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### **Budgeting in Bulgaria**

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# Budgeting in Bulgaria

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This review discusses the significant progress made since the last OECD budget review of Bulgaria in 2009. It begins with a discussion of the institutional and legislative framework for budgeting before addressing fiscal policy and medium-term planning. It then turns to the state budget formulation and execution before discussing transparency and openness in budgeting. It concludes with a discussion of parliament's role in the budget process and external oversight. Recommendations are made for each of these topics.

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## Overview

The OECD carried out a first review of Bulgaria's budget system in 2009. The review noted that the Bulgarian budget preparation process was being modernised and that the 2009 budget process exhibited many of the modern budgeting techniques found in OECD countries, such as top-down budgeting, multi-year budgeting perspectives and the use of performance information. However, the 2009 review noted that the real challenge for Bulgaria was to make the modern practices work by implementing them effectively and thoroughly.

The Bulgarian budget system has remained very stable since then and significant progress has been achieved in the ten years between the previous review and the present review in many of the areas covered by the *OECD Recommendation of the Council on Budgetary Governance* (OECD, 2015<sup>[1]</sup>). The most significant reform of the last decade has been the establishment of a sustainable medium-term budgetary framework, which is underpinned by a set of strong and clear fiscal rules. These rules were adopted to ensure that Bulgaria would achieve full compliance with the new rules of the European Union's (EU) economic and fiscal surveillance, which were strengthened in the wake of the 2008 financial crisis. They have also been of particular importance because they have helped to deliver enhanced fiscal discipline in recent years. The budgetary aggregates since 2013 highlight the government's strong commitment to fiscal prudence in that time.

At the time of the *OECD Budget Review of Bulgaria* in 2009, Bulgaria did not have a legally entrenched fiscal rule and the fundamental guidelines for fiscal policy were established by coalition agreements. Although these agreements worked well and in the 2008 Convergence Programme Bulgaria was able to report full compliance with the EU fiscal criteria, the introduction of the fiscal rules enhanced fiscal discipline by establishing a set of obligatory targets that must be met by the authorities in accordance with the law.

Fiscal rules help ensure fiscal discipline, but they are not sufficient in themselves and tools and processes must be put in place to ensure that the rules are respected. Prior to 2014, procedural reforms were introduced in an ad hoc manner through the annual budget law. In response to concerns about the sustainability of the public finances, it was decided that the budget framework needed to be changed significantly, with a far greater emphasis on a medium-term approach underpinned by fiscal rules – to be applied by central and local authorities – that would provide the overarching framework within which the budget would be formulated.

A new organic budget law, the Public Finance Act (PFA), was drafted with the purpose of achieving this objective. Its enactment was intended to achieve a sustainable and predictable medium-term budgetary framework that would ensure more efficient allocation and management of public resources while supporting the implementation of prudent fiscal policies and respecting EU reference thresholds for the budget deficit and the government debt ratio. The PFA also aimed at providing an overarching framework of fiscal sustainability within which the budget process must be implemented. Furthermore, along with the Constitution, it provided that the institutions involved should have clear and well-defined roles.

The PFA has succeeded in establishing a medium-term budgetary framework with a strong emphasis on promoting fiscal discipline. The positive impact of the new framework can be seen by considering the positive evolution of the debt and general government balance to gross domestic product ratios between 2013 and 2018, although it must be noted that these improvements have occurred in a time of economic buoyancy.

A realistic medium-term budgetary framework cannot exist without realistic forecasting. In order to ensure realistic macroeconomic forecasts, the PFA requires the Ministry of Finance to compare its macroeconomic forecasts with those of the European Commission and explain any significant deviations. It also provides that the forecasts may be compared with those of other independent institutions. This contributes to a prudent stance on forecasting which underpins the sustainability of the public finances.

The PFA also provides a basis for developing a system of programme budgeting by introducing the concept of programme classification and for increasing transparency and accountability through non-financial performance information on the basis of key indicators to measure actual results achieved. Although the quality of non-financial information in programme budgets is increasing, the actual impact of performance information on the allocation of resources in the formulation of budgets has been weak so far.

The authorities have also widened the scope and content of the budget documentation in recent years. Apart from the greater emphasis on a programme presentation of the budget, the medium-term budgetary framework contains information on budgetary planning, macroeconomic and budgetary forecasting, the main assumptions that underpin projections, the priorities of spending policies, as well as the sustainability of the public finances and the main fiscal risks.

