

BUDGET 2013 AT A GLANCE

December 2012

The “Budget 2013 at a Glance” Bulletin

reviews the Budget for 2013 in the form of a “citizens’ budget” in which its main aspects are represented, as well as the priorities of fiscal policy are described with the respective funds provided for the priority sectors.

It fulfills the commitments undertaken by the Republic of Bulgaria under the Global Initiative “Open Government Partnership” in its part for a more efficient management of public resources through enhancing the budget transparency by implementing different measures, incl. procedures and documents containing a short description of the main budget priorities and the funding of policies and other important sectors for citizens.

The Ministry of Finance undertakes a number of steps for enhancing the budget transparency, incl. this bulletin, which according to the international initiative “Open Budget” is one of the key government documents for the assessment of budget transparency, its openness and accessibility for citizens.

“We Are Focusing on Incomes and Growth”

Leading Message for the Budget 2013

On its session on 10th October 2012 the government adopted the budget framework for the next year. The draft-law on state budget for 2013 entered in the National Assembly and on 6th December 2012 was finally adopted.

The 2013 Budget is elaborated on the basis of the last macroeconomic forecast, the main assumptions, the three-year budgetary forecast and the expenditure ceilings for the First Level Spending Units (FLSUs) excl. municipalities for the period 2013-2015, adhering to the main fiscal rules for restricting the budget deficit, debt and the redistributive function of the government.

The Budget 2013 creates the necessary preconditions for a faster recovery of the economy and for ensuring a sustainable macroeconomic environment. With it the government will ensure the main activities for the achievement of the objectives set on the priority policies while pursuing a prudent fiscal policy. The government will strive for maintaining the positive views given by the international institutions, as well as for enhancing the credibility of the policies pursued.



In parallel to the spending policy the necessary funding for overcoming the challenges in the sphere of education, culture, health care and pension system will be provided as a priority. The activities related to the achievement of the objectives for poverty reduction, access to quality public services, absorption of EU funds, investments in infrastructure and environment will be financed.

“In my opinion the period 2009-2010 was to bring us back to stability, the period 2011-2012 to maintain this stability and this is due to this government as well as to the governments before. Now we have the chance to say that in the next 3 years we are focusing on incomes and growth.”

*Simeon Djankov – Deputy Prime Minister
and Minister of Finance*

BNT, “Panorama”, 2012

MAIN ACCENTS IN BUDGET 2013

There are three main messages in the Budget 2013:

- continuing the policy of fiscal consolidation, which will ensure maintenance of country's macroeconomic and financial stability;
- prioritizing expenditures towards sectors stimulating economic growth;
- combating poverty and protection of most vulnerable groups of the population.

It is a further step towards approaching the target for *achievement of a balanced budget* in 2015 and *maintaining low debt levels*.

Budget framework creates stable conditions for economic growth and employment and for attracting investments.

Fiscal policy based on *low taxes and limited redistribution role of government* is maintained.

Expenditure policies as a priority are oriented towards financing the main social responsibilities of the government for increasing incomes, combating poverty and care for the most vulnerable groups of the population such as:

- increasing the level of incomes and social security in line with the potential of the economy and the budget;
- stimulating employment among unequally treated groups on the labor market;
- improving the compliance between supply and demand on labor market;
- providing education for improving knowledge and skills of employed and unemployed.



Health is a primary care and an obligation of the state through:



- ensuring an efficient health control, reduction of morbidity, prevention and supervision, reduction of the demand for drugs;
- ensuring an accessible and qualitative medical help and services;
- guaranteeing a timely access to qualitative and safe medicinal and medical products.

The qualitative training and education, the expansion of the scope and the facilitation of the equal access will be achieved through the funding of programs for:

- consistency between the educational processes and the real needs of economy;
- ensuring equal access to education;
- developing the quality of the education provided;
- improving the conditions for access to higher education by implementing financial measures for promoting students, doctorants and post-graduate students.



The Bulgarian national and cultural identity as part of the European cultural environment will be strengthened through the funding of programs for:

- protecting the cultural heritage and supporting the creation and distribution of art, cultural products and services;
- expanding the access of nationals and guests to cultural products.



Budget 2013 provides considerable funding for the *development and modernization of the transport infrastructure* as a precondition for economic growth and for *diminishing the harmful impact on environment*.

For implementing the national policies in the general framework of Budget 2013, besides the national resources, a serious financial support is ensured by the EU operational programmes, as well as by other donors.

