the change in the income policy (including increase of the minimum wage, the minimum insurance thresholds and the minimum insurance incomes of the self-insured persons and the minimum insurance income of the farmers and tobacco producers, increase of the maximum insurance income)	102.6	47.7	18.8	18.2
Revenues from the operation of the TOLL system	290.0	40.0		
Revenues from insurance selection	27.8	7.0	7.7	7.4
Income from PIT from a change in the income policy and from the abolition of the tax on interest income from bank accounts acquired by resident natural persons	4.8			
Revenues from other taxes under CITA – effect of reduction of the tax rate on expenses in kind	-11.0			
Income from insurance contributions from the increase of the insurance length of service and the retirement age	0.5	0.5	0.5	0.5
Elimination of fees for the use of kindergartens and nurseries	-35.6	-11.5		
Total:	1 141.8	212.7	84.8	82.1

Source: MoF

4. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS UPDATE

4.1 Alternative scenario

One of the main risks of the military conflict in Ukraine is related to the escalation of geopolitical tensions and more significant disruption of international trade, incl. the emergence of serious difficulties in supply chains. For countries that are geographically closer to the conflict, this risk is more pronounced. Therefore, in the alternative scenario, a direct shock to the external sector of the economy from trade disruption in the region is considered. It is represented by the assumption for a significant reduction in imports, lower production and lower export.

In addition, it is assumed that the complicated geopolitical situation, the difficulties in the supply of raw materials and rising food prices will lead to a greater flow of refugees to the country (about 400 thousand people).

Russia's invasion of Ukraine has put significant pressure on rising international commodity prices. In the alternative scenario, the shock on commodity prices is intensified. It is assumed that they will grow at a higher rate in 2022, but also that the rise will continue in the period 2023-2025.

Table 4-1: Assumptions for rising commodity prices in the alternative scenario*

	2022	2023	2024	2025
Oil price, USD / barrel	130	130	115	100
Prices of non-energy commodities, in USD [%]	25.4	18.1	17.0	14.9
Food [%]				
– Cereals	14.2	14.2	14.2	12.8
– Oilseeds	17.9	13.0	16.0	13.5
Metals [%]	60.0	40.0	-	-

* Change in % compared to the previous year, except for the price of oil. FAO simulations have been used for food and fertilizers

Source: MoF

The price of crude oil is assumed to further increase above the baseline scenario and remain at a higher level in the medium term. There is an additional price increase of 30% in natural gas prices in 2022. In the case of food, the limited supply of cereals and oilseeds by the Russian Federation and Ukraine will largely affect their prices, as it can only be partially compensated by other producers in the EU, USA, Canada and other countries.

The capacity of many of these alternative sources to increase production and supply may be further limited by the high production costs associated with rising energy and fertilizer prices. They could also lead to more limited use of fertilizers, which will reduce yields and lead to a higher risk for the harvest in the coming years. This, in turn, would keep international food prices high for longer. With regard to metals, there is a further increase in their prices assumed in 2022 and 2023, given the significant share of ores and metals in the exports from Russia and Ukraine and the expected interruptions in their extraction and production.

These assumptions are reflected in higher inflation in the alternative scenario, mostly in 2022 and 2023, 2.9 and 2.2 percentage points above the baseline scenario, respectively.

In the alternative scenario, a decline in imports of goods is expected in 2022, which is a deviation of 8.7 percentage points compared to the baseline scenario. Disturbances in supply chains will have a negative impact on production in the country, on the execution of orders and investment plans. As a result, a decline in fixed capital investment is expected, exacerbated by greater uncertainty. More serious difficulties related to logistics and restrictions in the production of certain products will lead to a decline in exports of goods and the annual rate will deteriorate by 5.3 percentage points. At the same time, by analogy with the baseline scenario, the increased number of refugees will be reflected in a one-off increase in exports of services in 2022. Growth in household consumption will be limited by weaker growth in real disposable income and employment. Under this scenario the negative effects are expected to continue in the first quarter of 2023 and to gradually subside thereafter. As a result of the described effects, the real GDP growth will be lower by 2 percentage points in 2022 and by 1.5 percentage points in 2023. In the first two years, a higher GDP deflator is expected, which will not compensate for the loss in real terms. As a result, the level of GDP at current prices will be lower than in the baseline scenario and this will be maintained until the end of the forecast period.

Table 4-2: Changes in key macroeconomic indicators (deviation from baseline)

Main macroeconomic indicators	2022	2023	2024	2025
GDP				
GDP level at current prices [%]	-0.7%	-1.2%	-2.0%	-1.9%
GDP [real growth, percentage points]	-2.0	-1.5	0.0	0.0
Consumption	-1.9	-0.6	0.2	0.0
Gross fixed capital formation	-18.2	-2.4	-0.6	2.4
Export of goods and services	-3.8	-2.8	-0.4	0.2
Import of goods and services	-8.0	-2.4	-0.3	0.3
LABOR AND PRICES MARKET				
Employment (SNA) [%]	-1.3%	-1.6%	-1.4%	-0.9%
Unemployment rate [pps]	0.7	0.7	0.6	0.4
Compensation of employees [pps]	-2.1	-1.5	0.0	0.0
GDP deflator [pps]	1.4	1.1	-0.9	0.0
Annual average inflation (HICP) [pps]	2.9	2.2	-0.3	0.0
BALANCE OF PAYMENT				
Current account % of GDP [pps]	2.4	1.8	1.1	1.2

Source: MoF

In the alternative scenario, a larger influx of refugees is assumed to enter the country, but fewer of them are expected to find employment on the labor market. In the main scenario the assumption is that about 35 thousand refugees will start working on average in 2022, and in the alternative - their number will be about 10 thousand. As a result of the lower growth of the Bulgarian economy, the total employment in the country is expected to be lower than in the baseline scenario, with the largest difference in the values of the indicator expected in 2023 (1.6% lower employment in the alternative scenario than in the baseline). In the following years, these differences will diminish and employment in the two scenarios will gradually converged.

The main differences in the balance of payments between the two scenarios are in trade with goods. The increase in international prices will be reflected in a significant increase in the nominal growth rates of imports and exports of goods, despite the decrease in traded quantities. Estimates point to similar deflators, and real decline in import in 2022, which will lead to an improvement in the trade deficit. In the period 2023–2024, the positive terms of trade will be maintained with the growth of import outpacing the growth of export.

4.2 Sensitivity of budget forecasts in different scenarios

In the alternative scenario, GDP at current prices is lower in the period 2022-2025, which has a negative effect on tax revenues and total budget revenues. The main drivers are lower social and health contributions and income tax revenues due to the lower level of compensation of employees. The decrease in total revenues compared to the baseline scenario is in the range of 0.7–0.8%. As a result of the change in revenues and the lower GDP, the budget balance would deteriorate by 0.3 percentage points on average for the period.

The difference in underlying assumptions is reflected in an increase in government debt as a percentage of GDP due to higher budget deficits and lower GDP at current prices, with a deviation of up to 1 percentage point for the years of the period considered.

4.3 Comparison with the previous programme

In 2021, the Bulgarian economy grew by 4.2% with an expected growth of 2.7% in the previous Convergence Programme. The higher growth was due to stronger-than-expected consumption. It was due, on the one hand, to a greater increase in household disposable income, in terms of compensation of employees and pensions, and, on the other hand, to the lack of a negative effect caused by the restrictive measures against the spread of COVID-19.

Under the current Convergence Programme a lower economic growth for 2022-2023 is expected. This is due to the Russian invasion of Ukraine, which changed the economic outlook for the EU and Bulgaria. The military conflict has led to rising energy and basic raw material prices, which will have a negative impact on household purchasing power. As a result of the war and the sanctions imposed on the Russian Federation, disruptions in international trade and difficulties in supply chains are expected, which will limit the export of goods. With the gradual overcoming of the consequences of the military conflict and the recovery of the external environment, higher GDP growth is expected in 2024. For the whole period under review, the forecast for investment growth has been increased due to expectations of positive effects of NRRP.

Employment growth in 2021 was close to that projected in the previous Convergence Programme, albeit slightly lower. The reason for the latter is that the recovery of employment in some service activities was delayed due to the new waves of COVID-19 in the second half of the year, requiring the extension of the epidemic-related state of emergency in the country and

leading to weaker activity of tourist companies. The higher unemployment rate is mainly due to methodological changes in the Labor Force Survey in early 2021.

The current Convergence Programme envisages higher employment growth in 2022, which is mainly due to the expected influx of Ukrainian refugees in the country, some of which is expected to be absorbed into the Bulgarian labour market. (Bulgarian employers have announced their readiness to create nearly 200,000 new jobs.) However, this inflow of employed foreigners does not have a significant impact on the dynamics of unemployment in the country, which is why large differences in changes in the unemployment rate are not expected compared to the previous Programme. The same applies to 2023-2024, and the current and previous forecasts expect the unemployment rate to reach similar levels in the last year of the programming period.

Table 4-3: Key macroeconomic indicators

	2021			2022			2023			2024		
	CP 2022	CP 2021	differ- ence, pps	CP 2022	CP 2021	differ- ence, pps	CP 2022	CP 2021	differ- ence, pps	CP 2022	CP 2021	differ- ence, pps
GDP, real growth, incl:	4.2	2.7	1.5	2.6	3.6	-1.0	2.8	3.4	-0.6	3.6	2.7	0.9
Final consumption	7.0	2.6	4.4	2.6	2.8	-0.2	3.3	3.4	0.0	3.6	2.9	0.7
Investments	-11.0	-3.4	-7.6	7.6	3.0	4.6	9.0	7.2	1.7	6.0	0.4	5.7
Export of goods and services	9.9	5.8	4.1	4.1	6.8	-2.7	4.0	4.8	-0.8	5.8	3.5	2.3
Import of goods and services	12.2	3.7	8.4	5.4	5.7	-0.2	6.1	6.0	0.1	6.5	3.2	3.3
Annual average inflation (HICP)	2.8	1.8	1.0	10.4	2.0	8.3	5.1	2.0	3.1	2.7	2.1	0.6
Employment	0.2	0.5	-0.3	1.7	1.3	0.4	0.8	1.0	-0.2	1.0	0.5	0.5
Unemployment rate	5.3	5.0	0.3	5.0	4.7	0.3	4.8	4.4	0.4	4.4	4.4	0.0

Source: MF, NSI

According to the previous Convergence Programme, the inflation rate in the country was expected to accelerate in 2021 in line with the recovery from the global pandemic, followed by a relative slowdown in the medium term due to the expected decline in international prices and especially those of crude oil. By mid-2021, the inflation profile in the country almost completely corresponded to the one expected by the Ministry of Finance. After that, the increase in energy prices (crude oil, natural gas, coal and electricity) accelerated further in the winter months, and thus the unfolding direct and indirect effects on a wide range of goods and services have led to an acceleration in inflation above the expected at the end of 2021 and in the first months of 2022. The outbreak of the conflict in Ukraine in late February 2022 has changed significantly expectations for the international commodity prices in the medium term, which was reflected in a significant upward revision of the inflation forecast, especially in 2022 and 2023.

5. SUSTAINABILITY OF PUBLIC FINANCE

5.1 Policy strategy

This section examines the sustainability of the fiscal position by assessing the current state of public finances in terms of future increases in public spending related to population aging. For this purpose, the sustainability indicators S1 and S2, calculated according to a methodology developed by the EC²³, are used.

The Medium-Term Fiscal Sustainability Indicator (S1) shows the necessary adjustment in the structural primary budget balance within five years after the end of the forecast period (2025 in the case of the MoF forecast) to ensure that government debt over a period of $t + 15$ (2037) does not exceed the reference value of 60%.

The Long-Term Fiscal Sustainability Indicator (S2) shows the necessary adjustment in the primary balance to meet the time constraint (the discounted value of future structural primary balances to cover the current level of debt) for an infinitely long period of time, including additional ageing-related costs.

A positive value of the indicators denotes the need for fiscal consolidation or structural reforms to reduce the burden of aging on public finances, while a negative value indicates the presence of fiscal space.

Table 5-1: Sustainability indicators

	MoF		EC	
	S1	S2	S1	S2
Value, of which:	-2.4	2.2	-3.1	2.5
Initial budgetary position	1.2	2.1	-1.2	-0.1
Debt requirement	-2.9		-2.5	
Future changes in the budgetary position	-0.7	0.2	0.7	2.5

Source: MoF, Debt Sustainability Monitor 2020

The table presents the MoF's assessments of sustainability indicators and those of the European Commission from the Monitoring Report on Debt Sustainability of EU Countries, published in February 2021. The differences in the values of indicators S1 and S2 between the two institutions are largely due to different expectations for economic growth, debt and the budget balance in the medium term, as the Commission's estimates are based on forecasts from the autumn of 2020. In addition, the assessment of fiscal sustainability is highly dependent on long-term economic prospects. The differences in S1 and S2 indicators between the two institutions is also due to different expectations for future changes in the budget position, which are related to expenditures on pensions, health care and education. In preparing its long-term macroeconomic forecast and relevant estimates of age-related expenditures, the MoF uses updated assumptions

²³ Annex 2 of the Fiscal Sustainability Report 2018.

set out in the 2021 Population Aging Report, a forecast of pension expenditure submitted by the National Social Security Institute and estimates of health and education expenditures derived from the MoF's long-term model. At the same time, the EC forecast on ageing-related costs is based on the 2018 Ageing Report.

