

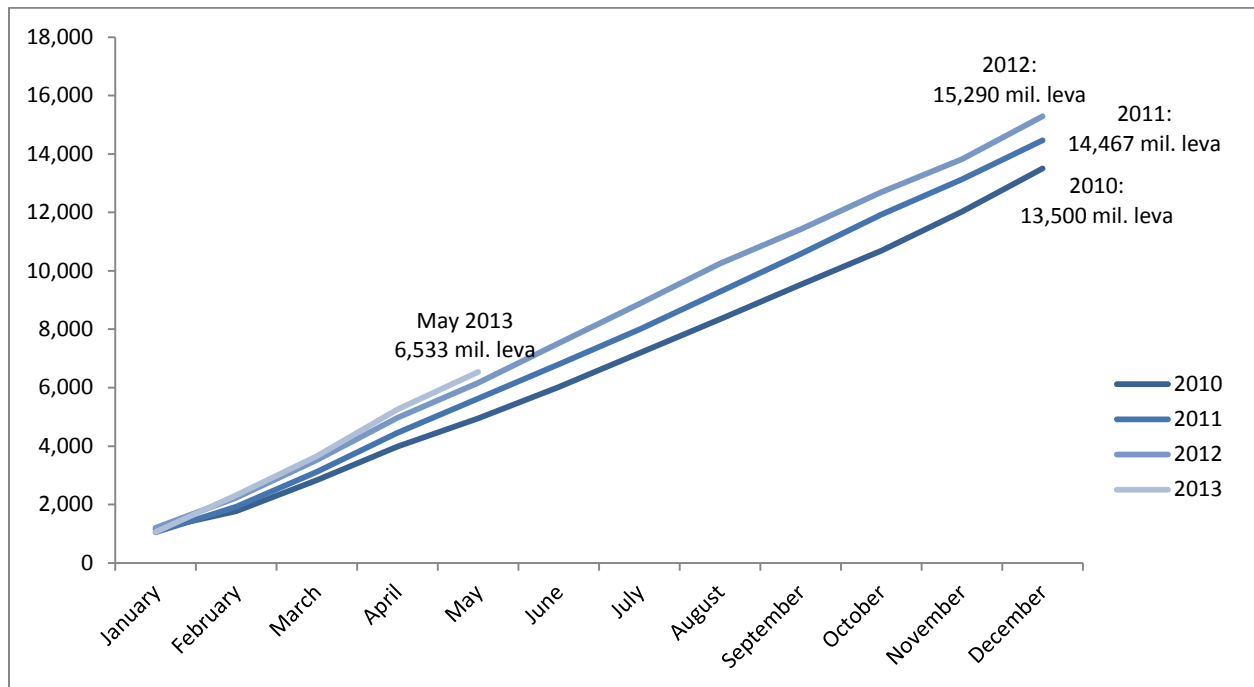


Budget Revision for 2013: inconsiderate, vague and anti-social?

Budget revisions are usually a sign of economic instability and are therefore justified by two main reasons: a serious unexpected economic crisis and/or the introduction of vital new policies. The government's declaration that the 2013 budget needs to be revised and the Prime minister's explanation for this proposal in Parliament does not include convincing details related to the aforementioned reasons. The additional instability that this amendment would place on the economy, calls for careful analysis and consideration hasty of the possible scenarios in which a revision is necessary:

- The domestic economy did not go through a **sudden collapse or crisis**, whose impact wasn't provided for in the budget. Even though GDP growth forecasts were lowered to 0.8% down from the planned 1.9%, this cannot be viewed as a strong enough reason for a budget actualization. A similar discrepancy occurred in 2012, when the market situation did not differ substantially from the current economic climate. In 2012, economic growth was set at 2.9% in the budget framework, but the actual growth was just 0.8%. Despite the smaller growth of the economy as a whole, real income growth in 2012 reached 11.5% while the projections were set at 7.2%. Up until May 2013 income growth had slowed down to 5.9% on a yearly basis, whereas 8.1% was projected. The difference between the projection and the actual budget amounts to BGN 139 million and experience from previous years shows that it could be overcome before the end of the year. The proposed government measures aimed at strengthening tax collection, intercepting smuggling routes and tackling VAT fraud should help fill this gap.
- Increase in **unexpected government spending** at the end of a political cycle. As was the case with all previous elections, this year there was an increase in budget expenditure ahead of the May 2013 polls. Due to the extraordinary nature of the elections, the expenditure was actually smaller compared to previous similar cases, by about BGN 300 million according to various estimates. This expenditure does not influence the final balance of the budget, because it was planned for, but it leaves the elected government without room for extra discretionary spending. The Ministry of Finance should present a detailed comparative analysis of the accumulated budgetary pressures in key sectors such as healthcare, energy and local budgets to determine whether deficits which require a budget revision have emerged. Another possible source of pressure in the expenditure section of the budget, for which there is no available up-to-date information, are the EU funds which have not been approved for reimbursement. The government may decide to reimburse them from the national budget, thereby effectively increasing national co-financing.