Macroeconomic expectations for the development of the national economy in 2013 are related to an expected growth of GDP up to 1.9% in real terms with a main contribution of the internal demand. Regarding the labor market a relative retain of employment is expected and a level of the average annual unemployment of the population at working age of 12.4%. The expectations for a higher average annual inflation correspond to the risks, stemming from the dynamics of international prices of some goods (foods and energy resources).

FISCAL POLICY, BASED ON LOW TAX RATES AND A LIMITED REDISTRIBUTIVE ROLE OF THE GOVERNMENT

Steps towards approaching a balanced budget in 2015:

- Continuing the successive fiscal policy, which brought the country out of the excessive budget deficit procedure;
- Sustainable decisions on tax policy and measures related to horizontal policies – a response to the unfavorable signals in an international aspect, a reaction for stimulating economic activity and implementation of social commitments for enhancing incomes. The Consolidated Fiscal Programme plans the total revenues at the amount of 37,5% of GDP;
- An increase of the expenditure side of the Budget 2013 mainly compensated with a revenue increase in order to keep the deficit objective of 1,3% of GDP;
- A policy for retaining the size of the debt in reasonable low-risk limits – at the end of 2013 the maximal size of the state debt is envisaged to be around 18% of GDP (significantly below the threshold of 60%);
- Measures for guaranteeing the budget discipline – affirming admissible maximal size of commitments of the institutions, as well as specific rules for alteration of common commitments and performing compensated changes.

Table: Consolidated Fiscal Program for 2013

Parameters 2013	Consolidated Fiscal Programme		of which:			
			National Budget		European Funds*	
	(Millions of Leva)	(% of GDP)	(Millions of Leva)	(% of GDP)	(Millions of Leva)	(% of GDP)
Revenues	30 592,2	37,5%	26 940,2	33,1%	3 652,0	4,5%
Expenditures, transfers and contribution to the EU General Budget	31 692,2	38,9%	27 710,6	34,0%	3 981,6	4,9%
Expenditures	30 784,0	37,8%	25 914,0	31,8%	4 870,0	6,0%
Contribution in the EU General Budget	908,2	1,1%	908,2	1,1%		
Transfers for national co-financing of EU funds			-888,4	-1,1%	888,4	1,1%
Budget Balance (+/-)	- 1 100,0	-1,3%	-770,4	-0,9%	-329,6	-0,4%
GDP	81 485,9					

* Expenditures include national co-financing

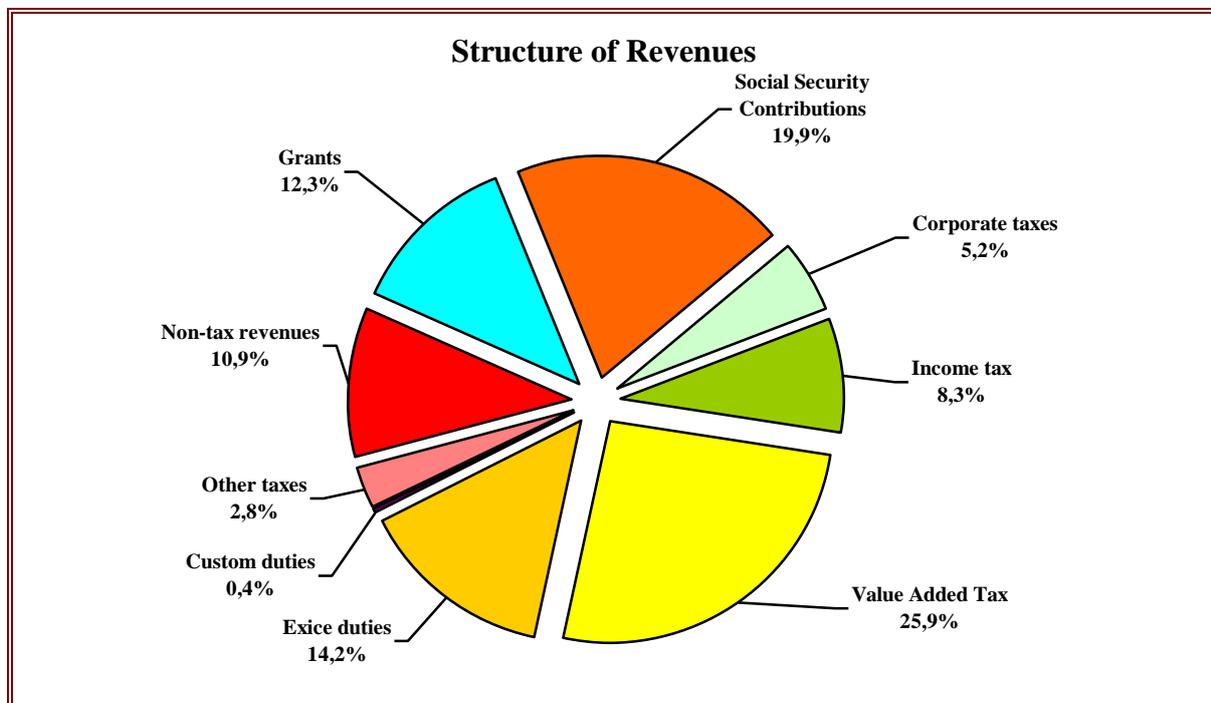
REVENUES AND TAX-INSURANCE POLICY IN 2013