Estimates show that despite expectations of debt growth over the forecast period until 2025, the country's fiscal sustainability is not threatened. The S1 indicator is negative, which according to the EC reference values means a low risk for fiscal sustainability in the medium term and implies maintaining the debt level below 60% of GDP. The value of indicator S2 indicates moderate risk and the need to adjust the primary balance in order to maintain fiscal sustainability.

Debt sensitivity is also assessed²⁴, which presents a set of possible scenarios for the development of the consolidated debt of the General Government sector (referred to as government debt for short in the present analysis) as a percentage of GDP by the end of the forecast period. Alternative scenarios for the effects on the debt-to-GDP ratio in the event of negative shocks to GDP growth, and the primary balance sheet and a higher interest rate are considered. In both the baseline and alternative scenarios, Bulgaria is assessed as a low-risk country in terms of the dynamics of government debt to GDP.

Four alternative scenarios²⁵ are considered, which present the possible effects on the government debt-to-GDP ratio under the following assumptions:

- Interest rate shock – increase of the implicit²⁶ interest rate by 1 percentage point throughout of the forecast horizon;
- Shock on nominal GDP growth – lower nominal GDP growth by 0.5 percentage points throughout the forecast horizon. Lower nominal GDP growth could reflect both lower real growth and lower deflator, i.e. lower inflation. It affects the debt-to-GDP ratio, on the one hand, through the growth/inflation effect, and on the other hand, through the primary balance-to-GDP ratio;
- Shock on the primary balance – higher deficit (respectively lower surplus) on the primary balance by 0.5 percentage points from GDP for each year to the end of the forecast horizon;
- Combined shock on interest rates, GDP and the primary balance – lower nominal GDP growth by 0.5 percentage points, higher implicit interest rate by 1 percentage points and a higher deficit (respectively lower surplus) on the primary balance by 0.2 percentage points of GDP for each year until the end of the forecast horizon. Further deterioration of the primary balance could be manifested through lower revenues or higher costs compared to the baseline scenario.

²⁴ EC and IMF approaches have been used to assess debt sensitivity:

European Commission (2014). "Assessing Public Debt Sustainability in EU Member States: A Guide. European Economy". Occasional Working Paper No. 200.

European Commission (2019). Fiscal Sustainability Report 2018. Institutional Paper 094.

European Commission (2021). Debt Sustainability Monitor 2020. Institutional Paper 143.

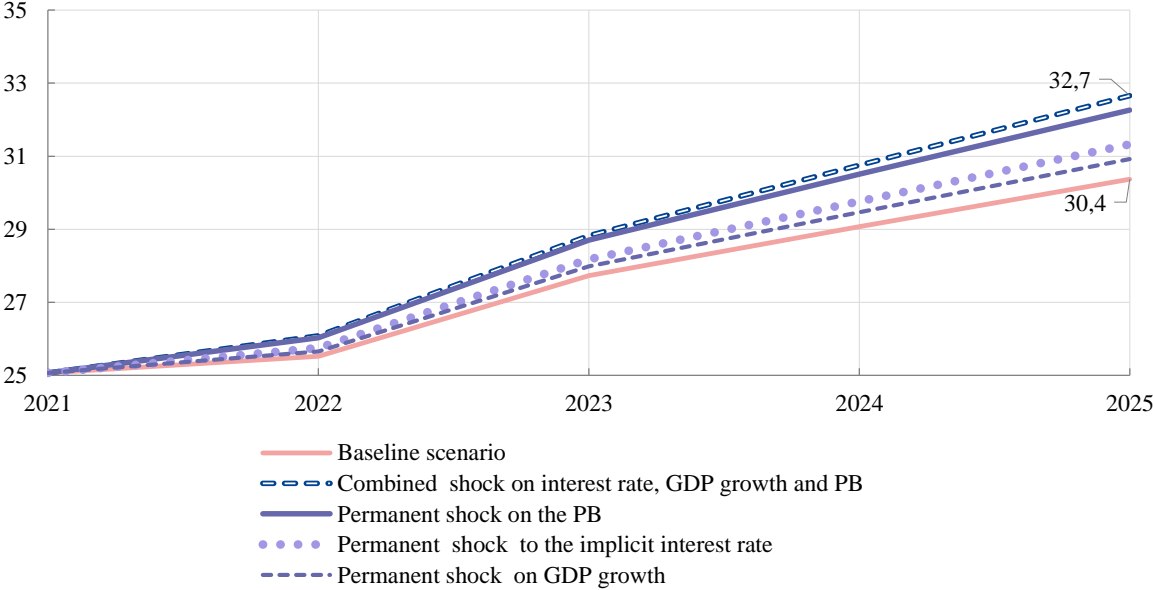
International Monetary Fund. (2013). "Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries".

IMF Debt Sustainability Analysis for Market-Access Countries <https://www.imf.org/external/pubs/ft/dsa/mac.htm>

²⁵ Due to the fact that over 99% of government debt is in risk-neutral currencies (BGN and EUR), a scenario with a shock on the exchange rate has not been considered.

²⁶ The implicit interest rate is calculated as interest expenses divided by the level of debt for the previous year.

Graph 5-1: Government debt % of GDP

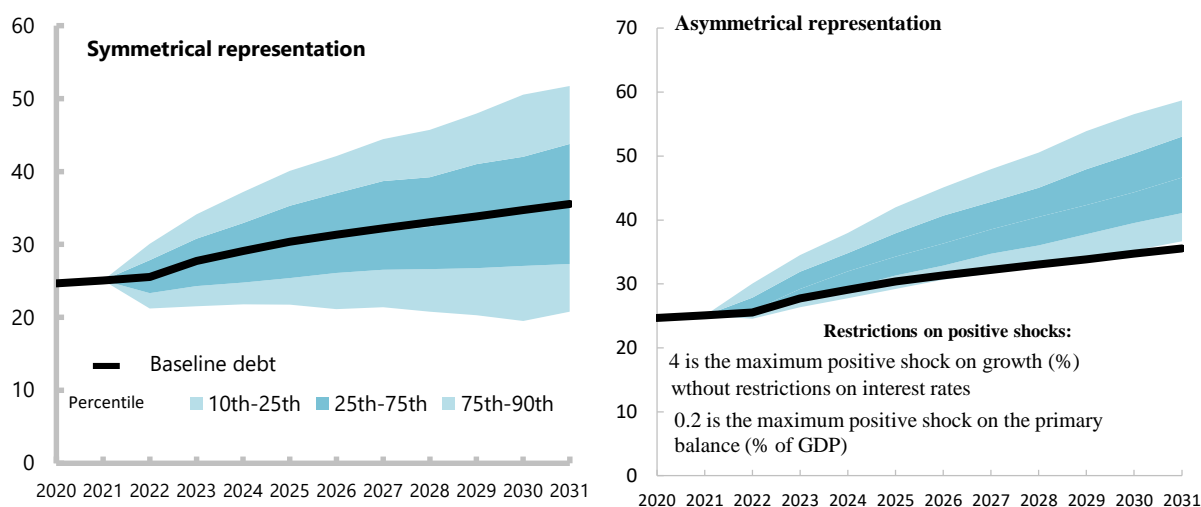


The presented scenarios show an increase in the government debt-to-GDP ratio in the range of 0.5-2.3 percentage points in 2025 compared to the baseline scenario. The most significant increase in the debt-to-GDP ratio is seen under the combined shock on GDP growth, interest rates and the primary balance, followed by the negative shock on the primary balance. In both scenarios, the share of government debt to GDP remains below 33% at the end of the forecast period, which is significantly below the 60% reference threshold and identifies the country as low risk. In the event of a shock to real GDP growth or the GDP deflator, which in this case is represented by lower nominal GDP growth, the debt level would reach 30.9% of GDP in 2025. In the event of a shock to the implicit interest rate, the debt ratio relative to GDP would increase to 31.3% by the end of the period. It should be borne in mind that the conducted debt policy, primarily oriented towards attracting financial resources in BGN and EUR, with a fixed interest rate coupon, makes such a scenario almost impossible in practice.

Additionally, fan-shaped graphs are presented, from which information on the uncertainty surrounding the baseline scenario can be obtained. Historical data on GDP growth, interest rates and the primary balance are used to construct the charts. Mean values and the variation-covariance matrix are calculated, which describe the joint normal distribution for these variables. For each of the variables, joint distribution shocks are generated, which are added to the baseline forecasts and used to calculate the distribution of the projected debt dynamics. By design, the joint normal distribution of shocks generates a symmetrical fan-shaped chart, with the symmetrical representation of both positive and negative risks. Additionally, a restriction is placed on the positive shocks in order to construct an asymmetric fan-shaped chart, showing the dynamics of the debt to GDP focused around negative shocks.

The symmetrical fan graph shows that there is a 10% probability that the ratio of government debt to GDP by 2025 will be below 22%, a 25% probability to be below 25%, a 75% probability to be below 35% and a 90% probability to be below 40%. Adjusting for restrictions on positive shocks, the probability that government debt will fall below 30% of GDP at the end of the forecast period is 10%, and with a 90% probability it will be below 42%. In these simulations in the 10-year period of up to 2031, the debt to GDP is 90% more likely to be below 59%.

Graph 5-2: Fan-shaped graph of expected Government debt% of GDP



The presented results overlap with the conclusions of the Commission's report, according to which the country has fiscal space and even in the event of a negative shock on nominal GDP growth or the budget balance, debt risks remain low in the medium term. According to the Commission, the risk is moderate in the long run.

5.2 Long-term budgetary prospects, including the implications of ageing population

5.2.1 Social security

The long-term budget forecast for the development of the state pension system was developed in accordance with the parameters of the legislation in force as of April 1, 2022. The 2019 Eurostat demographic forecast (EUROPOP 2019), validated with preliminary data of the National Statistical Institute for 2021, is used, while the assumptions for births, deaths and migration for the period 2022-2070 are preserved. A preliminary forecast for selected macroeconomic indicators for the period 2022-2070, provided by the Ministry of Finance, was used.

The results show that in the long run the Bulgarian pension system is facing serious demographic challenges. For the period 2021-2070, the population of Bulgaria is expected to decrease by nearly 27% from about 6,887.6 thousand people to 5,048.7 thousand people, while its age structure will deteriorate. This will lead to a significant increase in the age dependency ratio – if in 2021, 100 people between 20 and 64 correspond to 34 people over the age of 65, then in 2070 the number of elderly people will increase to 54 per 100 people between 20 and 64. The working age population will decrease and its share in the total population of Bulgaria will shrink from about 64% to about 57%. For its part, the share of the elderly population (65+) will increase from about 22% in 2021 to 30% in 2070.

In recent years, important steps have been taken in response to demographic pressure on the state pension system. The 2015 reform created conditions for limiting the growth of pension expenditures by introducing stricter requirements for acquiring the right to a pension for old age.

Both as a result of demographic processes and as a result of the measures taken with regard to the right to a pension, the number of pensioners will steadily decrease. In this regard, it should be noted that the increase in mortality among the population over the age of 60 in the last quarter

of 2020 and throughout 2021 as a result of the COVID-19 pandemic has led to a large number of suspended pensions, respectively to a decrease in the number of retirees by over 56 thousand in 2021.

At the end of 2021, the number of pensioners with labor activity pensions was 2,021.3 thousand. By 2070, it is expected to decrease to about 1,612.0 thousand.

While the decrease in the number of persons receiving disability pensions is expected to continue for the entire period under review, the decrease in the number of pensioners receiving old age pensions will continue until 2040, after which their number will begin to increase gradually and thus increasing the demographic pressure on the state pension system. The increase is a result of the retirement of the generations born in the 70s and 80s of the last century.

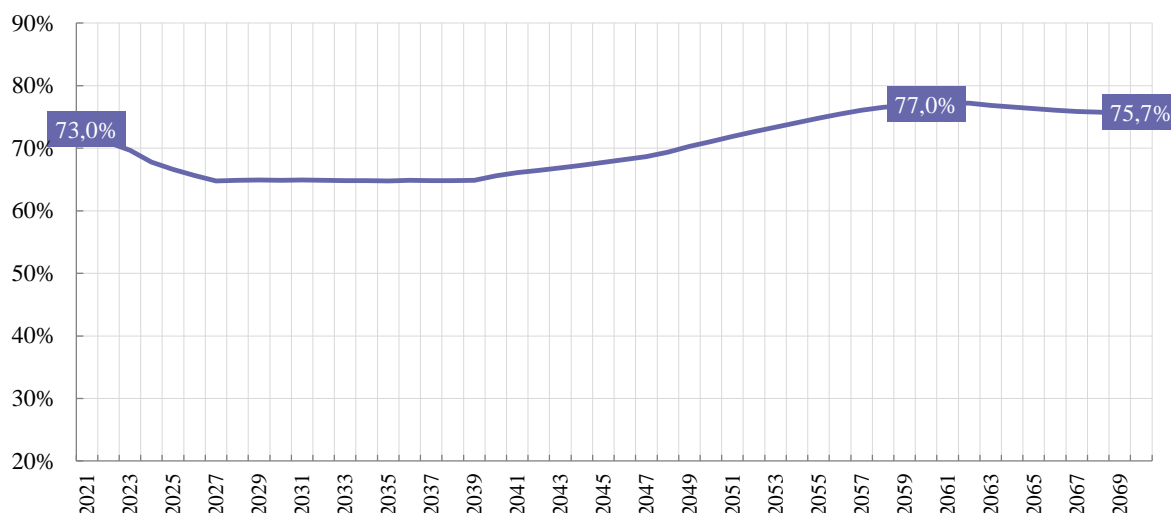
Demographic pressures after 2030 will intensify due to two additional circumstances:

- First of all, in 2027 the required length of service for acquiring the right to old age pension at the standard retirement age for both men and women will stop increasing. Then it will reach the requirement of 37 years for women and 40 years for men.
- Secondly, approximately in the fourth decade of this century is the period in which the required retirement age will cease to increase – it will reach 65 years for men in 2029 and 65 years for women in 2037²⁷. These circumstances will lead to a deterioration of the ratio between the number of pensioners and the number of insured persons.

