



Republic of Bulgaria

ADDENDUM TO  
THE CONVERGENCE PROGRAMME  
(2008–2011)

December 2008

The Addendum to the Convergence Programme (2008–2011) of the Republic of Bulgaria was prepared in line with the decision of the Economic and Financial Affairs Council as of December 2, 2008, according to which the Convergence Programmes of the member states should reflect the measures under the European Economic Recovery Plan. This Addendum to the Convergence Programme (2008–2011) follows the format proposed by the European Commission.

The specific measures, proposed by the Bulgarian government to contain the adverse effects of the world financial crisis on the Bulgarian economy, remain basically unchanged as compared to those described in the Convergence Programme (2008–2011). Maintaining prudent fiscal policy is of utmost importance for preserving economic stability and counteracting existing imbalances. Therefore, the Bulgarian government does not envisage significant fiscal stimuli next year. In light of the increased volatility of the international financial markets, the deteriorating assessments of the economic indicators of Bulgaria's main trading partners and the uncertainty about the degree of their impact on the local economy, the government decided to strengthen some of the envisaged fiscal reserves.

The most important change refers to the planned buffer to limit the non-interest expenditures and transfers of the republican budget, which has been raised from 7% to 10%. The restriction refers also to the capital expenditures and the reserve for unexpected and urgent expenditures. The possibility for implementation of an additional investment programme, financed by the reserve for public investment and potential reduction of the budget surplus by up to 1% of GDP, has been removed in the approved by the parliament budget law for 2009. The level of the planned budget surplus was retained at 3% of GDP to cushion any possible underperformance of the fiscal revenues. The non-interest expenditures and the transfers under the republican budget may be reduced further if the underperformance of the consolidated fiscal revenues reaches a level that may lead to a negative budget balance of the consolidated fiscal programme.

The changes of the budget framework after the approval of the budget laws for 2009 by the parliament are marginal and comprise increase in the expenditures of: the State Social Insurance Fund by EUR 27.4 million due to an increase in the term of payment of pregnancy and childbirth compensations; the National Health Insurance Fund by EUR 15.3 million due to a reduction of the customers' fee paid by women of more than 60 years of age and for men of more than 63 years of age. The EU funds utilisation forecast has been reduced by EUR 42.7 million as well. The funds earmarked for public investments from the reserve for unexpected and urgent expenditures were reallocated to other areas: – EUR 107.9 million for national programmes, grants and financing of the agricultural sector and EUR 96.6 million for modernisation and exploitation of the national railroad network and for projects of social importance. The overall effect of these changes on the budget framework is minimal and does not require any changes in Tables 2-6 from Appendix 1 to the Convergence Programme (2008–2011).

## APPENDIX

**Table 1.** Short-term fiscal measures with direct budgetary impact

| Measure   | Date of adoption | Description of the measure   | Direct budgetary impact<br>(in % of GDP) |      |      |      |
|---|------------------|--|--|------|------|------|
|   |                  |  | 2008                                     | 2009 | 2010 | 2011 |
| Increase of the public investment resources (undertaken)  | December 2008    | Increase of the capital expenditure of the consolidated fiscal programme to boost domestic demand and lower unemployment.  | –  | -0.1 | -0.2 | -0.5 |
| Restricting 2009 Republican budget non-interest expenditure and transfers to 90 per cent of the budgeted amounts (undertaken) | December 2008    | Restricting 2009 Republican budget non-interest expenditure and transfers, excluding transfers to the State Social Security, to 90 per cent of the budgeted amounts. | –  | 2.3  | –    | –    |

**Table 2.** Medium-term measures improving the quality of public finances and the long-term sustainability

| Measure   | Date of adoption | Description of the measure  |
|---|------------------|---|
| Maintaining positive balance under the consolidated fiscal programme of 3% of GDP (undertaken)                                    | December 2008    | Maintaining positive balance under the consolidated fiscal programme of 3% of GDP in the Programme horizon in order to ensure public finance long-term sustainability.  |
| Maintaining maximum level of expenditure to be reallocated through the budget in the medium term of up to 40% of GDP (undertaken) | December 2008    | Restricting expenditure reallocated through the budget in the medium term to 40% of GDP in order to counter imbalances in the economy.  |
| Maintaining the favourable tax environment (undertaken)   | December 2008    | Preserving the favourable tax environment – low rates of corporate taxes and social security contributions for the business, as well as unchanged excise rates on petrol and diesel in order to maintain favourable business conditions to attract investments.     |
| Improving state receivables collection (presented)  | November 2008    | Improving state receivables collection in order to enhance public finance quality.  |
| Maintaining the existing monetary and currency regime at the exchange rate, fixed in the BNB Law (undertaken)                     | November 2008    | Maintaining the existing monetary and currency regime at the exchange rate fixed in the BNB Law by means of keeping a positive budget balance and conservative management of the fiscal reserve in order to support the stability of the national financial system. |
| Preserving the established high-level coordination mechanisms between MoF and   | November 2008    | Preserving the established high-level coordination mechanisms between MoF and BNB aimed at participation in the European mechanism responding to the crisis in order to prepare and   |