With regard to independent institutions, the establishment of the Fiscal Council in 2016 is another important recent initiative. The Fiscal Council was established by the Fiscal Council and Automatic Corrective Mechanisms Act of 2015. In its first three years, it commented on the medium-term budgetary framework and annual budgets, and issued its own reports on topical issues. Although the Fiscal Council itself considers its mandate to be quite restricted, nevertheless, its establishment as an independent institution that provides external scrutiny over fiscal and budgetary policy is an important development.

Overall, Bulgaria has made impressive progress in adopting good international practice with regard to budgetary governance. However, the annual budget cycle is complex and resource-intensive in that it requires several updates to the medium-term plans, in the spring and autumn. Although this is not a problem unique to Bulgaria within the EU, the Ministry of Finance should explore options to streamline processes, including conducting consultations and dialogue on new tax and spending measures with first-level spending units and representatives of the non-governmental sector earlier in the budget cycle.

In addition, some elements of Bulgaria's recent reform agenda are still at a developmental stage and they will need to be further consolidated and improved in light of the experience gained from their implementation. Significant challenges in particular remain concerning tools and processes for resource prioritisation and allocative efficiency:

- the links between the government's strategic policy priorities expressed in the Law on Strategic Planning and medium-term fiscal planning are weak as a result of the use of different classifications regarding the scope of sector policies, time horizons, etc.
- trade-offs between policies and programmes do not appear to be systematically informed by evidence from performance indicators or spending reviews
- the multi-annual rollover of the medium-term plans creates little incentive for realistic planning
- the large degree of flexibility available to the executive for modifying resource allocation in the course of budget execution further undermines medium-term planning.

Finally, the National Assembly's role in the budget process could be strengthened by increasing the time frame for debating and approving the state budget to three months, which is a standard for good practice. This provides more time for analysis and discussion in parliamentary committees and for conducting consultations with various stakeholders. While it has access to analyses from the Fiscal Council, the National Assembly should consider establishing an independent research body associated with the National Assembly to help parliamentarians and parliamentary committees by providing analysis and research on budget, economic and financial matters.

Progress to date on the sustainability of the public finances provides a strong basis for ensuring that additional reforms to address these remaining challenges can be successful. Delivering such improvement will be key in successfully addressing future fiscal challenges, such as reallocation of spending to address the needs of an ageing population.

**Table 1. Budgeting in Bulgaria and the OECD Recommendations of the Council on Budgetary Governance**

Budget principle	Bulgaria	Reference
1. Budgeting within fiscal objectives	Bulgaria has a comprehensive set of fiscal rules, which are compliant with EU requirements. Top-down budgeting is well understood and well-established so that overall fiscal discipline is now a primary factor in budgeting.	Section 3
2. Alignment with medium-term strategic plans and priorities	The medium-term dimension of budgeting is strong. The multi-annual rollover of the medium-term budgetary forecast (MTBF), however, creates little incentive for realistic planning. In addition, the links between strategic policy priorities and medium-term fiscal planning are still weak.	Section 3
3. Capital budgeting framework	Capital investment is prioritised according to the implementation of sectoral strategies adopted by the government. There is, however, no standard methodology for appraising and prioritising capital investment projects based on value for money, which could also serve as a reference point for <i>ex post</i> evaluations.	Section 4
4. Transparency, openness and accessibility	Budget documents and accounts are published regularly through the budget cycle. A Citizen's Budget as well as other reader-friendly documents are prepared annually. The quality of the commentaries on the budget execution, however, could be improved, e.g. in terms of explaining transfers.	Section 5
5. Participative, inclusive and realistic debate	The National Assembly is able to engage in the budget process both <i>ex ante</i> and <i>ex post</i> , but its involvement and analytical capacities should be strengthened. Programme and performance budgeting have helped to provide more information on the government's key policy priorities. Although Bulgaria conducts public consultations on certain policy changes, there are, however, limited opportunities for citizens to engage in the budget process, although the National Assembly encourages public participation as part of its scrutiny of the state budget proposal.	Section 6
6. Comprehensive budget accounting	Budget documents and accounts are comprehensive in that they cover not only the so-called Consolidated Fiscal Programme, but also report most assets and liabilities in compliance with the national accounting standards for the public sector. Information is also provided on cash payments and commitments for the state.	Section 5
7. Effective budget execution	Tight controls are exercised on budget execution to ensure compliance with budget appropriations and fiscal rules. A treasury single account covering all entities within the Consolidated Fiscal Programme except municipalities is maintained in the central bank. The level of power granted to the Council of Ministers in reallocating appropriations is, however, very large, with limited scrutiny of budget execution by the National Assembly.	Section 4
8. Performance, evaluation and value-for-money	Programme and performance budgeting is well-developed at the level of first-level spending units (including key performance indicators) and pilot spending reviews have been implemented. Going forward, greater use needs to be made of the evidence collected, to inform both annual and medium-term budgetary decision making.	Section 4
9. Fiscal risks and long-term sustainability	A number of fiscal risks are monitored and reported in the MTBF. Further efforts are needed to more systematically identify fiscal risks and explain mitigation strategies. Fiscal sustainability is assessed annually. Fiscal risks and long-term sustainability challenges could also be more rigorously factored into fiscal policy and annual budget decision making.	Section 3
10. Quality, integrity and independent audit	An independent Fiscal Council and supreme audit institution provide external oversight on budget forecasting and <i>ex post</i> reporting, respectively. The capacities of the recently created Fiscal Council, however, need to be strengthened and the supreme audit institution could develop value-for-money activities to support the government's move towards a more outcome-oriented budgeting system.	Section 6