In 2021, 73 pensioners with employment pensions corresponded to 100 insured persons, and in 2022, 71 pensioners are expected to correspond to 100 insured persons. Graph 5-3 shows that the so-called "intra-system dependency ratio" will decrease, and in the period between 2027 and 2037, when the retirement age for women and men will be 65, the ratio between the number of pensioners and the number of insured persons will remain below 65%. This decrease is a result of the projected lower number of newly granted pensions during these years, due to the increase in the retirement age and the required length of service, the limitation of early retirement, as well as due to availability of incentives for older workers to stay longer in the labor market. After 2037, under the influence of factors such as an aging population, increasing life expectancy and declining employment, the ratio between the number of pensioners and the number of insured persons will start to grow gradually, with the highest value of the indicator will be reached around 2060, when 77 pensioners for employment will correspond to 100 insured persons.

²⁷ The assumptions do not take into account the provision under Art. 68, para. 5 of the Social Security Code on the binding after 31 December 2037 of the retirement age with increasing life expectancy due to the fact that there is currently no consensus-determined and regulated mechanism.

Graph 5-3: The ratio of the number of Retirees to the number of Insured Persons (2021-2070)

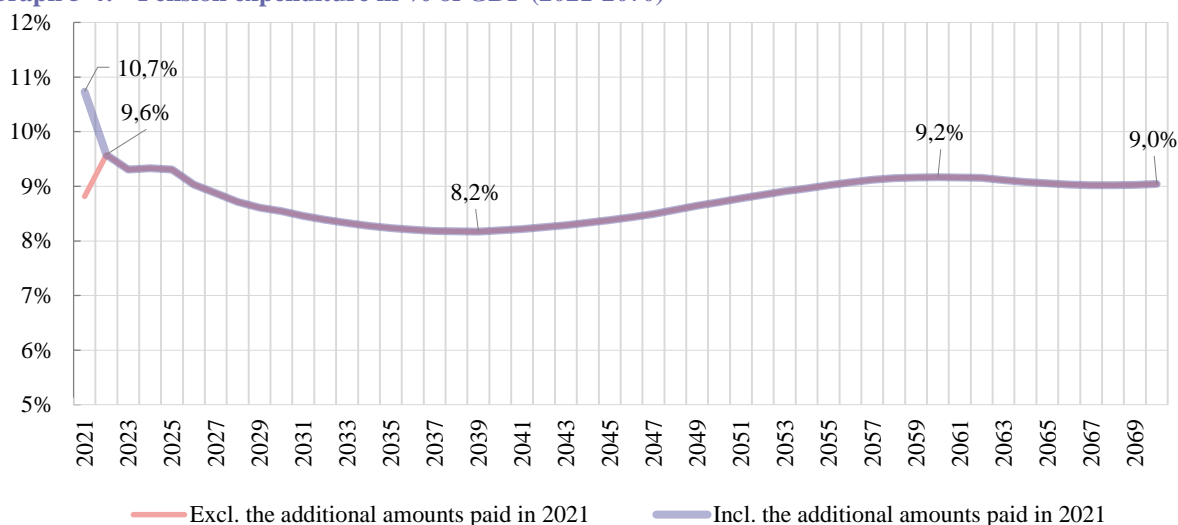


At the same time, the focus of policies in recent years has been mainly on increasing the adequacy of pensions. In 2021, pension expenditures were 8.8% of GDP excluding additional amounts paid to pensions, and 10.7% of GDP including additional amounts of BGN 50 per pensioner in the period January-September and BGN 120 in the period October-December. In 2022, pension expenditures are expected to reach 9.6% of GDP excluding additional amounts to pensions and 9.7% of GDP including additional amounts²⁸, which have not been foreseen in the 2022 State Social Security Budget Law. The increase from 8.8% to 9.6% is mainly due to the higher amounts of pensions since the beginning of the year as a result of the increase of the minimum amount of old age pensions from BGN 300 to BGN 370, the increase of the maximum amount of pensions from BGN 1440 to BGN 1500, the increase of the accrual rate from 1.2 to 1.35, as well as the annual update of the amounts of the pensions from July 1, provided for in the State Social Security Budget Law for 2022. There will be a decline of the pension expenditures to GDP ratio to 9.3% in 2023 due to the assumption that after 2022 there will be an increase in the amount of pensions only as a result of their annual update from 1 July. This level is expected to remain constant until 2025, after which the share of pension expenditures in GDP will continue to decline, reaching its lowest values of about 8.2% in the period 2035-2040. This process will be most significantly influenced by the decreasing number of newly granted pensions due to the gradual increase of the statutory retirement age and the required length of service. In the period from 2040 to 2055, as a result of aging population and higher life expectancy, the demographic pressures on the state pension system will increase and pension expenditures as a percentage of GDP will begin to increase, reaching its highest value of 9.2% around 2060. In the last decade of the forecast period, a certain reduction in the share of pension expenditures in GDP to about 9% can be expected.

The following chart shows the results of the long-term cost of pensions paid by the State Social Security for the period 2021-2070.

²⁸ BGN 102.0 million are provided in the central budget for the payment of additional amounts, representing compensation for the difference between the income from pensions before and after December 25, 2021 (including lump sums of BGN 120 for December 2022 and 60 BGN - for January-June 2022 and BGN 142.9 million for one-off payment of BGN 70 in April 2022 to the pensions of all pensioners under the Council of Ministers № 43 of April 2022.

Graph 5-4: Pension expenditure in % of GDP (2021-2070)



In the long run, the following factors will have the strongest impact on the state pension system in Bulgaria:

- Demographic changes presented by age dependency ratio;
- the retirement eligibility conditions represented by the coverage rate;
- "generosity" of the public pension scheme represented by the income replacement ratio;
- Participation of people over 65 years of age in the labour market.

The long-term the dynamics of pension costs will be influenced also by the possibility for insured persons born after 1959, who until August 2015 were compulsorily insured in state social security (Pillar I) and in a universal pension fund (Pillar II), to switch to insurance only in the first pillar by paying higher social insurance contribution. Due to the fact that the data currently available do not allow a specific assumption to be made about the percentage of persons born after 1959, who in the long run would switch to insurance only in the first pillar, the forecast was developed under the assumption that the share of insured persons, born after December 31, 1959, who would continue to be insured in state social security and in universal pension funds, remains unchanged compared to 2021.

On the basis of the above, the following summary can be made:

- In the long run, the ratio between the number of pensioners and the number of insured persons will grow.

The Covid-19 pandemic and related negative processes in labor market development have had a particularly pronounced impact on the dynamics of the number of insured persons. After a nearly 10-year period of annual growth, the average number of insured persons decreased by more than 100,000. In 2021, as a result of the recovery of the economy, the number of insured persons reached 2 747.5 thousand but still remains by more than 46.5 thousand below the pre-pandemic levels. In long run, the number of insured persons follows the trend in the number of employees, with an increase expected by 2026 and then by 2070 the trend is decreasing, which is the result from the reduction of working age population leading to shrinking in workforce and to reduction in number of employees.

In the long run the total number of pensioners with pensions related to employment paid by the state pension system will decrease. This result is a consequence of increasing the legal requirements for access to pension and the negative demographic trends in the country. However, the

relative share of pensioners from the total population of the country will increase from around 29% in 2021 to 32% in 2070.

The ratio between the number of pensioners and the number of insured persons, also called the pension system dependency ratio, is a key indicator of the financial status of the pay-as-you-go pension schemes. The aging of the population and the increase in the average life expectancy on the one hand, and the reduction of working-age population on the other, have a significant impact on the state social security system in the long run.

The forecasts show that the negative influence of this factor will be amplified after 2035, reaching the highest intensity between 2045-2060, when within fifteen years the ratio between the number of pensioners and the number of insured persons will grow by 9.3 percentage points from 67.7% to 77%.

- In the long-term, income replacement ratio will decrease.

In the next three-year period, as a result of the measures that entered into force on 25 December 2021, the amounts of pensions will increase significantly. In 2022, the income replacement ratio²⁹ will reach 46.3% with a reported value of 40.7% for 2021. The value of this indicator is influenced also by the payment of additional amounts to each pensioner in 2021 and 2022. Including the additional amounts to pensions, the replacement ratio was 46.6% for 2021 and 49.0% for 2022.

In the long run, the income replacement rate will gradually decrease up to about 36% in 2070. On this process, the most significant influence has the legislative requirement for reduction of the pension amount for persons to whom a pension will be granted both from the state pension system and the universal pension fund.

The income replacement rate will be lower for pensioners, who have been insured in both pillars. Their pensions will be reduced, according to the percentage of the social security contribution, which has been transferred to the second pillar, taking into account the number of months during which the person has been insured in a universal pension fund relative to the overall continuation of his / her insurance, but they would obtain a second pension from a universal pension fund. The reduction in the amount of pensions awarded to women born in the early 1960s who are entitled to a retirement pension in 2022 is around 10 per cent, rising to around 25 per cent for pensions awarded after 2050. This is because the entire period of insurance of persons who will retire then will cover periods after 2001 with insurance in a universal pension fund. It is important to note that the value of the reduction is different for each individual pensioner and depends on the specific period covered by social insurance contributions.

5.2.2 Healthcare

In the long run, the share of total health expenditure is expected to reach 5.1% of GDP in 2050 and then slightly decrease to 4.9% in 2070. A similar trend is expected in the 2021 Aging Report. Long-term health care costs are based solely on the population forecast. Such a scenario is very restrictive. It does not imply a change in the policy of public spending on health in the context of expanding budget-funded health services. Also, according to many econometric studies, technical progress and other non-demographic factors are among the main reasons for rising health care costs in developed countries. For this reason, in addition to the baseline report, the Population Aging Report examines 11 other scenarios for the development of health care expenditures related to different demographic and economic dynamics. Their expenditures in Bulgaria in the period 2019–2070 increased by 0.2 percentage points to 2.2 percentage points, with

²⁹ The ratio of the average pension related to employment to the average insurance income for the respective calendar year

the largest increase in a scenario involving factors other than demographic such as innovations in medical technology.

Table 5-2: Health expenditure³⁰ % of GDP

	2019	2030	2040	2050	2060	2070
MoF	4.6	4.8	5.0	5.1	5.0	4.9
Report 2021	4.9	5.1	5.3	5.5	5.4	5.4

Source: MoF, Aging Report 2021

5.2.3 Education

Table 5-3: Education expenditure % of GDP

	2019	2030	2040	2050	2060	2070
MOF³¹	3.8	4.0	3.9	4.1	4.3	4.2
Report 2021	2.9	3.1	3.0	3.2	3.4	3.3

Source: MoF, Aging Report 2021

The MoF's forecast of public spending on education is based on the long-term demographic forecast and the assumption that spending will be indexed to increasing nominal labour productivity. In the period after 2040, the stabilization of the demographic dynamics of the population under 18 is expected to lead to a gradual increase in total expenditures on education.

5.3 Conditional liabilities

Guaranteed debt of the General Government sector at the end of 2022 is expected to amount to BGN 623.5 million or 0.4% of GDP, marking an increase in nominal terms compared to the level reported at the end of 2021 - BGN 556.1 million or 0.4% of GDP. In the sectoral structure of the General Government guarantees, the share of 49.8% is occupied by the guarantees issued under the two European instruments created after the outbreak of the pandemic by COVID-19 - the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) and the Pan-European Guarantee Fund. A significant share of 34.5% is taken by the guarantees of the Energy Sector, followed by the internal guarantees under the the Student and Doctoral-Candidate Loans Act with a share of 11.2% and other guarantees with a share of 4.5%.

In 2022, disbursements are planned mainly under the state-guaranteed loan from the European Investment Bank (EIB) for the implementation of the project "Greece-Bulgaria Interconnection" and under the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE).

³⁰ The values in the aging reports represent the sum of health and long-term care costs. The forecasts of the Report are based on data from the System of Health Accounts, while the forecasts of the Ministry of Finance are based on data from expenditures of the General Government sector by function (COFOG).

³¹ State management expenditure by function (COFOG)

The guaranteed debt of the general government sector is formed mainly by guarantees issued by the Central Government subsector with a share of 99.7% and by the Local Government subsector with a share of about 0.3%.

In 2023–2025, the nominal amount of guaranteed debt of the General Government sector is expected to decrease slightly and reach about BGN 621.4 million at the end of the period, 0.3% of the projected GDP. The expected decrease is mainly due to the regular repayments under the loan agreements. At the moment, there are no plans to issue new government guarantees for financing projects or programmes by international or European institutions. With regard to the domestic guaranteed debt, the government will continue to provide financial support to students and doctoral students under the Student and Doctoral-Candidate Loans Act.

Conditional liabilities with potentially significant impact on the General Government sector:

In accordance with item 1.7 of Decision No 38 of the Council of Ministers of 27 January 2022 for the 2023 budget procedure and in connection with Art. 73, item 8 of the Public Finance Act, all state and municipal enterprises with a total amount of liabilities as of 31.12.2020 above 0.1% of the Gross Domestic Product of the country, which are not part of the consolidated fiscal programme and do not fall within the scope of the General Government sector, are subject to monitoring. They should provide information and assessment of the forecasts of revenue and expenditure and assets and liabilities with reporting data for 2020 and 2021, estimates for 2022 and a forecast for the period 2023-2025.