Figure 1: Dynamics of tax revenue to the Republican Budget (2010 – 2013) in million leva.

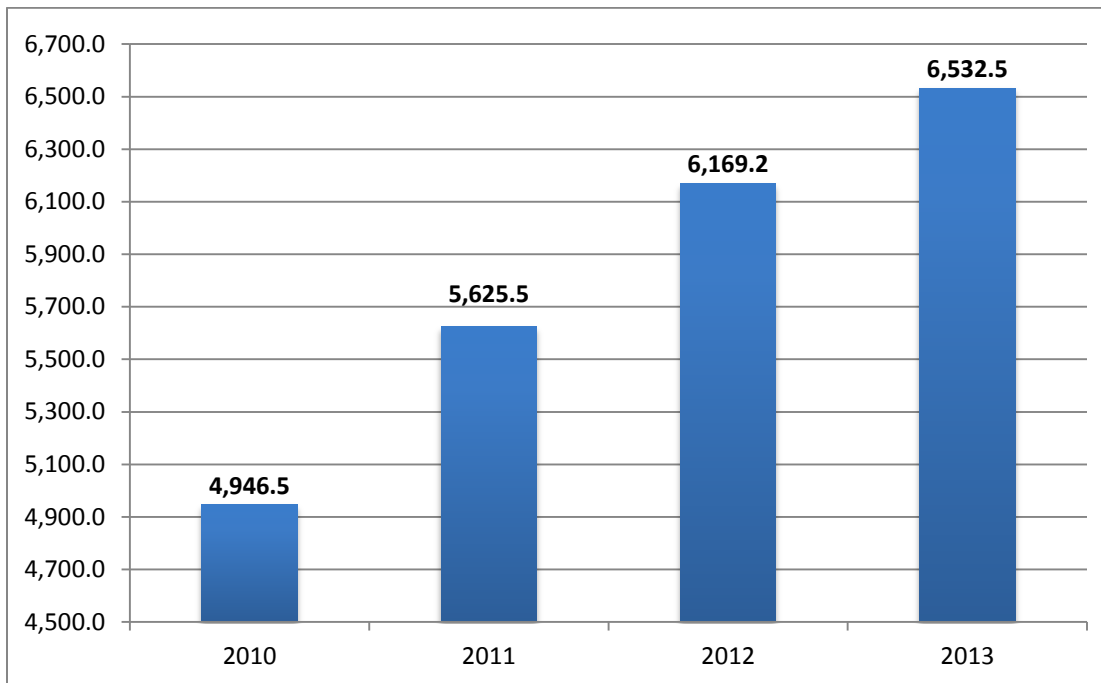


Source: Monthly budget implementation bulletin, Ministry of Finance, 2013

- Increased expenditure needed to finance **new government policies**. This scenario is mostly based on the expectations of the public and of economic observers, resulting from mounting social tension and the growing poverty affecting large segments of the Bulgarian society since the beginning of the economic crisis in 2008. The current version of the 2013 budget provides for an increase in social spending, and both the caretaker and the new governments have already allocated additional social welfare payments, albeit of relatively modest size. Requesting a budget revision amounting to BGN 1 to 2 billion for the remaining 6 months of the year, given that the abovementioned two scenarios would potentially require a total of BGN 550 million, calls for a detailed description of the policies and measures that will be financed by these additional funds. They could be spent primarily on social welfare measures – for example an increase in social spending, easing the negative effects of the higher electricity and heating prices in 2012.

In terms of investment costs, within the EU funds framework there are sufficient reserves to carry out additional quick investment projects and/or to improve the liquidity of small and medium enterprises. The arguments for a budget revision presented by the Prime Minister to the Parliament lacked a social dimension. Instead, the focus was on the **debt of state-owned companies**. The latter is cause for serious concern, given the history of mismanagement and corruption in these companies over the past two decades. Covering the mismanagement of state-owned companies with budgetary funds would have negative social ramifications and would lead to a transfer of funds from low-income to high-income social groups.

Figure 2: Tax revenues to the Republican Budget for the month of May (2010 - 2013) in million leva.



Source: Ministry of Finance, 2013.

The budget revision proposed by the Bulgarian government is not supported by enough arguments and at best appears rushed and vague. If it leads to:

- covering the debts of poorly managed state-owned companies, or
- paying for unauthorized funding from EU funds, or
- an increase in interest rates in the country,

the budget revision will be anti-social, failing to fulfill popular expectations.

Bulgaria can afford to accumulate additional debt. No public sphere receives the adequate funding required to provide Bulgarian citizens with services that are even remotely in line with European standards, from pensions to healthcare, from security to education and even the environment. However, given the current political instability, the cost of this debt has already grown over the first half of this year. Therefore, the proposal for any additional costs must be seriously grounded and substantiated. The current proposals lack any such clear justification.

8 July 2013