

**ANALYSIS OF CUSTOMS REVENUE IN BULGARIA BY THE
MINISTRY OF FINANCE**

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ANALYSIS OF REVENUE COLLECTED BY THE CUSTOMS AGENCY FOR 2003

The total revenue from VAT, customs duties, excise and penalties collected by the Customs Agencies for the Republican Budget for 2003 amounted to 3 200 292 772, or 112.8% of the target set out by the Ministry of Finance., 2003 revenue was 495 897 213 higher than 2002, an increase of 18.3%.

MACROECONOMIC CONDITIONS AND STRUCTURAL CHANGES TO THE ECONOMY

The 18.3% in 2003 in comparison with 2002 was achieved given the following conditions:

Macroeconomic Conditions:

- USD exchange rate USD/BGL:
 - 2003 – 1.74 levs to USD
 - 2002 – 2.07 levs to USD
- Approximately 14.1% growth in total lev import in 2003 in comparison with 2002 (according to NSI preliminary data)
- 74.7% relative percentage of import for consumption of the total volume of import for the country for 2003. (maintaining 2002 levels – 74.7%)
- Minimal increase in the percentage of consumption in GDP (87.1% 2000 – 87.7% according to preliminary calculations for 2003)
- Increase in the percentage of investments, including investments goods in the structure of GDP (18.3% 2000 – 21.1% 2003 forecast)

Structural Changes in the Economy:

- phased increase in excise connected with the harmonization of Bulgarian legislation with EU legislation
- liberalization of trade

ANALYSIS OF MACROECONOMIC CONDITIONS, STRUCTURAL CHANGES IN THE ECONOMY, STRUCTURAL DATA AND CALCULATIONS

Analysis shows the following:

Macroeconomic Conditions:

Influence of changes in the exchange rate weakened due to changes in the percentages of the hard currency structure of import: for 2000-2003, there was a reduction in dollar imports, from 50.2% of total import to 36%, with parallel growth of Euro import from 46.8% to 64% (according to 2003 forecasts).

The fall in the USD/BGL exchange rate given all other conditions equal leads to a reduction in revenue and in particular revenue collected by the customs administration.

This unfavourable factor led to a lower rate of import and thereby revenue. Taking into account the volume of import carried out in USD and the relative percentage of revenue from import, calculation can be made of the negative impact of the dollar exchange rate on total import, which is about 6.6% or expressed in levs – 1.2 billion levs less import or about 200 million levs revenue collected on import of goods.

Taking into account the unfavourable impact of the dollar exchange rate (6.6%) and by taking into account to expected growth in GDP for 2003 in comparison with 2002 (4-5%), the three-fold growth in the volume of import in comparison with the growth in GDP is an indicator of the “lightening” of part of the hidden economy in 2003, credit for which belongs exclusively to the increased effectiveness of the work of the Customs Agency.

The increase in the percentage of GDP (87.1% 2000 – 87.7% according to preliminary calculations for 2003) is also a factor which shows a real increase in the effectiveness of the work of the Customs Agency. Increased consumption is minimum and is mainly due to an increased consumption in imported goods. The analysis shows that given all other conditions equal, increased consumption leads to minor changes in VAT and excise revenue and therefore is not a stimulating factor and has no decisive role in increasing customs revenue.

Structural Changes in the Economy:

The phased increase in excise connected with harmonization of the Bulgarian legislation with that of the EU leads to a slight fall in the consumption of excise goods and thereby lower excise goods revenue.

The liberalization of trade for its part also leads to reduction in revenue from customs duties into the budget.

Additional calculations

In an analysis of the revenue, which takes into account the changes in the macroeconomic situation and the structural changes in the economy, a number of additional calculations have been made to provide a clear basis for year-on-year comparison of the purely structural improvements in revenue collection. These calculations are based on effective rates and eliminate the influence of the changes in import and changes in the USD/BGL exchange rate. Calculations based on “constant prices” (basis – average annual exchange rate for 2001) show that the trends in revenue collected by the customs administration, albeit with a different quantitative indicator of the compared values (customs revenue) are maintained – (remain parallel) in comparison with the calculations made on the basis of “current prices” (fluctuating exchange rate).