Based on the information received, for the four-year period 2022-2025, a decrease in the liabilities of state-owned companies in the non-financial sector, subject to surveillance, is projected by 35.45%. The amount of the long-term and short-term liabilities of these companies reported as of 31.12.2021 is a total of BGN 9.4 billion and as of 31.12.2025 the forecasts are the same to amount to BGN 6 billion.

The total debt ratio will decrease from 0.76 as of 31.12.2021 to 0.50 at the end of the period. The total debt-to-assets ratio of these companies is expected to decrease by 0.10 over the forecast period to 0.33. The liquidity ratio remains stable at a level above 1.6 throughout the period 2021-2025. ●

6. QUALITY OF PUBLIC FINANCE

6.1 Policy strategy

The policy strategy in the field of public finance quality follows the consistent actions for institutional, normative and methodological changes in the direction of improving the management of public finances.

Achieving a sustainable medium-term fiscal framework and its implementation are related to the implementation of measures to improve the quality of public finances, expressed in improving the budget process, improving budget documents, strengthening the implementation of good budgetary practices and monitoring the effects of the implemented sectoral policies by monitoring the key indicators for measuring the progress in terms of the implementation of the strategic goals of the policies and the achievement of the expected benefits/effects for the society.

Despite the global challenges and the associated risks of uncertainty about macroeconomic and fiscal development, efforts are continuing to achieve a better link between the financing of pursued policies and the achieved results. The good practice of the medium-term budgetary forecast and its update in recent years to include information on the development of expenditure policies and their corresponding key indicators for measuring the degree of achievement of policy objectives pursued by the government continues. Their continued upgrading will be linked to the implementation of new and revised policies and reforms, following a more in-depth review and in connection with the forthcoming adoption of a government programme, and changes in policies, measures and assumptions will be linked to the update of their corresponding key indicators and target values.

In the medium term, the accumulation of information on the defined key performance indicators is expected to contribute to the creation of a sustainable basis for monitoring and tracking trends, incl. spending reviews, as well as to assess the relationship between the strategic objectives of budgetary organizations and their policies/budgetary programmes.

Despite the established permanent regulation of the budget framework with the adoption of the Public Finance Act in 2013, efforts to improve the regulatory framework in the field of budget continue, accompanied by monitoring and analysis of the implementation of budget legislation and budgetary practices, as well as compliance with fiscal rules.

In connection with the parliamentary elections held at the end of 2021 and the decisions of the National Assembly to elect the Council of Ministers and adopt its structure, as well as the need to define policies in the medium term in accordance with the priorities set out in the Governance Agreement of the Republic of Bulgaria in the period 2021-2025, the Council of Ministers by Decision № 52 of 2022 approved the classification of policy areas/functional areas and budget programmes from the competence and responsibility of the respective first-level spending units whose budget shall be included in the state budget, with the exception of the first-level spending units under the budgets of the National Assembly and the judiciary, for the period 2022-2025.

The quality of public finances is built on the basis of the developed macroeconomic and budgetary forecasts in support of the prudent fiscal policy pursued by the government incl. and by monitoring compliance with fiscal rules, as well as the existence of corrective mechanisms in case of deviations from the set targets.

The strengthened framework for fiscal governance within the EU has expanded the role and formalized the tasks of national independent fiscal institutions, which has found a place in national legislation. The analyses, assessments and recommendations of the Fiscal Council on the drafts of the main budget documents of the government are a reliable guide for the conducted fiscal policy, including in terms of identifying potential risks and challenges. The Fiscal Council also contributes to increasing accountability and improving fiscal transparency by monitoring compliance with numerical fiscal rules and restrictions.

With the decision of the Organization for Economic Cooperation and Development (OECD) Council of 25 January 2022 to start accession talks with the candidate countries, including Bulgaria, an invitation was sent by the Secretary General of the OECD to the Bulgarian side. The forthcoming membership talks mark the end of a long period since 2007, during which our country was eager to join the Organization. The ultimate goal of the accession process is for Bulgaria to identify and implement the necessary reforms that will not only lead to membership in the OECD, but will also be in the interest of the country and society to improve the quality and effectiveness of policies.

As an EU Member State, Bulgaria largely follows policies and good practices compatible with OECD legal instruments. Compliance of European legislation with the objectives and principles of the OECD gives priority to EU candidate countries.

Based on the Agreement signed in March 2019 between the Ministry of Finance of the Republic of Bulgaria and the OECD to conduct a budget review of Bulgaria, our country was given the opportunity to be assessed for compliance with the guidelines "OECD Council Recommendation on Budgetary Governance (2015)", which allows for comparison with established international standards and best practices in the process of budgeting and fiscal management.

The OECD assessment highlights the stable economic growth in recent years, as well as the good state of the public finances – low government debt and budget balance. The main strengths are the medium-term budgetary framework and budget forecasting in line with the European System of Accounts, fiscal rules, the sound development of programme budgeting, and the increase in budget transparency and accountability in recent years. Regarding the quality of public finances, the initiatives for the prioritization of key indicators, for conducting spending reviews, as well as the developed methodology for conducting spending reviews were noted. The importance of the independent fiscal institution – the Fiscal Council and the Court of Auditors, which has important functions in terms of financial reporting, was noted. Capital budgeting is noted to be integrated into the overall fiscal policy of the government and the Council of Ministers has adopted a framework for approving capital investments.

Bulgaria's budget review "Budgeting in Bulgaria" was published on the OECD's official website in issue 2 for 2021 in the OECD Journal on Budgeting.

The Open Budget Index is the only internationally independent comparative study of budget transparency conducted by the International Budget Partnership, which assesses the extent to which the governments of 117 countries around the world provide the public with timely and detailed information on the budget. The index covers the procedures for drafting, adopting, implementing and reporting on the budget and the responsibilities of other institutions such as the Court of Auditors and the legislature in the budget process. According to the published results of the latest Open Budget Survey for 2019, Bulgaria has significantly improved its assessment and achieved 71 points, which is the average for OECD member countries and is among the countries considered to provide "significant information" on the budget.

Regarding the set key indicator for the rating assessment for Bulgaria for budget transparency, it should be noted that in 2021 the eighth regular survey was conducted by the International Budget Partnership and the MoF participated in the survey as a government representative,

reviewing the questionnaire for Bulgaria completed by independent researchers and expressed an opinion on the assessments made and the information on which they are based. In 2022, the new regular assessment of the budget transparency of the participating countries will be awarded and published on the website of the International Budget Partnership.

In May 2021, the International Budget Partnership published the results of the study on accountability in the management of funds related to the COVID-19 pandemic, in which our country also participated. The main conclusion of the study is that governments do not manage fiscal policy in response to the crisis in a transparent way. It should be noted, however, that according to the survey, Bulgaria ranks among the group of countries that provide some accountability in the implementation of measures and policies, which is a good achievement given that about two thirds of governments provide only limited or minimal accountability.

6.2 Composition, efficiency and effectiveness of costs – COFOG

For the period 2020-2025, the total expenditures of the General Government sector are expected to decline by 3.2 percentage points of GDP. This is largely due to the significant costs undertaken in 2020 to prevent the spread of COVID-19, its treatment, business support measures and social measures to reduce the negative effects of the pandemic, which have led to increased costs by function Health, Social Protection and Economic Activities in 2020.

For the period 2020-2025, General Government expenditure decreased slightly from 3.5% of GDP in 2020 to 3.4% in 2025.

Expenditures under the Defence function increased as a share of GDP from 1.5% to 2.6% due to the measures taken to modernize the equipment of the Bulgarian army. Provisions of aviation equipment, a multifunctional modular patrol ship and basic combat equipment for the construction of battalion battle groups are envisaged, observing the requirement to reach defence expenditures of up to 2% of GDP, in accordance with the National Plan for Increasing Expenditures for the Defence of the Republic of Bulgaria until 2024 and the commitments made to NATO.

Expenditure on the Economic Affairs function fell from 8.5% of GDP in 2020 to 6.4% of GDP in 2025. The function includes state-owned enterprises that are part of the general government sector and eliminates costs related to European funds that, according to the ESA 2010 methodology, do not affect the revenues and expenditures of the General Government sector.

Expenditures under the Environmental Protection function remained at 0.7% of GDP during the period under review. The costs of the function include measures in the field of protection and use of environmental components; for the national environmental monitoring system; to address climate and environmental challenges; for maintenance, modernization and construction of the technical infrastructure related to the improvement of the transport accessibility and the integrated management of the water resources and geoprotection and for financing of the programmes for elimination of the caused damages to the environment.

Expenditures under the Housing and Community amenities function fell slightly from 0.9% of GDP in 2020 to 0.8% in 2025. This function includes expenditures for management, control and regulation of housing and territorial development activities.

Expenditures under the Health function decrease from 5.9% of GDP in 2020 to 5.2% of GDP in 2025. Expenditures under the function include measures to strengthen the role of prevention as a prerequisite for better health and quality of life; ensuring financial stability and security of the health system; development of e-health and overcoming regional imbalances, as well as ensuring functional interaction between the different levels of medical care.

Expenditures for education remained at 4.0% of GDP during the period under review, including measures aimed at continuing the implementation of integrated policies, with a focus on education and personal development of children and students, promoting innovation, the qualification of the pedagogical specialists and the modernization of the educational institutions. In the perspective of 2030, including the period 2023-2025, the provision of quality education for all throughout life is envisaged that policies in the field of education and training will cover each of the stages of personal development, following the principles lifelong learning; to be oriented towards increasing the scope and quality of education and training.

Expenditures under the Social Protection function decreased from 13.1% of GDP in 2020 to 12.5% of GDP in 2025. In the field of social protection, a number of measures have been taken and planned during this period to increase the hourly rate for personal work. assistants, for increasing the poverty line, for calculating in a new way the individual coefficient for the pensions for labour activity, for recalculation of the pensions with reduced individual coefficient and recalculation of the pensions with additional length of service acquired after retirement, etc. The optimization of social assistance to vulnerable groups, ensuring their social protection through better distribution of social benefits and increasing the effectiveness of programmes remains a priority.

Table 6-1: Budget expenditures by function

	% of GDP		% of total budget expenditure	
	2020	2025	2020	2025
1. General public services	3.5	3.4	8.4	8.8
2. Defence	1.5	2.6	3.7	6.7
3. Public order and safety	2.7	2.3	6.5	6.0
4. Economic affairs	8.5	6.4	20.4	16.5
5. Environmental protection	0.7	0.7	1.7	1.9
6. Housing and community amenities	0.9	0.8	2.1	2.2
7. Healthcare	5.9	5.2	14.1	13.6
8. Recreation, culture and religion	0.9	0.6	2.1	1.6
9. Education	4.0	4.0	9.5	10.4
10. Social protection	13.1	12.5	31.4	32.4
11. Total expenditure	41.8	38.6	100.0	100.0

Source: Ministry of Finance, NSI

6.3 Structure and efficiency of revenue systems

6.3.1 Tax policy and legislation

The tax policy of the Republic of Bulgaria is oriented towards ensuring macroeconomic and budgetary stability in the medium and long term, as well as the necessary financial resources for the implementation of the government's expenditure policies. Tax policy is characterized by predictability, while encouraging business development, investment activity, stimulating innovation, energy efficiency and employment. In the international aspect, the country's tax policy is aimed at supporting the functioning of the European Union's single market, the successful implementation of the digital transformation of society and the economy in Europe and the activities to address climate and environmental issues.

Adhering to the principles of fairness and efficiency, the tax system develops in a way that is conducive to growth and ensures an increase in budget revenues. In this regard, the goals and measures of tax policy to reduce tax fraud, to prevent tax evasion, to tackle the shadow economy and to reduce administrative burdens and costs for businesses and citizens play an important role.

For the period 2022-2025, tax policy will continue to adhere to established principles and guidelines in recent years, with its main objectives again aimed at maintaining economic growth, improving the business environment, combating tax abuse and increasing of fiscal sustainability in the long run. The main priorities related to improving the collection of revenues, preventing opportunities for evasion and non-payment of taxes and social security contributions and reducing the administrative burden and costs for businesses and citizens are preserved. It is envisaged that low tax rates for corporate taxes and those for personal income taxes will be maintained as an important prerequisite for investment, economic growth and employment.

Revenue discretionary measures in the field of tax policy for 2022-2023 include legislative changes taken in response to the fight against the spread of COVID-19 infection, aimed at supporting citizens, business and employment. It is accepted that the economic recovery in Bulgaria takes place simultaneously with the same processes internationally.

In the period 2022-2025, the Ministry of Finance will continue to actively participate in the structures and activities of the EU and in initiatives of the OECD in the field of taxes and administrative cooperation. The work related to the participation of the Republic of Bulgaria in the activities for the implementation of the four minimum standards and other elements of the package of measures under the Project " Base Erosion and Profit Shifting " (BEPS) already agreed by the (OECD continues, in connection with the accession of the Republic of Bulgaria to the OECD Inclusive Framework on BEPS (Minutes № 13.37 of the Council of Ministers on 30 March 2016). The introduction of the minimum standards is also related to the fulfillment of Bulgaria's obligations as an EU member state.

During the period, the participation of Bulgarian experts in the activities related to the discussion, analysis and impact assessment of the measures planned by the OECD to address the tax challenges posed by the digitalization of the economy and unresolved issues related to the transfer of profits will continue: Pillar 1 (tax rights) and Pillar 2 (minimum taxation of the profits of multinational enterprises). The reform is expected to increase corporate tax revenues, significantly reduce the transfer of profits and increase tax security.