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| BNB aimed at participation in the European mechanism responding to the crisis (undertaken)  |               | undertake, if needed, additional measures to ensure the high liquidity of the banking system in Bulgaria.  |
| Improving the internal mechanisms established as a result of the participation in the European mechanism to respond to the crisis (presented) | November 2008 | Improving the internal mechanisms established as a result of the participation in the European mechanism to respond to the crisis, as to use funds from the fiscal reserve in order to increase the liquidity in the banking system and the economy. |

**Table 3.** Structural measures to support demand and promote resilience

| <b>Measure</b>   | <b>Date of adoption</b>  | <b>Description of the measure</b>   |
|--|--------------------------|---|
| Increasing the capital of the Bulgarian Development Bank AD (undertaken)   | November – December 2008 | Increasing the capital of the Bulgarian Development Bank AD with up to EUR 255.6 million in order to ensure access to credit resources for small and medium-sized enterprises.  |
| Increasing the capital of FLAG fund (presented)  | November 2008            | Increasing the capital of FLAG fund with up to EUR 25.6 million in order to ensure better conditions for municipalities to prepare and implement EU funded projects.  |
| Establishing a state owned company to set up business parks (presented)  | November 2008            | Establishing a state owned company to set up business parks in order to create conditions for attracting highly productive investments and better business environment.   |
| Setting up a Research and Innovation fund and increasing financial resources by 50% in comparison with the resources available in 2008 (presented) | November 2008            | Setting up a Research and Innovation fund to replace the existing Scientific Research and National Innovation funds and increasing financial resources by 50% in comparison with the resources available in 2008 in order to foster research and development in support of technological innovation and restructuring of the economy. |
| Increasing the Bulgarian Export Insurance Agency credit limit (presented)  | November 2008            | Increasing the Bulgarian Export Insurance Agency credit limit in order to enhance export capabilities of the Bulgarian enterprises.   |
| Exerting further efforts for better administrative service for the business, including speeding up of VAT refunding (presented)                    | November 2008            | Exerting further efforts for better administrative service for the business, including speeding up of VAT refunding in order to reduce administrative burden.   |
| Improving the business environment (undertaken)  | April 2008               | Improving the business environment through strict implementation of the Better Regulation programme, targeted at simplification and alleviation of the regulatory regimes.  |
| Streamlining the regulatory regimes and reducing the administrative burdens applied by local government authorities (undertaken)                   | November 2008            | Measures to streamline the regulatory regimes and to reduce the administrative burdens applied by local government authorities in order to provide for favourable business conditions to attract investments.   |
| Improving the work of the regulatory bodies  | November 2008            | Protection of competition through improvement of the regulatory bodies' work and effective  |

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| and effective enforcement of the new Law on Competition Protection (undertaken)  |               | enforcement of the new Law on Competition Protection in order to enhance competitiveness and improve the functioning of markets.   |
| Encouraging job seeking and creating favourable conditions for employers to open new jobs (announced)                  | November 2008 | Encouraging job seeking and creating favourable conditions for employers to open new jobs in order to ensure flexicurity on the labour market.   |
| Improving social networks and increasing their effectiveness (announced)   | November 2008 | Improving social networks and increasing their effectiveness in order to ensure flexicurity on the labour market.  |
| Providing better protection for the unemployed persons (undertaken)  | December 2008 | Introducing differentiated unemployment benefits. Persons, laid-off because of enterprise closure, reduced workloads, or work suspension will receive unemployment benefit of the amount: 130 per cent of the benefit for the first half of the benefit period and 70 per cent for the second half of this period. Thus, workers will be stimulated to actively search for job. The measure is temporary for the period January 1 – December 31, 2009. |
| Changes in labour legislation to support higher business flexibility and adaptation in crisis environment (undertaken) | December 2008 | In case there are business reasons, employers are given the right to introduce reduced working time for a period of six months in one calendar year (presently it is three months). Resources allocated to active labour market policy will be used not only to enhance, but also to sustain employment. The measure is temporary for the period January 1 – December 31, 2009.  |
| Increasing the level of protection of citizens' bank deposits (undertaken)   | November 2008 | Increasing the level of protection of citizens' bank deposits by means of immediate introduction of the EU legislation on deposit guarantees of up to BGN 100 thousand.  |
| Rendering, if needed, capital support to banks in line with the European practices (announced)                         | November 2008 | Rendering, if needed, capital support to banks in line with the European practices in order to sustain the stability of the national financial system.   |