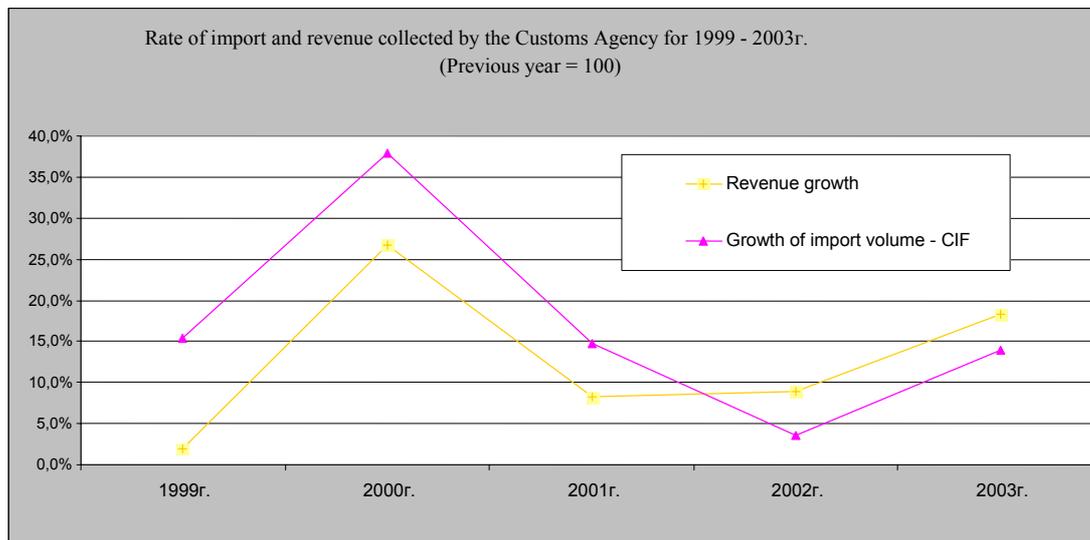
Link between registered import with data from the annual balance of payments for Bulgaria, prepared by the BNB.

The above-mentioned sharp growth of import is calculated on the basis of 2002. On the basis of the analysis of the annual balance of payments prepared by the BNB, it can be stated that the statistically reported level of import for the first two quarters of 2002 is lower than real level (statistical undervaluation). The difference between recorded and real import is reflected in the negative amount of 1 billion levs in the accounting item “mistakes and omissions” in the annual balance of payments of the country.

To support this conclusion on the existence of such statistical undervaluation, one can also examine the fact that the national accounts of the NSI for the same period show a significant statistical difference (-140 million levs). Part of this difference is also due to omissions in the recorded import.

As a result of the above-mentioned it may be considered that real import for the first two quarters of 2002 was significantly higher than that which was recorded, part of which was in the sphere of the grey economy.

During the third and fourth quarters of 2002 statistical data show that the situation has gradually changed. During this period the negative values in the “Mistakes and omissions” in the annual balance of payments of the country have fallen and become positive. The development of these events coincides with the beginning of operational activity on the part of the Crown Agents in Bulgaria. The assistance provided by Crown Agents in order to improve customs control and reduce illegal import had been followed by the implementation of adequate government policies towards the issues.



As can be seen from the graph, in 2002 the rate of growth of revenue was faster than the growth in import. This trend continued in 2003. Given the reduction in customs duties rates and unchanged VAT rates over the past two years, the continuing percentage of consumption in GDP and a fall in the consumption of excise goods, as well as a support of statistical information, this positive change is due to the improved organization of the work of the customs administration.

From the above analysis the conclusion can be made that the structural changes to the economy and the change in the macroeconomic trends in recent years have had a negative effect rather than a positive effect on revenue collected by the customs agency and should lead to a reduction in the customs revenue. For this reason the structural changes in the economy and in macroeconomic trends can be eliminated as a factor of influence to high revenue collection. It would be logical to conclude that the negative effect is

compensated by the successful implementation of effective measures and new principles in the work of the Customs Agency which leads to increased customs accountability and collection.