The European Commission's top priority for action to address climate and environmental challenges involves Bulgaria's commitment to taking measures in tax legislation to achieve the European Union's goals in areas such as energy taxation and promoting the use of environmentally friendly vehicles.

In the period 2022–2025, the main goal remains to pursue a policy aimed at increasing revenue collection and achieving the set budget goals. In order to fulfil the priority goals of the tax policy, normative changes and actions of the revenue administrations in the field of collection and control are carried out. Many of the measures to improve the collection of revenues in the field of tax policy are of a permanent nature and are included in the strategic documents that each of the responsible institutions develops and implements and will continue to be implemented in the period 2022-2025. The main tools for minimizing the losses from uncollected tax revenues in the budget are the ongoing interaction of institutions and the exchange of information nationally and internationally, as well as the reduction of administrative burdens and costs for businesses and citizens.

The main permanent measures include: Mechanism for VAT reverse charge for supplies of goods and services; Implementation of fiscal control over the movement of goods with high

fiscal risk (HFRG); Mechanism for repayment of public debts of persons with receivables from municipalities, other departments or state enterprises under public procurement contracts and those awarded in implementation of EU operational programmes; Continuous monitoring of debtors with overdue debts above a certain amount; Promoting voluntary compliance with legislation; Control over the supply and movement of liquid fuels; Reduction of administrative burden.

– Legislative changes in 2021

To increase budget revenues and combat tax fraud – measures to improve compliance with the law, prevention and counteraction to tax fraud and tax evasion.

In order to harmonize the national legislation with the requirements of the European one, as well as to find a balance between facilitating the legal cross-border trade and ensuring the possibility for effective control and monitoring in order to collect excise duties, amendments of the Excise Duties and Tax Warehouses Act (EDTWA) have been adopted (promulgated, SG No. 12 of 11.02.2022). The requirements of Council Directive (EU) 2020/262 of 19 December 2019 laying down the general arrangements for excise duty and of Council Directive (EU) 2020/1151 of 29 July 2020 amending Council Directive 92/83 / EEC on the harmonization of the structures of excise duties on alcohol and alcoholic beverages. Changes have also been made in connection with the implementation of the provisions of Council Directive (EU) 2019/2235 of 16 December 2019 amending Directive 2006/112 / EC on the common system of value added tax and Directive 2008/118 / EC on the common regime of excise duty on defense activities within the Union. It is planned to expand the functionality of the computer system, which is currently used for the movement of excise goods under the "excise duty suspension arrangement " regime, by including the possibility of covering the movement of excise goods released for consumption in one Member State and move to the territory of another Member State in order to be delivered there for commercial purposes. This will simplify the monitoring of these movements and ensure the proper functioning of the internal market. The provisions for measuring degree Plato of beer and, in particular, the provisions relating to the measurement of degree Plato of sweetened or flavored beer are clarified.

To improve the business environment and reduce administrative burdens and costs for businesses and citizens

Provisions have been created in the VAT Act, which allow for corrections in case of incorrect tax treatment of supply, established by an effective audit act, in connection with the need to improve the legal framework in line with the acquis, while guaranteeing the principles of legal security and neutrality of VAT. Judgments of the Court of Justice of the European Union (CJEU) in Case C-314/17 Geocycle Bulgaria EOOD, C 111/14 GST – Service AG Germany, C-835/18 SC Terracult SRL, C-138/12 Rusedespred OOD and others, the CJEU recognizes that in order to ensure VAT neutrality, Member States should provide in their domestic law for the possibility of adjusting invoiced tax, which should not have been charged, in the presence of force revision act. In this regard, the respective amendments to the VAT Act have been adopted (the VAT Act, promulgated, SG No. 14 of 18.02.2022).

Precise texts of the Law on VAT and specifying changes related to various parameters of the established regimes for taxation of supplies of goods and services, implemented electronically to recipients – non-taxable persons, have been adopted.

A change has been made to the provision related to the grounds for mandatory deregistration in the event of termination of a legal entity – with or without liquidation. The deletion of branches of foreign legal entities is also envisaged as a ground for mandatory deregistration under the law.

With regard to trade in goods after Brexit, an amendment was made to the provision concerning supplies to or from the United Kingdom of Great Britain and Northern Ireland, specifying the subject of the supply. In addition, a text has been adopted in respect of an intermediary in tripartite operations, specifying that for the purposes of the law Northern Ireland is considered to be the territory of a Member State and where a taxable person with a VAT identification number containing the "XI" mark is an intermediary in tripartite operations.

In connection with the need for full implementation in the national tax legislation of Directive (EU) 2016/1164, an amendment was made to the CITA (Law on CITA, promulgated, SG No. 14/18/2022), which determined hybrid entities that are incorporated or established in the country shall be equated to taxable persons for the purposes of the law. These rules do not apply to a collective investment scheme, which is an investment fund or a scheme that simultaneously meets the conditions to have multiple owners, to have a diversified portfolio of securities and to be subject to investor protection regulations.

The CITA explicitly states that the accrued expenses, income, profits and losses arising from operating lease contracts, according to International Accounting Standards, are not recognized for tax purposes as for tax purposes. In such cases, expenses, income, gains and losses are recognized, determined in accordance with the rules of Accounting Standard 17 "Leases" for sale and leaseback contracts classified as operating leases.

An amendment has been made in connection with the commitment of the Republic of Bulgaria to eliminate non-compliance of the national legislation with Directive (EU) 2016/1164. After the change, all taxpayers in the Republic of Bulgaria who are subject to corporate tax and have controlled foreign companies, regardless of the form of taxation of these companies, fall within the scope of specific rules for determining the tax financial result in cases of controlled foreign company.

A reduction of the rate from 10% to 3% of the tax on expenses in kind under Art. 204, para. 1, item 4 of CITA, which shall also apply for 2022 (Law on CITA, promulgated, SG, issue 17 of 01.03.2022).

The Law on the State Budget of the Republic of Bulgaria for 2022 (promulgated, SG No. 18 of 04.03.2022) provides an opportunity for the use of food vouchers under Art. 209, para. 1 of CITA for payment not only for food, but also for payment for electricity and heat, natural gas and water used for domestic purposes, for activities carried out by cultural organizations under the Law for Protection and Development of Culture and for showing films according to The Film Industry Act. The amount of BGN 80 per month has been increased to BGN 200 for the social expenditures for 2022 under Art. 204, para. 1, item 2, letter "b" of CITA.

An amendment has been made to the Personal Income Tax Act (Law on CITA, promulgated, SG No. 14/18/2022), which, in the case of deceased sole traders or self-insured persons, provides an opportunity in terms of filing inquiries about the income paid during the year and for the tax and compulsory social security contributions withheld during the year to be filed by their heirs at law or by will, as well as by the testators or their legal representatives, for the year in which the deceased were employers or payers of income.

The final tax under Art. 38, para. 13 of the Personal Income Tax Act on interest income from bank accounts acquired from resident natural persons has been abolished (Act on CITA, promulgated, SG No. 17 of 01.03.2022). The change is in force from 01.04.2022 and after this date the indicated incomes will be in the scope of the non-taxable incomes under art. 13, para. 1, item 8 of the Personal Income Tax Act.

Application of a reduced VAT rate of 20% to 9% for the supply of restaurant and catering services, books, baby or toddler food and baby diapers and similar hygiene items, as well as for the consumption of beer and wine in drinking establishments, for the supplies of services for

the use of sports facilities and for the supply of general tourist service in the cases under Art. 136 of the VAT Act. The term for application of the reduced rate of 9 per cent has been extended until 31 December 2022 by the Law on Amendments to the VAT Act (SG, issue 111 of 31.12.2021). Exemption from VAT and customs duties on imports of certain medical goods needed to combat the consequences of the COVID-19 pandemic, in accordance with Decision 2020/491 of 03.04.2020 of the European Commission and on the basis of the adopted Council of Ministers № 80 of 23.04.2020, which supplemented the Council of Ministers № 75 of 2007. Goods imported by state organizations are eligible for VAT exemption. Actions have been taken to extend the measure beyond 31 December 2021. In this regard, the EC adopted Decision (EU) 2021/2313 of 22 December 2021, in connection with which the requesting Member States, including the Republic of Bulgaria, to apply the exemption from import duties and the exemption from VAT on imports granted for goods needed to combat the effects of the COVID-19 pandemic in 2022, which will apply to goods imported between 1 January 2022 and until June 30, 2022.

Exemption from VAT with the right to deduct tax (by applying a zero tax rate) to the following supplies taxable in the territory of the country: 1) The supply of vaccines against COVID-19 and services directly related to these vaccines; 2) The supply of medical devices for in vitro diagnostics of COVID-19 and the services directly related to these devices. These exempt supplies also include intra-Community acquisitions (purchases from other EU Member States). The aim is to reduce the cost of COVID-19 vaccines and COVID-19 in vitro diagnostic medical devices, as well as services closely related to such vaccines and devices. The preference is temporary and will apply until 31.12.2022.

The Law on the State Budget of the Republic of Bulgaria for 2022 adopted an increase in the amount of tax reliefs for children and for the income earned in 2022. For the tax relief for children under Art. 22c of the Personal Income Tax Act from the amount of the annual tax bases under Art. 17 of the Personal Income Tax Act, the following amounts are deducted: BGN 4,500 – for one minor child; BGN 9,000 – for two minor children; BGN 13,500 – for three or more minor children. The amount of the tax relief for children with disabilities under Art. 22d of the Personal Income Tax Act is also increased, as the sum of the annual tax bases under Art. 17 of the Personal Income Tax Act, BGN 9,000 is reduced for raising a child with 50 and over 50 per cent type and degree of disability, determined by an effective decision of a competent authority.

– National Revenue Agency (NRA)

To increase the share of voluntary compliance with obligations and improve the collection of tax liabilities, the NRA continues to implement the following measures:

Providing quality service, reducing the administrative test and facilitating clients in fulfilling their obligations:

- Conducting information campaigns and providing fast and quality assistance to NRA clients;
- Preliminary completion of the GTD under Art. 50 of the Personal Income Tax Act, as well as customer service regardless of territorial competence;
- Improving existing and developing new electronic services;
- Providing an accessible environment for people with special needs.

Effective control and enhanced institutional cooperation to combat tax and social security fraud:

- Constant monitoring and communication with obligated persons, forming a significant share of the country's economy;

- Constant monitoring and control of obligated persons with risky behaviour;
- Effective interaction with law enforcement agencies and external institutions: the Prosecutor's Office of the Republic of Bulgaria, the Ministry of Interior, the State Agency for National Security, the Customs Agency and others in the fight against tax and / or insurance fraud;
- Dialogue with business in order to prevent compliance with tax and social security legislation;
- Control over persons hiding income / income from commercial activity on the Internet.
- Development of the capacity of the NRA for control over electronic commerce and control in the digital environment (e-audits);
- Implementation of effective and efficient fiscal control in connection with the movement of goods with high fiscal risk on the territory of Bulgaria, in order to prevent tax evasion and tax fraud;
- Implementation of a GPS system for monitoring the vehicles of at-risk persons, in order to prevent the sale of irregular / unregulated goods and tax fraud schemes.

Development of forced collection of overdue debts

- Early application of methods that encourage voluntary payment of arrears, in order to avoid the need for enforcement;
- Constant monitoring and communication with persons with obligations with high fiscal effect;
- Improving communication, incl. and electronically, with debtors, public creditors and stakeholders;
- Active communication and use of legal opportunities to facilitate the payment of debt by people with temporary difficulties;
- Increasing the efficiency of the process of collection and securing public receivables by using the methodology for valuing the costs of forced collection;
- Improving the effectiveness of mutual assistance in the collection of public receivables from debtors with arrears who have applied for a VAT refund in another EU Member State.

Development of the risk management system for non-compliance with tax and social security legislation in the National Revenue Agency

- Improving the control based on risk analysis and risk behaviour, incl. broad communication to create a common prevention of involvement in tax and insurance fraud;
- Continuation of the implementation of the project "Segmentation and behavioural profiling of NRA clients in the context of risk management";
- Implementation of the activities under the project "Strengthening compliance through the introduction in the NRA of models for studying the external context and influencing the behaviour of taxpayers";
- Implementation of the activities under the project "Development and implementation of a model of" Horizontal Monitoring "by the Bulgarian Revenue Administration";
- Assessment of high VAT tax deficits.