Stable conditions for economic growth, employment and attracting of investments

The 2013 tax policy is defined with:

- retaining the tax rates on corporate taxes and on personal income taxes at low levels;
- continuing the transfer of the tax burden from direct to indirect taxes by a gradual increase of the rates for some excisable goods, in compliance with the negotiated transitional periods and in order to be achieved the EU minimal levels taxation with an excise;
- measures for improving the collection of revenues by tax administrations.

The size of the revenues in 2013 is envisaged at the level of 30 592.2 millions of leva, which represents an increase of 1 840.2 millions of leva compared to the 2012 programme, reallocated into the following structure:



The rates of the main taxes are retained:

- Corporate Tax – 10% - one of the lowest in the EU;
- Personal Income Tax – 10% (without a non-taxable minimum threshold), with the exception of the incomes of sole proprietors for whom the tax rate amounts at 15%;
- Value Added Tax – 20%;
- Tax rate for hotel accommodation – 9%.

An increase of excise rates for gas oil and kerosene:

- for the gas oil – an increasing of the rate from 630 leva/1000 l to 645 leva/1000 l;

- for the kerosene - an increasing of the rate from 630 lv/1000 l to 645 lv/1000 l;

Amendments in tax legislation

On corporate taxes:

- Determination of advance payments for the corporate tax on the basis of the forecasted taxable profit for the current year, declared by the taxable person;

- Taxable persons, whose net profits from sales in the previous year do not exceed 300 000 leva, do not make any advance payments for corporate tax. There is a provision regulating that those persons could make three-months advance payments if they want to;



- Taxable persons, whose net profits from sales earned in the previous year are between 300 000 leva and 3 000 000 leva make three-months advance payments for corporate tax and those whose net profits from sales for the previous year exceed 3 000 000 leva make monthly advance payments;

- Taxable persons declare advance payments for the current calendar year together with the submission of the annual tax declaration for the previous calendar year;

- The tax basis for the determination of the tax on expenditure for representative purposes, the tax on social expenditures provided in kind and the tax on the expenditures related to vehicles exploitation are the accounted expenditures for the corresponding year and not the accounted expenditures for the corresponding month;

- Annual but not monthly tax on expenditures, which is paid only once not later than the 31th of March of the following year;

- Annual taxes on the revenues of the budget enterprises and on the activities related to the operation of ships paid once, not later than 31th of March of the following year and not monthly;

- Retaining the rate of 15% on games of chance and introduction of a lower rate of 7% when these are organized from a distance (comes into force after a positive decision by the European Commission for compatibility with the rules for state aid).

On the value added tax:

- Amendments related to some requirements on the information specified in the invoices for delivery. In this regard the corresponding amendments are proposed in Accountancy Act for invoicing of the economic operations;

▪ Amendments with regard to the right on deducting tax credit for delivery of motorcycles and cars. The legal basis enforced before the date of the accession of Bulgaria to the EU (1st January 2007) is reinstated.

Retaining the rates and the proportions for the social contributions paid to the State Social Security, the Teachers' Pension Fund, the Fund "Guaranteed receipts by employees and servants", the contributions for the additional obligatory pension insurance and the contribution for health care.

An increase of the maximal insurance income is set – from 2 000 to 2 200 leva and an increase of the insurance contribution for the Pension Fund with 20 p.p. for the employed in the special administrations.