STRUCTURE AND ANALYSIS OF REVENUE

Customs duty revenue

Duties collected in 2003 amounted to 128.4% of the target volume in the plan set out by the Ministry of Finance or a total of 231 142 656 levs. In comparison with 2002 duties collected in 2003 were 42 929 701 levs more, or 22.8%. Taking into account the fact that duty tariff rates are gradually falling and each year they are less than the previous years and also taking into account the fact that the value of import for consumption in the country has grown by only 13.7%, the values achieved for duty collection during the current year are to a great extent an indicator of increased collection.

Duties collected from the import of goods of Chinese origin amount to 42.1 million levs and form 18.7% of the total volume of duties in 2003 and 80.2% more than the previous year. Turkish goods are in second place in terms of customs duty revenue (19.8 million levs) – 8.8% and there has been an increase in revenue collected for 2003 in comparison with 2002 of 35%. The USA is in third place – 7.2% and the Ukraine with 6.5%.

In the structure of goods, import of meats and offal creates the highest level of duty, amounting to 19.1 million levs, or 8.5% of the total volume of duty. In 2003 in comparison with 2002 these goods saw an increase of 7.8%. In second place are electrical goods and equipment – 7.5% and 16.8 million levs revenue collected in 2003. The following group of goods which accounts for 7.3% of all duties is nuclear reactors, machinery and parts. Revenue from import duty on nuclear reactors, machinery and parts in 2003 was 16.5 million levs, which was an increase of 39.8% in comparison with 2002.

From an analysis of the origin and goods structure of imported goods for consumption it can be seen that there has been a growth in recorded customs import of goods traditionally belonging to the grey economy (household goods and/or goods with Chinese and Turkish origin).

Revenue from VAT from import

In comparison with the target set out in the plan of the Ministry of Finance, VAT revenue from import in 2003 was 109.6%. Amounts were 16.4% more than in 2002 and amounted to 2 799 271 806 levs or 394 026 801 more. The relative percentage of VAT from import as a percentage of total VAT revenue in the country was 91.3% for 2003 and 90.2% for 2002.

The volume of import in the country in lev terms in 2003 grew by 13.2% in comparison with 2002. Import for consumption in the country which is the main source of receivables for the Customs Agency grew in 2003 by 13.7%, and the import of goods into Inward Processing regimes grew 11.2% in comparison with 2002.

The leading countries in terms of VAT revenue in 2003 were: Germany – 433.1 million levs, 15.7% relative percentage, Russia – 393,6 million levs and 14.3 relative percentage, Italy – 205 million levs and 7.5% relative percentage, Turkey and France with 156.6 and 146.1 million levs etc.

The highest percentage of goods in terms of VAT revenue for the period under examination are goods in chapter 27 of the CT – mineral fuels, mineral oils – 600.2 million levs and 21.8% relative percentage. This is followed by goods from group 84 of the CT – nuclear reactors, boilers, machinery – 328.7 million levs and 13.9%, group 87 – automobiles – 300.6 million levs and 10.9, group 85 electrical machinery and equipment – 236.8 million levs and 8.6%.

The relative percentage of VAT revenue from import for consumption in Bulgaria in 2003 is 20.00% in comparison with 19.5% in 2002. Taking into account that that the relative percentage of transactions released from VAT on import for consumption in the country in 2003 (5.2%) is higher than in 2002 (4.8%), the increase of 0.4% and the growing rate of VAT revenue from import (16.4%) above import for domestic consumption (13.7%) from which it is formed, are indicators of the higher VAT revenue from import in 2003.

Excise revenue

In comparison with the target set out in the plan of the Ministry of Finance, excise revenue from import in 2003 was 156.3%. Net revenue was 53.6% and amounted to 161 153 132 levs, which is 56 224 816 levs more than excise collected in 2002.

The highest proportion of net revenue from import excise was in the group of crude oils – 44.4% or 71.3 million levs. In 2003 in comparison with 2002 excise collected from this group of goods grew by 46.5% or a 2.9 fold increase. The group of oil gas and other gaseous hydrocarbons was in second place with 23.8% relative percentage and revenue from excise – 38.3 million levs. IN comparison with 2002 this was an increase of 18.9%. Revenue from excise on coffee was in third place and amounted to 21.8% and in comparison with the previous year was an increase of 13.7%.