In response to COVID-19

In 2021, the NRA is implementing the project "Support through working capital for SMEs affected by temporary anti-epidemic measures through the implementation of a support scheme by the National Revenue Agency (NRA)" under procedure № BG16RFOP002-2.094 "Support through working capital for SMEs affected of the temporary anti-epidemic measures through the implementation of a support scheme by the National Revenue Agency (NRA) "of the Operational Programme "Innovation and Competitiveness". The total budget of the project is BGN 176,000,000, with an implementation period of 19.01.2021 – 19.01.2023. In the implementation of the project, financial support was provided by the NRA to SMEs, within the scheme for collecting applications for support from SMEs entitled "Support through working capital for SMEs affected by temporary anti-epidemic measures", implemented in three phases as follows:

- Under Scheme № BG16RFOP002-2.095 (phase 1) – Total number of candidates – 7,992 persons, of which 4,845. Manual checks were made in connection with the evaluation of the applications by 64 evaluators from different structural units in the NRA, organized in 8 teams. A total of 1,164 copies have been issued. orders, including orders for payment of benefits – 58 pcs. and orders for refusal to pay benefits – 1,106.
 - As a result – total value of the paid financial support to SMEs – BGN 82,974,851 per 6,885 persons.
- Under Scheme № BG16RFOP002-2.097 (phase 2) – Total number of candidates – 4 837, as in 1 451. Manual checks were made in connection with the evaluation of the applications by teams of 57 evaluators from different structural units in the NRA, in 8 teams. A total of 88 copies have been issued. orders, including orders for payment of aid 19 pcs. and orders for refusal to pay benefits – 69 pcs.
 - As a result – total value of the paid financial support to SMEs – BGN 35,170,169 per 4,768 persons.
- Under Scheme № BG16RFOP002-2.101 (phase 3) – number of SME applicants – 2,553, as 2,109. Manual checks were made in connection with the evaluation of the applications by 120 evaluators from different structural units in the National Revenue Agency, in 24 teams. A total of 96 issues have been issued. orders, including orders for payment of aid 18 pcs. and orders for refusal to pay benefits – 78 pcs.
 - As a result – total value of the paid financial support to SMEs – BGN 13,512,475 per 2,475 persons.

– Customs Agency

1. In 2021, proposals have been prepared for the adoption of an Act amending and supplementing the Customs Act. The draft was prepared in connection with the need to take action regarding the payment of public receivables under customs legislation in compliance with the requirements of Union law, with the introduction of the necessary changes to facilitate the repayment of debts to the customs administration.

Some of the proposed amendments to the bill contain measures aimed at bringing national legislation in line with Regulation (EU) № 260/2012 of the European Parliament and of the Council of 14 March 2012 defining technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) № 924/2009 Text with EEA relevance, in the field of cross-border payments within the single payment area. There is a transition to a change in the banking service of accounts 7301 with the holder of the Customs Agency, for the receipt of revenues administered by all customs offices in the country on a single account, without the

use of codes for type of payment. Dropping the code of the type of payment will affect the whole process of processing debts and repaying them.

2. In this regard, changes have been proposed in the Law on Restriction of Cash Payments in order to enable the payment of customs debts and other government receivables on imports, through a physical and virtual POS terminal device.

It is envisaged that each debtor liable for payment of obligations upon import of goods shall have a virtual account in the customs system for customs debts, which shall record the payments made and the repaid debts of the debtors. Debtors, debtors in case of payment, have access to their virtual account through an application in the e-portal of the Customs Agency (module "Customs debt and collateral management for traders"). Debtors can benefit from the following actions: monitoring of incurred and recorded liabilities; sending confirmation of received notification of recorded customs debts and other public government receivables; management of your virtual account in the module "Customs debt and collateral management – for traders", which includes directing credit turnover to recorded liabilities and actions in connection with overpaid amounts, return or use for further repayment actions; securing accountable liabilities.

The quality and efficiency of customs clearance of goods declared for free circulation is improved. In addition, the efficiency and transparency in the accounting of payments on accounts 7301 of the Customs Agency is improved.

The tendency in the work of the customs authorities is the communication with the obligated persons to be carried out electronically by using channels for electronic notification in accordance with art. 104 and 105 of Regulation (EU) № 952/2013 of the European Parliament and of the Council of 9 October 2013 establishing the Union Customs Code. In this regard, there is a possibility to use the payments also through electronic processing, by the debtors themselves. Obligated persons are given the opportunity to repay obligations arising from the import of goods without the intervention of a customs officer, if they are registered in the electronic portal of the Customs Agency and use the application "Customs debt and collateral management for traders" of the Agency " Customs.

The process for control over repayment of payments is optimized, as the provided opportunities for self-repayment of debtors' obligations facilitate the complete electronic processing of customs debts from the moment of their occurrence to the moment of their repayment, as well as reduce the risk of unidentified payments and stimulate the application of good practices by debtors.

3. In 2022, a proposal was made to amend Ordinance H-9 / 07.11.2018 on the registers kept by the Customs Agency, issued by the Minister of Finance in respect of persons established in the territory of the country in which it is envisaged that the EORI number will be issued at their request or ex officio upon submission of a declaration or other request initiating the customs authorities to take a decision within their competence.

In this way, the procedure for issuing EORI numbers provided for in the ordinance will be facilitated, as a result of which the persons established on the territory of the country will be relieved in terms of customs processing. The relief is the possibility to issue EORI numbers for this category of entities immediately.

The proposals made for the adoption of the Law on Amendments to the Customs Act and on the amendment of Ordinance H-9 / 07.11.2018 on the registers kept by the Customs Agency, issued by the Minister of Finance, have not yet entered in force and are in the process of coordination.

In 2022, changes in Art. 10 of the Roads Act, as a result of which a fairer imposition of fees and fines will be achieved for those individuals and legal entities that use the national road network without paying toll or electronic vignette.

4. In 2021, with Decree № 227 of the Council of Ministers of 13.07.2021, a new Rules of Procedure of the Customs Agency were adopted, promulgated, SG, no. 59 of 16.07.2021, in force as of 31.07.2021. While maintaining the total number of the Customs Agency, the number of the Central Customs Administration was reduced from 1304 to 630 full-time positions. The number of the Central Customs Administration has been reduced in favour of the territorial units, which aims to strengthen the administrative capacity of the territorial units in carrying out inspections. These structural reforms have been implemented in order to strengthen customs control in the field of customs, excise and currency violations and crimes, counter the illicit trafficking in drugs, precursors and weapons, as well as better coordination in the implementation of functions and tasks in the field of the development of the strategy, priorities, plans and programmes for development in the field of information technologies and development of e-government in the system of the Customs Agency.

Following the established need to strengthen the ex-post control, in order to increase efficiency and effectiveness in the implementation of ex-post control measures in connection with excise and customs legislation, the "Ex-post control" directorate was restored and separate departments of the Territorial Directorates were established. The activity of the ex-post control units is focused entirely on the ex-post control of the declaration, on checks of the applicants for issuing permits for approved economic operators and on other permits under the customs legislation, monitoring and revision of permits. Special emphasis is placed on the inspections under the excise legislation, for the establishment of facts and circumstances relevant for excise duties and the audits for the establishment of excise duties.

Changes have been adopted, which represent strong measures to fight corruption, by introducing additional tools to control customs officials. The National Training Centre Directorate has been re-established to improve the quality of training for customs officers. The network and information security in the Customs Agency has been improved by establishing an independent unit under the direct authority of the Director of the Agency. The International Affairs Directorate has been established.

5. Projects related to the development and improvement of integrated information systems

In the period from 2022 to 2025, the Customs Agency will continue to implement a number of projects in accordance with the Roadmap for the implementation of the Sectoral Strategy "e-Customs" (2016-2025), which aim to improve the quality of administrative active service of citizens and businesses by improving existing e-administrative services and the inclusion of new e-services, reducing the administrative burden, timely reflection of changes in regulations, improving the process of transition to a paperless environment and others. ●

7. INSTITUTIONAL CHARACTERISTICS OF PUBLIC FINANCE

7.1 National fiscal rules

The existence of a legal framework defining budgetary rules, restrictions and procedures for action in the event of deviations from the targets for a given indicator is a prerequisite for increasing the predictability of fiscal policy, compliance with budgetary and financial discipline, and ensuring the sustainability of public finances. Fiscal rules should be consistent, be a significant indicator (in the most general case of budget balance, debt, expenditure and revenue) and set numerical limits or targets. Legal requirements and procedures are also required for corrective mechanisms and measures to return to the target or to the restriction set by the rule and cases of deviation from the target/the restriction.

In terms of scope, we distinguish between rules for indicators both according to the national methodology – for the budget balance and expenditures under the consolidated fiscal programme (on a cash basis) and for government debt, and indicators according to the European methodology – for the general government sector (for some rules – and for its relevant sub-sectors) – for the medium-term budgetary objective (MTO) for the structural deficit, for the budget balance, for expenditure growth relative to potential GDP growth and for consolidated debt for the General Government sector.

With the adoption of the Public Finance Act (PFA) and the Fiscal Council and Automatic Corrective Mechanisms Act and their subsequent amendments related to achieving full compliance with European legislation, Bulgaria has fully met the requirements for strengthening economic governance in the EU. The rules meet internationally accepted definitions and criteria and the requirements for aligning national fiscal planning with the preventive and corrective arms of the EU Stability and Growth Pact.

Concentration of fiscal rules and their permanent regulation within the PFA has a positive impact not only on improving coordination in the implementation of various policies, but also on better planning, development and implementation of fiscal policy, as it ensures their long-term sustainability.

An important condition for the proper functioning of fiscal rules are the bodies that monitor the compliance, as well as the existence of corrective mechanisms in case of deviation from the set goals. Their monitoring is based on universal criteria for assessing fiscal policy. Fiscal rules generally impose restrictions on fiscal policy at the national level, but some of them also impose numerical restrictions on budget indicators of individual budgets, such as those for municipalities.

Since the adoption of the PFA in 2013, three significant amendments to the PFA have been adopted so far (in 2016, 2017 and 2020), which were related to the refinement and further development of the regulation in order to improve the management processes of public finances and achieving full compliance with the requirements of Council Directive 2011/85/EU of 8 November 2011 on the requirements for budgetary frameworks of the Member States, creating the conditions for implementing the relevant regulations adopted at the end of 2011, as well as

with regard to fiscal rules and restrictions in order to ensure an adequate response to the challenges of the COVID-19 crisis and the created extraordinary situation.

Compliance with fiscal rules and budgetary discipline are the responsibilities of different authorities. The government is responsible for complying with fiscal rules at the national level (for the CFP and the General Government sector) with limited opportunities to influence sub-sectors (local authorities, social security funds and autonomous budgets), and can compensate for existing deviations, only within the scope of the central government. Deviations from the set restrictions are possible when they are the result of imposed one-off measures and they do not lead to lasting negative trends for the development of fiscal policy in the medium term.

At the level of individual budgets, the legal commitments of the first-level spending units require within the framework of their managerial responsibility to observe budgetary discipline, incl. and the rules applicable to them. This also applies to stand-alone budgets, which are not part of the state budget, as they affect the parameters of the budgetary framework at the national level.

In addition to the basic principles, rules and procedures applicable to all spending units, the accumulated budget imbalances of local authorities and the inability to comply with the rules for municipalities are the reason for legal regulation of procedures for identifying municipalities in financial difficulties and establishing financial recovery mechanisms.

During the period of implementation of the amendments in the PFA, with regard to the established mechanism for financial recovery of municipalities, the number of municipalities defined as municipalities with financial difficulties decreased.

In 2022 for the municipalities of Simitli and Belovo, where the term of the procedure for financial recovery expires in 2019, in order to fulfil their commitments to repay interest-free loans granted under Art. 130g, para. 1 of the PFA, the practice introduced by the Minister of Finance of coordination of their draft budgets continues. In 2022, these municipalities have been identified as municipalities with financial difficulties, and it is mandatory for them to include in the preparation of their new financial recovery plans measures to optimize costs in the activity "Municipal Councils" and the plans do not include the use of interest-free loan for financial recovery.

In 2022, the procedure for determining municipalities with financial difficulties in the implementation of projects funded by the European Union is maintained, and for these municipalities the introduction of a resolution procedure and the implementation of a financial recovery plan is envisaged.

The existence of national fiscal rules and their simultaneous compliance with the rules and restrictions imposed by European legislation can be both an advantage and a challenge.

The global pandemic of COVID-19 and the subsequent global economic stagnation, which led to a contraction in economic activity and employment and had an extremely adverse effect on a number of sectors of the economy, put to a severe test the fiscal framework of a huge number of countries, incl. Bulgaria. Compliance with fiscal rules has become a huge challenge for almost every country in the European Union, with projections of a significant deterioration in both budget deficits and the level of government debt. For this reason, an escape clause has been activated within the European Union, which allows, in exceptional circumstances, for a certain period of time, expenditures directly related to the consequences of overcoming the pandemic to be excluded from the scope when assessing compliance with the relevant fiscal rules and restrictions. This has led to the need for a corresponding revision of national digital fiscal rules and their flexibility in the face of global economic and budgetary challenges.

Both national and European resources have been mobilized in response to the global challenges of managing and overcoming the consequences of the COVID-19 pandemic, and the smooth implementation of these proactive countercyclical measures should not be hampered, for which purpose a possibility was provided in national law of temporary / one-off deviation from the restrictions in the conditions of extraordinary circumstances.

This was also the main reason for the adoption at the end of 2020 of the amendments in the PFA. Their adoption has created greater flexibility with regard to national fiscal rules in the event of exceptional circumstances by introducing temporary derogations in line with the requirements of dynamic and rapidly changing reality and eliminating the preconditions for procyclical effects; clear definition of limitations and admissible deviations; ensuring the implementation of measures to limit and overcome the consequences of exceptional circumstances as well as the unhindered absorption of European funds and programmes, including the implementation of the recovery and resilience plans. The adoption of these changes has ensured that the restrictions are in line with the dynamic challenges of complying with the requirements of European legislation.

7.2 Budgetary procedures

Budget procedure for 2023

Budgeting is an ongoing process, but the stages and steps for its implementation are evolving depending on many factors – organizational, economic, political, legal and others, which predetermine the need to develop a schedule to organize the process of planning and drafting budget documents.

In this regard, it should be noted that the implementation of the budget procedure for 2022 was strongly influenced by the political cycle in the country, incl. from the repeated holding of parliamentary elections during the year, and some restrictions and challenges in the implementation of the stages of the procedure by caretaker governments.