Създаваме заедно

A strong financial support for the operational programmes for the

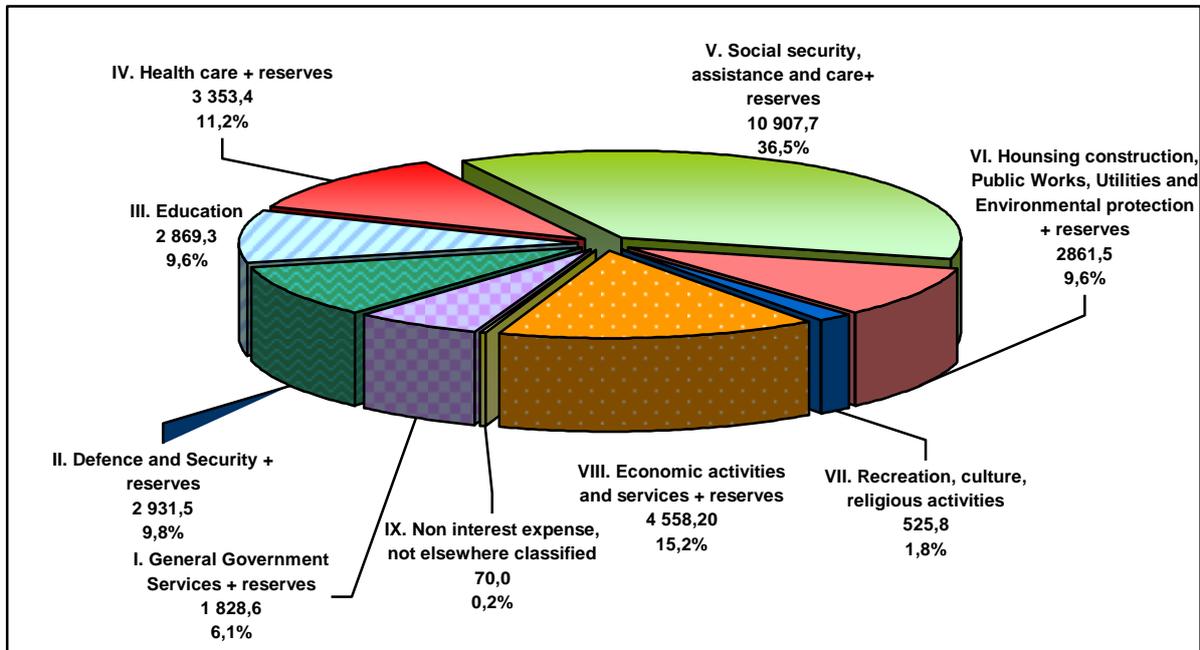
sectors, stimulating growth

The projected revenues from the EU Funds for 2013 amount to 3 652.0 millions of leva, the expenditures planned for the programs co-financed by the EU are at the level of 3 981.6 millions of leva, as their corresponding national co-financing is 888,4 millions of leva. The sectors stimulating economic growth, which are a main priority of the national budget meet a strong financial support by the operational programs, co-financed by the Structural and Cohesion funds of the European Union.

EXPENDITURE POLICIES

Priority financing of the main social responsibilities of the state

Share of the main functions in the total consolidated non-interest expenditures for 2013, including reserve, without the contribution in the EU General Budget (in millions of leva and in %)



Increasing the level of the incomes and the social security in line with the potential of the economy and the budget

In the social sector:

- indexation of pensions from 1st April 2013 with an average percentage of increase of 9,3% (increase of expenditures with 585,9 millions of leva);
- increase of minimal pension for length of state-pension-scheme covered work experience and old age from 1st April 2013 from 145 to 150 leva;
- increase of the social pension for old age from 100,86 to 110 leva from 1st April 2013;



- increase of the maximum size of the received one or more pensions from 700 to 770 leva from 1st April 2013;
- social assistance and benefits – an increase of expenditures with 134 mln lv;
- programmes, activities and measures in the area of social assistance and employment – an

increase of expenditures with 72,1 millions of leva;

- an increase of the level of the minimal wage from 290 to 310 leva.

PROVIDING FINANCING FOR PRIORITY SECTORS

Provision of better financing in the area of social assistance:

- assistance entitlement under the Social Assistance Act and its Implementing Regulation – 57,3 millions of leva;

- energy assistance payments – 73,1 millions of leva;

- special funding for diagnostics and treatment at medical institutions for hospital care of Bulgarian citizens who do not have any income and/or personal assets to afford personal participation in the health insurance process – 2,5 millions of leva;

- assistance entitlements under the Integration of People with Disabilities Act – 157,2 millions of leva;

- funding for implementing measures and programmes under the Child Protection Act – 9,9 millions of leva;

- expenditure under the Family Benefits for Children Act – 487,4 millions of leva. This appropriation is estimated under the assumption of keeping the income per family member at 350 lv and retaining monthly child benefits until completion of secondary education but no longer than the child's 20th birthday at 35 lv;