Excise collected from the import of excise goods from Romania amounting to 54.7% amounted to 34% of total revenue from excise in 2003 – 90% increase in comparison with 2002. Greece is in second place for excise revenue collection with a relative percentage of about 21.1%. It is interesting to note that from 16.1 million levs excise collected in 2002 in 2003 they were 33.9 million levs or 2.1-fold increase. The following countries were: Germany – 6.9%, Croatia – 6.3%, Indonesia – 5.2% etc.

From an analysis of revenue from the import of excise goods there is clear evidence of an increased accountability in the registration of import of groups of goods and/or destinations which in previous years were a major part of contraband import into the country and belonged to the shadow economy (oil products from neighboring countries)

Revenue from penalties, sanctions and interest

Revenue from penalties, sanctions and interest collected by the Customs Agency in 2003 amounted to 8 725 178 levs and were 2 715 896 more that revenue collected in 2002 or 45.2 % more.

The increase in revenue from penalties, sanctions and interest to a certain extent is a result of the initiatives led by Crown Agents to undertake legislative reforms to the ordinances which regulate all spheres of the economy of the country. This affects the results of the work of the customs agency (harmonization of Bulgarian legislation with the requirements of the EU, expansion of customs authorities, control, preliminary investigation and intelligence).

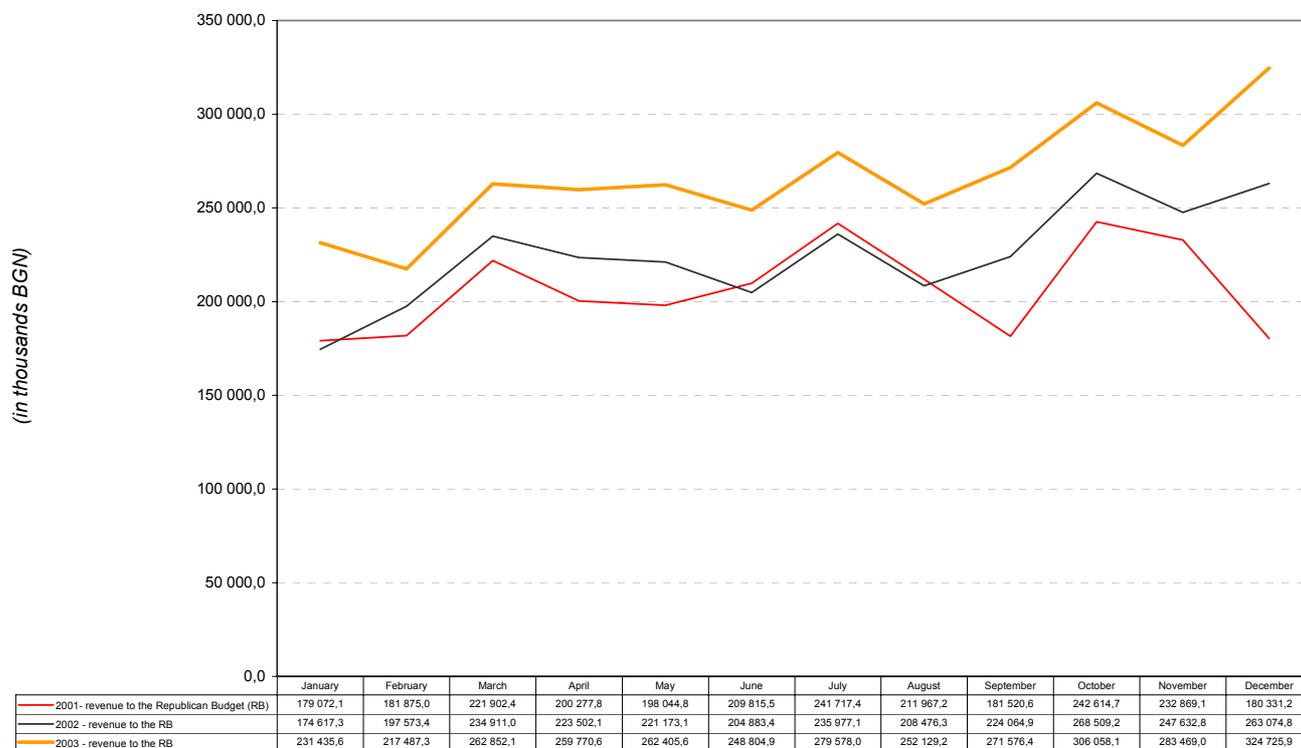
RESULTS OF THE APPLICATION OF NEW MEASURES AND PRINCIPLES IN THE WORK OF THE CUSTOMS AGENCY