The PFA states that the budget procedure includes the stages, deadlines, distribution of responsibilities and requirements for compiling both the medium-term budget forecast and the draft state budget. The constant striving to improve the quality of budget documents as an expression of good public finance management implies that the budget procedure takes into account both the changing requirements for all responsible institutions and the requirements for Bulgaria as a member state within the so-called. European Semester – the timetable for the coherence of national economic and budgetary policies within the European Union.

The budget procedure for 2023 was prepared in accordance with the rules of the PFA, and its preparation reflected the set requirements for the structure and content of key budget documents and deadlines for their preparation.

It should be borne in mind that the budget procedure for 2023 provides a return to the standard stages of the budget preparation and adoption process, after the budget procedure for 2022 was carried out in the context of the ongoing epidemic and political challenges, which affected the deadlines of the budget documents prepared in the second stage of the budgetary procedure. After the elections held at the end of 2021 and the formation of a new regular government, steps were taken to prepare a final state budget law of the Republic of Bulgaria for 2022, which necessitated the application of the provisions of the PFA in case of a non-adopted budget. In addition, a draft law was prepared to extend until March 31, 2022 the term of validity of certain budgetary provisions of Budget 2021 (the adopted law was promulgated in the State Gazette, issue 8 of January 28, 2022, in force as of January 1, 2022) in order to ensure the financing and implementation of social benefits and other payments, the amounts of which are determined by

the annual budget laws, which achieves legal certainty and guarantees the rights and legitimate interests of citizens to implement special laws governing specific public relations until the adoption of the regular budget laws for 2022.

The Law on the State Budget of the Republic of Bulgaria was adopted on February 25, 2022 and promulgated in the State Gazette, issue no. 18 of 4 March 2022, and with Decision № 141 of the Council of Ministers of 10 March 2022 changes were approved in the Updated Medium-Term Budget Forecast for the period 2022-2024, thus enabling the actual implementation of the first stage of the budget procedure for 2023.

The procedure for 2023 was approved by Decision № 38 of the Council of Ministers of 27 January 2022. With it the Council of Ministers again determined, in addition to the first-level spending units under the budgets of the Council of Ministers, ministries and state agencies, and also the other first-level spending units whose budgets are included in the state budget, with the exception of the budgets of the National Assembly and the judiciary, to apply a programme format of the budget by approved policy areas/functional areas and budget programmes (Decision of the Council of Ministers № 52 of 2022) as a tool of the government to improve the quality of managing public finances, improving the processes of planning and drafting budgets of budget organizations, increasing the transparency and accountability of budget systems.

During the discussions of Budget 2022 in the National Assembly, the legislator set a requirement for the first-level spending units, which apply a programme budget format, to submit to the National Assembly a report on the implementation of their programme budgets for each quarter for 2022 within 45 days from the end of the reporting period for the purpose of periodic monitoring of the implementation and the achieved results (Art. 109 of the State Budget Law for 2022). This will increase the awareness of the Parliament and will strengthen the control and accountability within the budget implementation by periodically monitoring and evaluating the implemented government policies and improving the fiscal management in the country.

Within the budget procedure for 2023 and in accordance with the PFA, spring and autumn macroeconomic forecasts are prepared and standards for financing the activities delegated by the state through municipal budgets are adopted. In the course of the budget procedure, procedures for approval by the Council of Ministers of the projects that will be financed with state and / or state-guaranteed loans in 2023 have been integrated.

The procedure for 2023 is divided into two main stages. During the **first stage** of the procedure in April 2022, the Council of Ministers reviews and approves the medium-term budget forecast for the period 2023-2025, the annual update of the Convergence Programme and adopts standards for delegated by the state activities with natural and value indicators in 2023, approves the norm for an hour programme for preparation, creation and dissemination of national and regional programmes of BNR and BNT in 2023. It is planned in June 2022 that the Council of Ministers will consider and approve the draft decision prepared by the Minister of Education and Science for approval of the maximum amount of the new government guarantees that can be issued in 2023 under the Student and Doctoral-Candidate Loans Act, as well as the draft decision prepared by the Minister of Finance for approval of projects to be financed with government and / or government-guaranteed loans in 2023. The stage ends in July with the alignment by the first-level spending units of their budget forecasts for the period 2023–2025 with the decisions adopted by the Council of Ministers and with the publication of the budget forecasts in programme format on their websites in compliance with the requirements of the Classified Information Protection Act.

In the **second stage** of the procedure the main processes and budget documents are related to the preparation of the draft law of the state budget of the Republic of Bulgaria for 2023 and the draft laws amending and supplementing the tax laws.

Part of the second stage is also coordinating with the National Association of Municipalities in the Republic of Bulgaria the mechanism for allocating the total equalization subsidy and the target subsidy for capital expenditures by municipalities and holding consultations on the association's proposals for the total amount of basic budgetary relations of municipal budgets with the central budget and others proposals on the draft state budget for 2023 in its part for the municipalities.

Until the end of October 2022, the Council of Ministers considers and approves the prepared by the Minister of Finance draft Law on the State Budget of the Republic of Bulgaria for 2023 and the updated medium-term budget forecast for the period 2023-2025, which presents motives to the law, and approves, if necessary, amendments and supplements to the decision on the adoption of standards for the activities delegated by the state with natural and value indicators in 2023 and the decision to approve the norm for an hour programme for preparation, creation and dissemination of national and regional programmes of BNR and BNT in 2023. At the same time, the Council of Ministers considers and approves the drafts of the Law on the Budget of the National Health Insurance Fund for 2023 and the Law on the Budget of the State Social Insurance for 2023.

Within one month from the promulgation in the State Gazette of the Law on the State Budget of the Republic of Bulgaria for 2023, the Council of Ministers adopts, at the proposal of the Minister of Finance, a Decree on the Execution of the State Budget of the Republic of Bulgaria for 2023.

If necessary, within one week of the approval of the changes in the updated medium-term budget forecast for the period 2023-2025, the first-level spending units of budgetary organizations designated to apply the programme budget format shall update the programme formats of their budgets, send them to the Ministry of Finance, the National Audit Office and the National Assembly and publish them on their websites, thus ending the budget procedure for 2023.

The budget procedure for 2023 currently follows the deadlines for the preparation of the main budget documents, which creates conditions for transparency and is an element of good governance of public finances in the country. The conscientious participation in the budget process of all budget organizations is a condition for the overall success of the procedure and a prerequisite for achieving the desired final results of its implementation.

7.3 Other institutional developments in relation to public finances

Following the accession of the Bulgarian lev to Exchange Rate Mechanism II and the Banking Union through the establishment of close cooperation with the European Central Bank on July 10, 2020, the process of preparing Bulgaria for euro area membership has intensified. The ambition is for Bulgaria to join the euro area on January 1, 2024 until then the currency board will be maintained and the exchange rate will remain unchanged at BGN 1.95583 per 1 EUR.

The work on the practical preparation of the country for the introduction of the euro continues. The Coordination Council for the Preparation of the Republic of Bulgaria for Euro Area Membership, co-chaired by the Minister of Finance and the Governor of the BNB, is the body leading this process.

On June 30, 2021, the Coordination Council approved a draft National Euro Changeover Plan of the Republic of Bulgaria, which will soon be submitted to the Council of Ministers for consideration.

The National Changeover Plan is the strategic document on the basis of which the operational work for the replacement of the lev with the euro will be implemented. It describes the principles, the institutional and legal framework for the adoption of the euro.

In particular, the Plan addresses all the important operational activities and measures that participants in the preparation for the introduction of the euro – the private, public sector and citizens – should carry out as part of the process of adopting the euro.

Prior to the adoption of the euro, a comprehensive awareness campaign will be conducted in Bulgaria to better inform the public about the process of joining the euro area. ●

8. ANNEX A

Table 1a: Macroeconomic prospects

	ESA 2010 code	2021	2021	2022	2023	2024	2025
		Level (MBGN)	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
Real GDP (at previous year prices)	B1*g	100 956	4.2	2.6	2.8	3.6	3.4
Nominal GDP	B1*g	132 744	10.7	11.0	9.1	7.4	6.2
Components of real GDP							
Private consumption expenditure	P.3	68 857	8.0	2.4	5.4	4.8	4.4
Government consumption expenditure	P.3	18 588	4.0	3.0	-2.7	-0.2	1.3
Gross fixed capital formation	P.51	17 774	-11.0	7.6	9.0	6.0	9.9
Change in inventories and net acquisition of valuables (% of GDP)	P.52+P.53	2 370	3.0	3.0	3.0	3.0	3.0
Export of goods and services	P.6	67 121	9.9	4.1	4.0	5.8	4.6
Import of goods and services	P.7	75 121	12.2	5.4	6.1	6.5	6.8
Contributions to real GDP growth (In percentage points)							
Final domestic demand		-	3.4	3.3	4.2	3.9	4.7
Change in inventories and net acquisition of valuables	P.52+P.53	-	1.9	0.1	0.1	0.1	0.1
External balance of goods and services	B.11	-	-1.1	-0.8	-1.5	-0.4	-1.4

Table 1b: Price developments

	ESA 2010 code	2021	2021	2022	2023	2024	2025
		Level	Rate of Change ³²	Rate of Change	Rate of Change	Rate of Change	Rate of Change
GDP deflator		100	6.2	8.2	6.1	3.7	2.7
Private consumption deflator		100	3.6	7.9	3.6	2.6	2.2
HICP ³³		100	2.8	10.4	5.1	2.7	2.3
Public consumption deflator		100	9.2	10.2	2.9	1.0	1.9
Investments deflator		100	7.6	10.3	5.6	2.8	2.3
Export price deflator (goods and services)		100	14.7	21.1	-1.2	-0.2	0.2
Import price deflator (goods and services)		100	13.5	22.1	-4.1	-2.1	-0.6

³² Percentage change as compared to the previous year.

³³ Optional for Stability Programmes.

Table 1c: Labour market developments

	ESA 2010 code	2021	2021	2022	2023	2024	2025
		Level	Rate of Change	Rate of Change	Rate of Change	Rate of Change	Rate of Change
Employment (thousand persons) ³⁴		3 458	0.2	1.7	0.8	1.0	0.6
Employment (millions of hours worked) ³⁵		5 601	1.1	2.4	1.5	1.2	0.7
Unemployment rate ³⁶		5	5.3	5.0	4.8	4.4	4.2
Labour productivity (BGN per person employed) ³⁷		29 191	4.0	0.9	2.0	2.6	2.8
Labour Productivity (BGN per hour worked) ³⁸		18	3.0	0.2	1.3	2.4	2.7
Compensation of employees (MBGN) ³⁹	D.1	60 360	10.6	9.9	10.0	9.3	8.2
Compensation per employee		23 232	9.5	8.1	9.2	8.2	7.6

Table 1d: Sectorial balances

% of GDP	ESA 2010 code	2021	2022	2023	2024	2025
Net lending/borrowing vis-à-vis the rest of the world	B.9	0.3	-0.7	1.2	0.8	1.1
of which:						
–balance of goods and services		1.8	-0.3	0.2	1.1	0.2
–balance of primary incomes and transfers		-2.2	-2.6	-2.2	-2.5	-2.4
–capital account		0.7	2.2	3.2	2.3	3.2
Net lending/borrowing of the private sector	B.9	4.4	4.6	4.1	3.6	3.5
Net lending/borrowing of the general government	EDP B.9	-4.1	-5.3	-2.9	-2.8	-2.4
Statistical discrepancy						

³⁴ Occupied population, national accounts definition.

³⁵ National accounts definition.

³⁶ Harmonised definition, Eurostat; levels.

³⁷ Real GDP per one person employed.

³⁸ Real GDP per one hour worked.

³⁹ In MBGN.