- guaranteeing the rights of war veterans, ex-military personnel with disabilities or injuries for medicines, dental aid, as well as for one off allowance in case of a war veteran's death – 5 millions of leva;

Benefits:

- benefits for temporary incapacity – for the first three days 70 per cent for the account of contributor;

- maximum amount of unemployment benefits at 60 per cent of the reference income of the insured person before the job loss, and the minimum daily amount of benefits is retained at 7,20 leva;

- the eligibility period for payment of cash benefits for pregnancy and birth remains unchanged at 410 days;

- the amount of the benefits for raising an infant between 1 and 2 years of age remains 240 leva;

- the amount of one off allowance in case of death of the insured person remains 540 leva;

Encouraging employment of persons in long unemployment at a labor-active age

Measures are planned for restricting the unemployment among the people who are actively searching for a job and the purpose is its level to fall to 10,8% in 2013 (its level in 2012 is expected to be 11,5%). The number of hired persons through programmes and measures should reach 23 530.

Providing labor demand with quality labor force

The purpose is the number of employed and unemployed participating in education courses for adults with state budget funding to reach 6 605.

Better functioning of the labor market

The purpose is the number of the announced free positions on the primary labor market to be increased with 2 000 compared to 2012 and the number of the newly employed persons to be increased from 95 800 in 2012 to 96 200 in 2013.



Improvement of the conditions and guarantees for equal treatment and full participation of the disabled people in all areas of public life

Assistance entitlements under the Integration of People with Disabilities Act are envisaged at the amount of 157,2 millions of leva.



Replacing institutional child care with care in a family environment or a community-based quasi-family environment

The purpose is the number of accommodated children in families of their relatives to reach 5 100 and the number of accommodated children in foster families to reach 1 200.

Health care – primary care and obligation of the state

In 2013 expenditure under the functional heading of Healthcare is envisaged at 3 353,4 millions of leva or 10,9% of total expenditure and 4,1% of GDP. These will fund:

- the main public healthcare systems and certain specific activities carried out by medical and health institutions;
- activities in medical institutions for hospital care



which remain responsibility of the state, such as treatment of HIV/AIDS patients, transplantation of tissue, organs and cells, expert medical opinions on work capacity, etc.;

- delegated by the state activities financed through the municipal budgets (the level of funding is 96,5 millions of leva) which provide a growth of 3% average of the unified expenditure standards for kindergartens, child kitchens and health mediators and compensate for the increased level of the minimal wage for the country.

The funding for health care benefit payments through the budget of the National Health Insurance Fund are planned for:

- primary out-patient medical care – 176 millions of leva;
- specialized out-patient medical care – 178 millions of leva;
- dental aid – 106,5 millions of leva;
- medical diagnostic activity - 71,5 millions of leva;
- medicinal products – 534 millions of leva;
- medical products – 70 millions of leva;
- hospital medical care – 1189,5 millions of leva;
- other health insurance payments for health care – 58 millions of leva.

Qualitative training and education, increasing the coverage and facilitating equal access

The expenditure planned for the programmes and activities in the area of education are envisaged at the amount of 2 919,9 millions of leva (3,6% of GDP) or 9,5% of the total expenditure which represents an increase of 172,8 millions of leva compared to the 2012 budget.

The changes in education sector are related to:



- increase of the unified spending standards for financing of the education of children and students in the system of national education average with 6,5% compared to 2012 and compensation of the increased level of the minimal wage for the country. The foreseen funding for current expenditure under activities delegated by the state and funded through municipal budgets is 1352,4 millions of leva.

- introduction of obligatory pre-school education for children 2 years before starting first grade in all municipalities in the Republic of Bulgaria;

- introduction of all-day organization of

education for school students in grades I-IV

- preservation and development of the cultural identity of children and students in the Bulgarian communities abroad;
- an increase of the absorption of EU funds – the financing of the all-day organization of the education process with funding from the Operational Programme “Human Resources Development” will continue in 2013;
- an increase of the funding for differentiation of the financing of State Higher Schools depending on the complex assessment of the quality of education provided.

The budget for education includes funding for an increase of the number of the students who have:

- conducted an educational and/or production practices in a real working environment (the target for 2013 is to reach 70%);
- acquired a degree of professional qualification (the target for 2013 is to reach 84%);
- been provided with free textbooks from I-VII grade (the funds planned for 2013 are for 437 325 students).