Increased collection

In 2003 customs revenue reached record levels: Duties and customs taxes – 231.1 million levs, Excise on imported goods – 161.2 million levs, penalties, sanctions and interest – 8.7 million levs and VAT on imported goods – 2 799.2 million levs. Budget revenue grew last year by 18% in comparison with 2002 and VAT on import grew by 16.4%. The main reason for this high growth was the increase in recorded growth in imports of goods into the country. IN 2003, this reached 18 776.9 million levs (CIF) or 14.1% of the previous year.

On the basis of this data for the collection of customs revenue, it can be concluded that in 2003 there was a real increase in collection. This can be supported by the fact that the growth of customs revenue for the year was greater than growth in the import of goods. This leads to an increasing percentage of taxation in comparison with the value of imports in levs. On the other hand the changes in the structure of import connected with the increase or the reduction in the percentage of taxable goods has an insignificantly small effect on revenue from import. On the basis of these two factors (higher growth in revenue than growth in import and changes in the structure of import) it can be said that there is a marked increase in collection of customs duties as a result of the ongoing reform in the Customs and the connected application of effective measures aimed at increased customs control.

Revenue to the Republican Budget for 2001, 2002 and 2003



The graph above illustrates the indisputable trend toward increase in revenue collected by the Customs Agency since the operation of Crown Agents begins.

Increased percentage of registered import

The increased rate of registered import of goods for 2003 is due to the growth in consumption and investment. They were additionally accelerated both by the high credit activity of the banks, the strong devaluation of the USD and the strong rate of Bulgarian export, as well as a number of other factors including the increased collection by the Bulgarian customs.

The Agency for Economic Analysis and Forecasts (AEAF) makes forecasts on the basis of import of goods into the country, on the basis of consumption, investments and export. The real recorded values of import exceed the AEAF forecasts for the period 1998-2003. In an analysis of the result of the data compared, one can allow for the appearance of comparatively new factors which have a clear effect in this area. One of these factors is the improved accountability of the customs points.

CONCLUSIONS

The main factors for the change in the value of revenue collected by the customs administration and their over-fulfillment in comparison with the targets set out in the law on the State Budget for 2003 are not only the overall economic upturn, but also the

increased collection as a consequence of the implementation of recommendations made by Crown Agents in the area of anti-smuggling and increased control by the customs and tax administrations and the successful operations of the mobile teams.

What does the data show? :

- As a result of the increased control on the part of customs there has been a widespread reduction in “hidden” imports. As a result of this by November alone there was a significant increase in registered import of consumer goods in comparison with the same period during the previous year (32.4%) which reached 200.4 million USD.
- The over-collection of customs duty revenue in comparison with the targets set out in the Law on the State Budget for 2003 is about 28.5%
- There has been a small percentage of over-collection of VAT – 5.5%
- While in 2000 revenue collected by the customs administration was only 23.5% of the tax revenue for the country, in 2002-2003 this rose to 28.9%

Taking into account the above-mentioned factors and trends, it can be said that the strongest influence on the successful collection of revenue by the Customs Agency are the ambitious measures undertaken by customs on the basis of recommendations and assistance from the consultants of Crown Agents:

- Technical and organizational improvements
 - New methods of work (mobile teams)
 - New equipment
 - Computerization aimed at assisting the work of the mobile teams and improving risk profiling through the introduction of TIMS
 - Increasing cooperation with the economic police, tax administration and the NSCOC
- Measures aimed at changing the behaviour of the customs officers
 - Increased internal control (rotation of teams, surprise control)
 - Training of Customs Agency officers
 - Ethical code
- Development of procedures for management control and reporting within the Customs Agency.
- Facilitation of trade and cooperation with business
- Measures aimed at facilitating business and fighting the grey Economy
 - Improved control on the borders and the interior of the country
 - Increased penalties and fines in the case of non-compliant business
- Intelligence and investigation restructuring