Table 2a: General government budgetary prospects

	ECC 2010	2021	2021	2022	2023	2024	2025
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by sub-sector							
1. General government	S.13	-5432.7	-4.1	-5.3	-2.9	-2.8	-2.4
2. Central government	S.1311	-6388.7	-4.8	-5.4	-3.2	-3.1	-2.7
3. State government	S.1312						
4. Local government	S.1313	145.6	0.1	0.0	0.2	0.3	0.3
5. Social security funds	S.1314	810.4	0.6	0.0	0.0	0.0	0.0
6. Total revenue	TR	51726.1	39.0	38.0	38.0	37.0	36.2
7. Total expenditure	TE	57158.8	43.1	43.3	40.9	39.8	38.6
8. Net lending / borrowing	EDP B.9	-5432.7	-4.1	-5.3	-2.9	-2.8	-2.4
9. Interest expenditure	EDP D.41	668.5	0.5	0.5	0.6	0.8	0.8
10. Primary balance		-4 722.1	-3.6	-4.8	-2.3	-2.0	-1.6
11. One-off and other temporary measures		-6 069.0	-4.6	-2.1	-0.2	0.0	0.0
12. Total taxes (12=12a+12b+12c)		30 403.9	22.9	22.7	22.5	21.9	21.5
12a. Taxes on production and import	D.2	21 358.9	16.1	15.9	15.7	15.3	15.0
12b. Current taxes on income, wealth, etc.	D.5	8 548.4	6.4	6.5	6.4	6.3	6.2
12c. Capital taxes	D.91	496.6	0.4	0.3	0.3	0.3	0.3
13. Social contributions	D.61	12 314.7	9.3	9.2	9.2	9.2	9.2
14. Property income	D.4	782.4	0.6	0.7	0.4	0.4	0.4
15. Other		8 225.1	6.2	5.5	5.9	5.5	5.1
16=6. Total revenue	TR	51 726.1	39.0	38.0	38.0	37.0	36.2
Tax burden (D.2+D.5+D.61+D.91-D.995)		42 718.6	32.2	31.8	31.7	31.1	30.7
17. Compensation of employees + intermediate consumption	D.1+P.2	22 678.7	17.1	17.2	15.7	14.7	13.7
17a. Compensation of employees	D.1	15 528.6	11.7	10.8	10.1	9.6	9.3
17b. Intermediate consumption	P.2	7 150.1	5.4	6.3	5.6	5.0	4.5
18. Total social transfers (18=18a+18b)		20 398.0	15.4	15.4	14.6	14.7	14.6
<i>of which Unemployment benefits</i>	D.621, D.624	528.9	0.4	0.4	0.3	0.3	0.3
18a. Social transfers in kind	D.6311. D.63121. D.63131	3 489.3	2.6	2.5	2.5	2.8	2.8
18b. Social transfers other than in kind	D.62	16 908.7	12.7	13.0	12.1	12.0	11.8
19=9. Interest expenditure	EDP D.41	668.5	0.5	0.5	0.6	0.8	0.8
20. Subsidies	D.3	5 047.9	3.8	3.1	2.3	2.2	2.1
21. Gross fixed capital formation	P.51	4 350.7	3.3	4.8	5.4	5.3	5.3
22. Capital transfers	D.9	1 146.1	0.9	0.5	0.7	0.6	0.6
23. Other		2 869.0	2,2	1.8	1.6	1.6	1.5
24=7. Total expenditure	TE1	57158.8	43.1	43.3	40.9	39.8	38.6
Government consumption (nominal))	P.3	26 545.0	20.0	20.4	18.8	17.6	17.1

Table 2b: No-policy change projections

	2021	2021	2022	2023	2024	2025
	Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Total revenue at unchanged policies	51 726.1	39.0	37.9	37.8	36.9	36.0
2. Total expenditure at unchanged policies	57 116.7	43.0	39.9	40.3	39.4	37.9

Table 2c: Amounts to be excluded from the expenditure benchmark

	2021	2021	2022	2023	2024	2025
	Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
1. Expenditure on EU programmes fully matched by EU funds revenue	1 158.2	0.9	1.9	2.6	2.2	1.9
1a. Investments fully matched by EU funds revenue	452.7	0.3	1.3	2.0	1.8	1.5
2. Cyclical unemployment benefit expenditure	528.9	0.4	0.4	0.3	0.3	0.3
3. Effect of discretionary revenue measures	366.5	0.3	0.4	0.1	0.0	0.0
4. Revenue increases mandated by law	0.0	0.0	0.0	0.0	0.0	0.0

Table 3: General government expenditure by function

% of GDP	ESA 2010 code	2020	2025
1. General public services	1	3.5	3.4
2. Defence	2	1.5	2.6
3. Public order and safety	3	2.7	2.3
4. Economic affairs	4	8.5	6.4
5. Environmental protection	5	0.7	0.7
6. Housing and community amenities	6	0.9	0.8
7. Healthcare	7	5.9	5.2
8. Recreation, culture and religion	8	0.9	0.6
9. Education	9	4.0	4.0
10. Social protection	10	13.1	12.5
11. Total expenditure (= item 7 = 24 of Table 2)	TE1	41.8	38.6

Table 4: General government debt developments

% of GDP	ESA code	2021	2022	2023	2024	2025
1. Gross debt ⁴⁰		25.1	25.5	27.7	29.1	30.4
2. Change in gross debt level		0.4	0.5	2.2	1.3	1.3
Contributions to changes in the gross debt to GDP ratio						
3. Primary balance ⁴¹						
4. Interest expenditure ⁴²	EDP D.41	0,5	0,5	0,6	0,8	0,8
5. Stock-flow adjustment						
of which:						
Differences between cash and accruals ⁴³						
Net accumulation of financial assets ⁴⁴						
of which: privatisation proceeds						
Valuation effects and other ⁴⁵						
Implicit interest rate on debt ⁴⁶		2.1	2.0	2.6	2.8	2.8
Other relevant variables						
6. Liquid financial assets ⁴⁷						
7. Net financial debt (7=1-6)						
8. Debt amortization since the end of the previous year		4.3	9.8	8.9	8.5	7.4
9. Percentage of debt denominated in foreign currency		72.4	68.3	66.9	65.8	68.0
10. Average maturity		8.0	8.5	9.3	9.7	10.4

⁴⁰ As defined in Regulation 479/2009 (not an ESA concept).

⁴¹ Cf. item 10 in Table 2.

⁴² Cf. item 9 in Table.

⁴³ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

⁴⁴ Including liquid assets, government securities, assets in third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

⁴⁵ Changes due to exchange rate movements, and operation in secondary market could be distinguished when relevant or in case the debt-to-GDP ratio is above the reference value.

⁴⁶ Approximately calculated as interest expenditure divided by the debt level of the previous year.

⁴⁷ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA 2010 code	2021	2022	2023	2024	2025
1. GDP growth (%)		4.2	2.6	2.8	3.6	3.4
2. Net lending of general government	EDP B.9	-4.1	-5.3	-2.9	-2.8	-2.4
3. Interest expenditure	EDP D.41	0.5	0.5	0.6	0.8	0.8
4. One-off and other temporary measures		-4.6	-2.1	-0.2	0.0	0.0
5. Potential GDP growth (%)		1.8	2.0	2.6	2.8	2.8
Contributions:						
labour		0.0	0.2	0.5	0.5	0.3
capital		0.5	0.7	0.9	1.0	1.2
total factor productivity		1.2	1.2	1.3	1.3	1.3
6. Output gap		-1.0	-0.5	-0.3	0.5	1.1
7. Cyclical budgetary component		-0.3	-0.1	-0.1	0.2	0.3
8. Cyclically-adjusted balance (2-7)		-3.8	-5.2	-2.8	-2.9	-2.7
9. Cyclically-adjusted primary balance (8+3)		-3.3	-4.6	-2.2	-2.2	-1.9
10. Structural balance (8-4)		0.8	-3.1	-2.7	-2.9	-2.7

Table 6: Divergence from previous update

	ESA 2010 code	2021	2022	2023	2024	2025
Real GDP growth (%)						
Previous update		2.7	3.6	3.4	2.7	
Current update		4.2	2.6	2.8	3.6	3.4
Difference (p.p.)		1.5	-1.0	-0.6	0.9	n.a.
General government net lending (% of GDP)	EDP B.9					
Previous update		-5.6	-2.7	-3.1	n.a.	
Current update		-4.1	-5.3	-2.9	-2.8	-2.4
Difference (p.p.)		1.5	-2.6	0.2	n.a.	n.a.
General government gross debt (% of GDP)						
Previous update		27.4	28.6	29.3	n.a.	
Current update		25.1	25.5	27.7	29.1	30.4
Difference (p.p.)		-2.3	-3.1	-1.6	n.a.	n.a.

Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060	2070
Total expenditure	37.7	36.1	41.8					
Of which: age-related expenditures	15.0	17.3	19.2	17.3	17.1	17.9	18.5	18.2
Pension expenditures	7.4	9.3	9.3	8.5	8.2	8.7	9.2	9.0
Social security pension				8.4	8.0	8.6	9.0	8.9
Old-age and early pensions				6.6	6.4	6.9	7.3	7.3
Other pensions (disability, survivors)				1.8	1.7	1.7	1.7	1.6
Occupational pensions (if in general government)								
Healthcare	4.0	4.4	5.9	4.8	5.0	5.1	5.0	4.9
Long-term care								
Education expenditure	3.6	3.6	4.0	4.0	3.9	4.1	4.3	4.2
Other age-related expenditures								
Interest expenditure								
Total revenue	37.7	32.5	37.8					
Of which: property income								
Of which: from pensions contributions (or social contributions if appropriate)								
Pension reserve fund assets								
Of which: consolidated public pension fund assets (assets other than government bonds)								
Social contributions diverted to manda- tory additional pension scheme ⁴⁸								
Pension expenditure paid by mandatory additional pension scheme ⁴⁹								
Labour productivity growth	1.9	8.2	-1.0	3.0	2.3	2.2	1.8	1.5
Real GDP growth	6.6	1.5	-4.4	1.7	1.1	0.9	1.3	1.2
Participation rate males (aged 20-64)	78.3	76.8	82.2	87.6	87.0	87.8	89.0	88.4
Participation rate females (aged 20-64)	68.4	67.0	72.4	77.0	76.5	76.7	77.8	77.2
Participation rate total (aged 20-64)	73.3	71.9	77.3	82.4	81.8	82.4	83.5	82.9
Unemployment (%. 15-64)	6.9	10.3	5.2	5.1	5.3	5.3	5.3	5.3
Population aged 65+ over total popula- tion	17.8	18.2	21.6	24.3	27.3	30.7	32.6	31.0

⁴⁸ Revenue from social security contributions or other revenue for the mandatory additional pension insurance, with which the accounts payable can be covered.

⁴⁹ Pension expenditure or other social benefits paid by the mandatory additional pension insurance.

Table 8: Basic assumptions

	2021	2022	2023	2024	2025
Short-term interest rate (annual average) 6-month LIBOR in EUR, %	-0.42	-0.54	-0.53	-0.33	-0.13
Short-term interest rate (annual average) 6-month LIBOR in USD, %					
Long-term interest rate (annual average), %					
USD/EUR exchange rate (annual average)	1.18	1.10	1.10	1.10	1.10
Nominal effective exchange rate. percentage change. previous year = 100⁵⁰					
EUR/BGN exchange rate (annual average)	1.95583	1.95583	1.95583	1.95583	1.95583
World economy (excluding EU). GDP growth, %	6.0	3.8	3.3	3.4	3.3
EU GDP growth, %	5.3	3.1	2.2	2.3	1.9
Growth of relevant foreign markets. %					
World import volumes, excluding EU, %					
Oil Brent (USD/barrel)	70.4	100.0	90.0	82.9	78.6
International prices of non-energy goods, %	32.7	18.9	-6.3	-2.6	-1.3
International prices of food products, %	30.8	15.0	-8.3	-3.7	-0.6
International prices of agricultural raw materials, %	9.0	24.6	-12.0	-1.1	0.0
International prices of metals, %	47.1	21.3	-1.7	-2.1	-2.7

⁵⁰ The positive values reflect appreciation, the negative – depreciation.

9. ANNEX B

Table 1: Table of the RRF impact on programme's projections - GRANTS

Revenue from RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
RRF GRANTS as included in the revenue projections			0.52	1.31	1.10	1.04	
Cash disbursements of RRF GRANTS from EU							
Expenditure financed by RRF grants (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1							
Intermediate consumption P.2			0.00	0.03	0.03	0.03	
Social payments D.62+D.632							
Interest expenditure D.41							
Subsidies, payable D.3							
Current transfers D.7							
TOTAL CURRENT EXPENDITURE			0.00	0.03	0.03	0.03	
Gross fixed capital formation P.51g			0.51	1.28	1.07	1.01	
Capital transfers D.9							
TOTAL CAPITAL EXPENDITURE			0.51	1.28	1.07	1.01	
Other costs financed by RRF grants (% of GDP)*							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

* This covers costs that are not recorded as expenditure in national accounts.
Bold: required information.

Table 2: Table on the RRF impact on programme's projections - LOANS

(In the National plan for recovery and resilience there is no envisaged usage of the loan part of the instrument.)

Cash flow from RRF loans projected in the programme (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Disbursements of RRF LOANS from EU	0	0					
Repayments of RRF LOANS to EU							
Expenditure financed by RRF loans (% of GDP)							
	2020	2021	2022	2023	2024	2025	2026
Compensation of employees D.1							
Intermediate consumption P.2							
Social payments D.62+D.632							
Interest expenditure D.41							
Subsidies, payable D.3							
Current transfers D.7							
TOTAL CURRENT EXPENDITURE							
Gross fixed capital formation P.51g							
Capital transfers D.9							
TOTAL CAPITAL EXPENDITURE							
Other costs financed by RRF loans (% of GDP)¹							
	2020	2021	2022	2023	2024	2025	2026
Reduction in tax revenue							
Other costs with impact on revenue							
Financial transactions							

* This covers costs that are not recorded as expenditure in national accounts.
Bold: required information.

Table 3: Table on the stock of guarantees adopted/announced at 15.04.2021 according to the Programme

	Measures	Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID-19	1. European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) as a result of the COVID-19 outbreak, between the Republic of Bulgaria and the European Commission.	18.09.2020	0.14	0.08
	2. Contribution agreement between the Republic of Bulgaria and EIB in relation to the Pan-European Guarantee Fund.	09.10.2020	0.08	0.08
	Subtotal		0.22	0.15
Others	1. Guarantee for financing of a project for the construction of a cross-border pipeline between the Greek and Bulgarian gas transmission systems.	12.2019	0.13	0.09
	2. COTONOU II Guarantee agreement.	03.2009	0.00	0.00
	3. Guarantee agreement for the reconstruction of “KCM EAD – Plovdiv” with the aim of reducing industrial pollution.	11.1995	0.01	0.00
	4. Guarantee in accordance with the Students and Doctoral Students Lending Act	08.2009	0.05	0.01
	5. Municipal guarantee for “Municipal passenger transport EOOD”, Gabrovo	2020	0.00	0.00
	6. Municipal guarantee for “Diagnostic and consulting centre II”, Dobrich	08.2019	0.00	0.00
	Subtotal		0.20	0.10
Total		0.42	0.25	

* Any possible budgetary impact related to the call of those guarantees should be provided in the table on the discretionary measures in the SCP.