Strengthening the Bulgarian national and cultural identity as a part of the European culture

The budget for 2013 provides funding for:

- management, control and regulation of the activities related to culture;
- development of the cultural industry, introduction of European models for preservation, management and integration of cultural heritage in the contemporary life;
- activities in the area of theatrical art, film production, musical and dancing art, museums, Bulgarian publishing sector;
- production and broadcasting of national and regional radio and TV programmes by the Bulgarian National Radio and the Bulgarian National Television.

The funds in Budget 2013 provided for the state **delegated activities** funded through the municipal budgets **in the area of culture** amount at 72 millions of leva and are directed for current expenditures (an increase of the funding for the regional cultural institutes and for the community centers with 10%, as well as an increase of the subsidized number of employees in relation to new museums and their regional branches, provision of funding for newly established regional branches of libraries and for newly registered community centers).

Development and modernization of the transport infrastructure as a condition for economic growth

Funding of 2 318,9 millions of leva is envisaged to conduct government policies in the area of **transport and communications** for:

- maintenance and development of the republican road infrastructure in line with the contemporary requirements;

- rehabilitation and reconstruction of roads from the republican road network II and III class and Transit roads V;

- realization of the following main projects under the operational programme “Transport” (conducted in the period 2013-2015): “Construction of “Maritza” highway, lot 1 and lot 2”; “Final construction of “Trakia” highway between Stara Zagora and Karnobat”; “Electrification and reconstruction of the railway line Plovdiv – Svilengrad along corridors IV and IX, phase 2: Parvomai – Svilengrad”; “Rehabilitation of the railway infrastructure in segments of the railway line Plovdiv – Burgas”; “Expansion of the underground in Sofia phase II and phase III; “Modernizations of the railway segment Septemvri – Plovdiv”. It is expected the European Commission to approve the funding from the operational programme “Transport” of the project “Construction of “Struma” highway lot 1, lot 2 and lot 4”.



Encouraging the use of e-services and satisfying the business and population needs for modern, efficient and high quality communication and information services and increase of the e-services use.

The delivery of **e-services for citizens and businesses** will spread through the development of base infrastructure for conducting of e-services, creating conditions for a secure and convenient conducting and accepting of electronic statements and an increase of trust and security for consumers through an improvement of the protection of their rights in the electronic world through coordinated activities of the competent bodies and organizations and popularization of consumer rights in the electronic world and the means for their protection.



In order to reduce the negative **environmental impact** Budget 2013 foresees the implementation of programmes for:



- improvement of waste management – it is planned the number of waste treatment facilities and installations to be commissioned into operation to reach 25 while the population included into the system for a separate collection of waste to increase with 100 000 and to reach 6 050 000;

- improving ambient air quality – it is foreseen the consumption of biofuels as a part of the total consumption of fuel to increase from 2,25% in 2012 to 2,7% in 2013 which would lead to a reduction of the total annual emissions of sulphur dioxide;

- biodiversity protection – it is planned 5 action plans for endangered animal and plant species to be developed.



Efficient and competitive agriculture

Appropriations for agriculture, forestry, hunting and fishing have been increased in comparison to their amount for 2012 by 194,6 millions of leva. The

policies' objectives provide for an increase of:

- the agricultural area registered for subsidizing according to the single area payment schemes from 3 750 000 hectares in 2012 to 3 850 000 hectares;

- the production of aquaculture from 9 600 tones in 2012 to 10 100 tones.

Subsidies for real sector financial support

Budget 2013 provides funding for:

- compensation for some passenger transport services provided by the “Bulgarian State Railways – Passenger transport” while implementing its obligation to perform a public service of “general economic interest” when applying tariff prices which are lower than the level of expenditures for the provision of passengers’ transport – 170 millions of leva;

- construction, maintainance, development and exploitation of railway infrastructure – 130 millions of leva;

- subsidizing the transportation of passengers on financially non-profitable city bus lines and the transportation in mountain and other regions – 22 millions of leva;

- compensation of the deficit from the provision of the universal post service – 2 millions of leva;

- compensation of preferential trips by using railway and motor transport – 100,5 millions of leva. These funds cover the free trips for children until they reach the age of seven and the preferential trips of children between seven and ten years old who benefit 50% price reduction when traveling with the automobile transport;

- provision of free transport for children and students until they reach the age of 16 to cluster schools – 25,5 millions of leva;

- covering transport costs for delivery of bread and basic commodities to maintain and small settlements – 3,6 millions of leva;

- implementation of programmes for technical liquidation, environmental conservation and improvements for companies and facilities in coalmining, ore mining and uranium mining – 10 millions of leva;
- programmes and projects aimed at remediation of old environmental damages caused by the operation of privatized enterprises – 5 millions of leva;
- investment programme of the State enterprise “National Company Railway Infrastructure” and for bridging the financial shortfall for the implementation of projects under the Operational Programme “Transport” – 90 millions of leva;
- final payment on the contract for purchasing new sleeping cars and for repair work and delivery of other necessary rolling stock – 20 millions of leva;
- construction, reconstruction, rehabilitation and maintenance of ports for public transport of national importance – 12 millions of leva;
- payment of the leva equivalence of housing compensatory notes – 1,5 millions of leva.