## 1. Context for this review

### ***Political landscape***

Under the terms of the 1991 Constitution, Bulgaria is a parliamentary republic. The head of state is the President of Bulgaria, who is directly elected for a five-year term, with the right to one re-election. The President schedules national referenda and elections for the National Assembly, serves diplomatic and other functions, and promulgates and can veto laws (although parliament can overturn the President's veto with a simple majority vote).

Executive power lies mainly with the Council of Ministers. It is composed of the Prime Minister, deputy prime ministers and ministers. Its functions are mainly to propose and oversee the implementation of policies on both domestic and foreign issues, in accordance with the Constitution and laws of Bulgaria enacted by the National Assembly. The Council of Ministers must resign if the National Assembly passes a vote of no confidence in the Council or Prime Minister.

The National Assembly, a unicameral body, consists of 240 deputies elected for 4-year terms through a mixed electoral system.<sup>1</sup> The parliament has the right to elect and dismiss the Prime Minister and line ministers, to enact laws, to approve the budget, and is tasked with the ratification of international treaties and agreements.

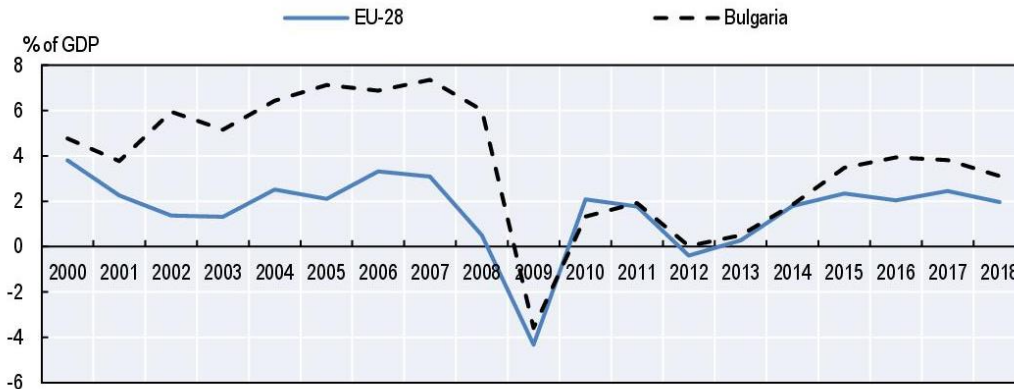
For the last decade, Bulgaria's political system has been dominated by two parties of the centre-left and centre-right. There is also a relatively large number of smaller political parties in Bulgaria. Most governments have been run by a coalition of one major party and smaller ones, which has generated political instability in recent years. Consequently, there have been three consecutive early general elections in 2013, 2014 and 2017.

### ***Recent economic developments***

Since the collapse of the communist regime in 1991, the Bulgarian government has undergone a transition from a centralised and planned economy to a more liberal, open and market-driven one. Structural and institutional reforms, such as the introduction of the Currency Board in 1997, the privatisation of state-owned enterprises and the adoption of more favourable investment circumstances, as well as trade liberalisation, along with EU accession in 2007, triggered a decade of exceptionally high economic growth and improved productivity, incomes and living standards, with annual average gross domestic product (GDP) growth of 5.9% from 2000 to 2008.

After a sharp contraction in 2009, GDP growth in Bulgaria averaged 1.1% annually between 2010 and 2014, but economic growth has accelerated since 2015, with the GDP growth rate above 3% in 2018, well above the EU average of 2%. This was driven primarily by strong domestic demand, increased exports and faster disbursement of EU Structural Funds.