The forecast for the *main macroeconomic indicators* was made under the expectations that fiscal and debt problems of the Eurozone Member States could lead to a slowdown of the European economy:

- volatilities during the growth recovery and uncertainty in the short run;
- international petrol and food prices growth;
- slowdown of the European economic growth, high levels of unemployment in the EU and a continuing tension on financial markets.

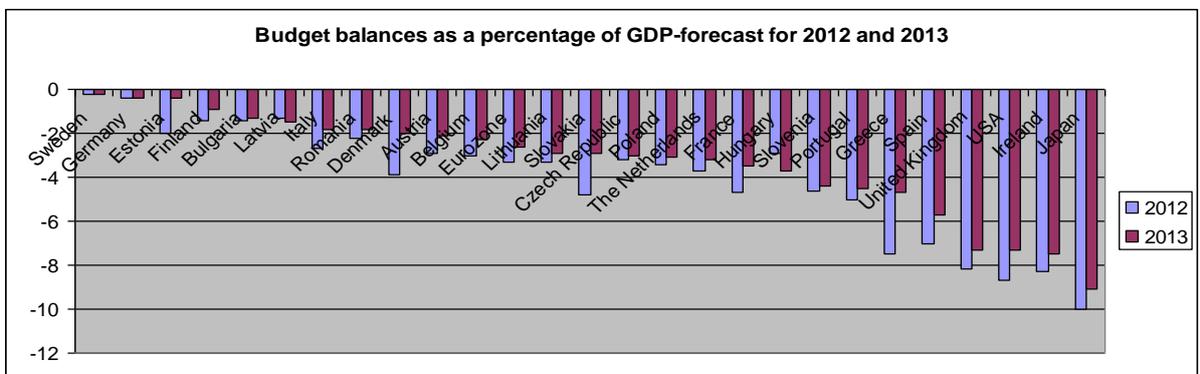
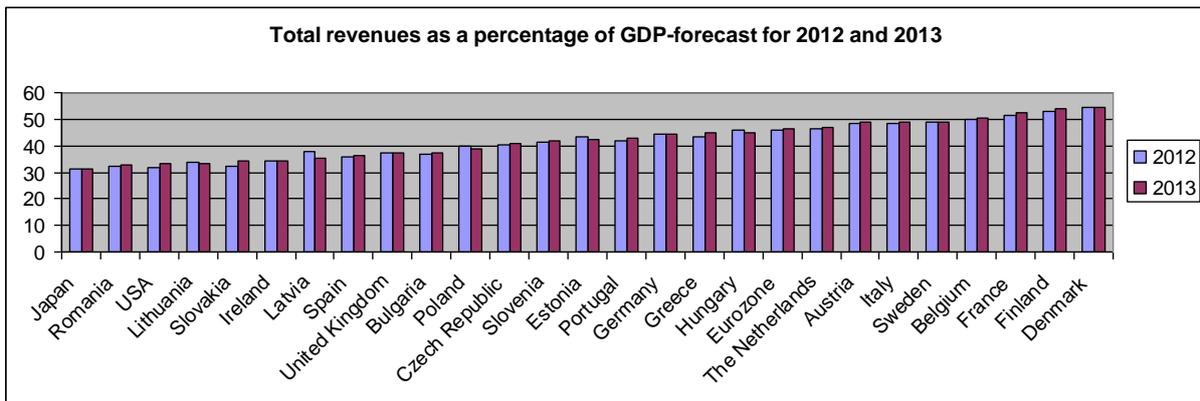
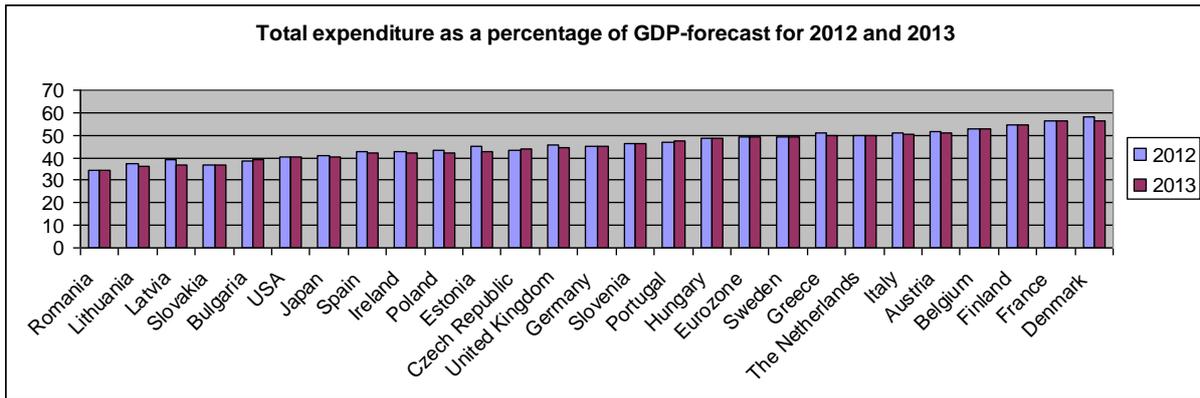
With respect to the *developments of the national economy* the expectations are related to:

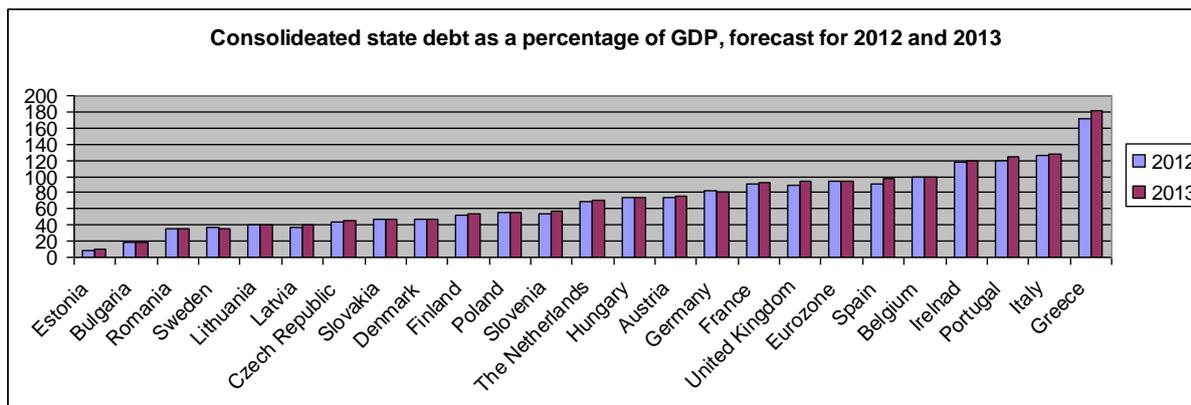
- a positive growth of the domestic demand and retainment of the investment activity;
- retaining the base inflation at relatively low levels from 3,4% for 2013 to 2,6% in 2015 despite the observed gradual price increase with respect to services;
- not allowing an increase in the rate of unemployment;
- and stabilizing the number of employed as the process of recovery of employment will be restricted by the worsened international environment.

BULGARIA'S FINANCIAL AND ECONOMIC STABILITY

WHERE DO WE STAY?

The following graphs represent comparative data for EU countries with respect to main fiscal indicators for 2012 and 2013. The information used is based on data from IMF's report - Fiscal Monitor, October 2012, "Taking Stock - A Progress Report on Fiscal Adjustment".





“Budget 2013 at a glance” addresses citizens with the aim to ensure a better understanding of the state budget, publicity and transparency of the expenditures to provide financing for the government policies in the way they are set as priorities in the government programme. It is the beginning of a good practice to trace the consequence, effectiveness and efficiency in management which will result in a wider confidence and support from the society.

“Budget 2013 at a glance” is an expression of political responsibility and of the desire Republic of Bulgaria’s finances to be understandable and accessible for tax-payers and the conducted policies to be transparent and with a clear evaluation of the results achieved. This document represents a step to the further improvement of the budgetary process after the introduction of programme and result-oriented approach to budgeting and its undergoing institutionalization with the approved by the Council of Ministers draft Public Finance Act (currently submitted for approval by the National Assembly). “Budget 2013 at a glance” is a new step towards the improvement of the budget practice in the Republic of Bulgaria.