Figure 1. Real GDP growth rate, Bulgaria, 2008-18

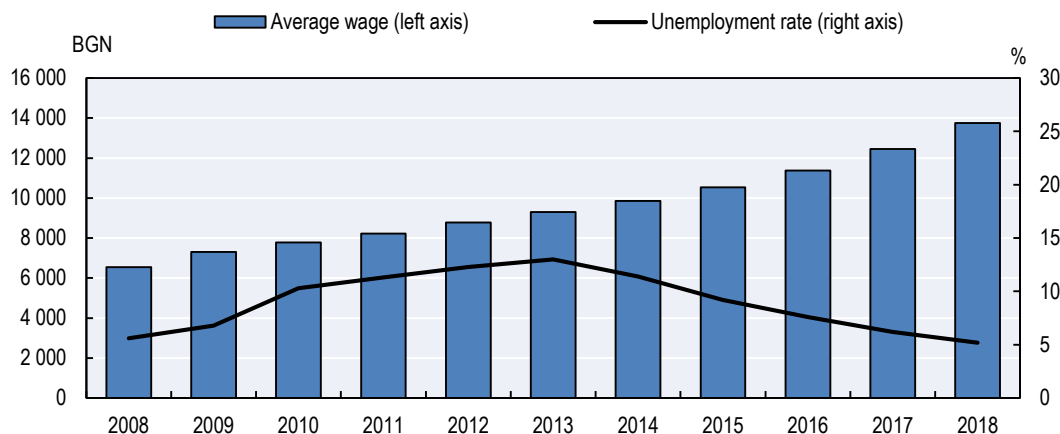


Source: Eurostat (2019<sup>[2]</sup>), National Accounts Database, <https://ec.europa.eu/eurostat/web/national-accounts/data/database> (accessed 19 July 2019).

Concerning living standards, the annual average wage increased by 9.4% per year on average from 2008 to 2018 and total expenditure of households also increased, spurred by declining interest rates and wage increases. The unemployment rate has been falling, from above 10% in the early 2010s to 5.2% in 2018, down from 6.2% in the previous year. Average annual inflation, which was negative between August 2013 and 2016, rose to 2.6% in 2018, reflecting a rise in global oil prices and household disposable incomes, together with an increase in unprocessed food prices due to the bad harvest.

Despite attractive investment conditions, such as cheap labour, challenges remain. The main risks stem from a growth slowdown of trading partners, rising protectionism, the retreat from multilateralism and fast wage growth (IMF, 2019<sup>[3]</sup>). In addition, Bulgaria’s income per capita is still the lowest in the EU, at only 50% of the EU average in 2017, and the negative population growth rate continues to weigh heavily against future prospects. Productivity will need to grow by at least 4% per year over the next 25 years if Bulgaria is to catch up to average EU income levels.

Figure 2. Average wage and unemployment rate, Bulgaria, 2008-18

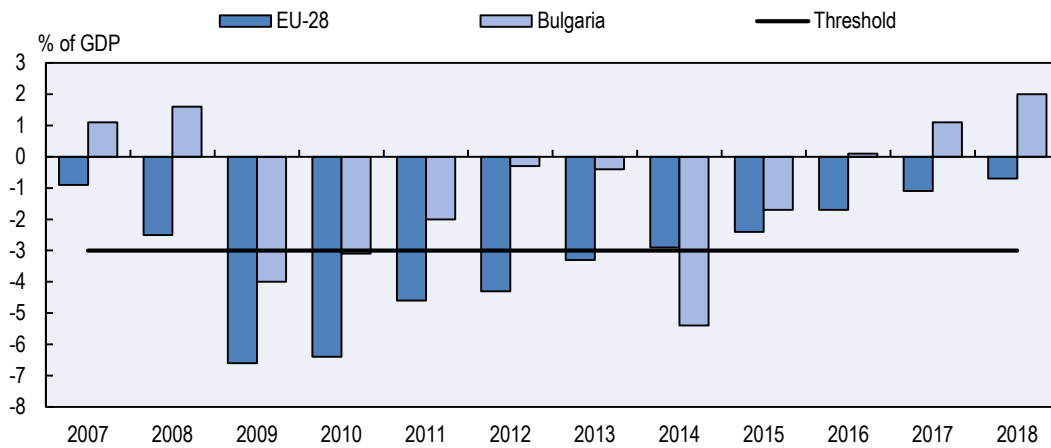


Sources: National Statistical Institute (2019<sup>[4]</sup>); Eurostat (2019<sup>[5]</sup>).

**State of public finances**

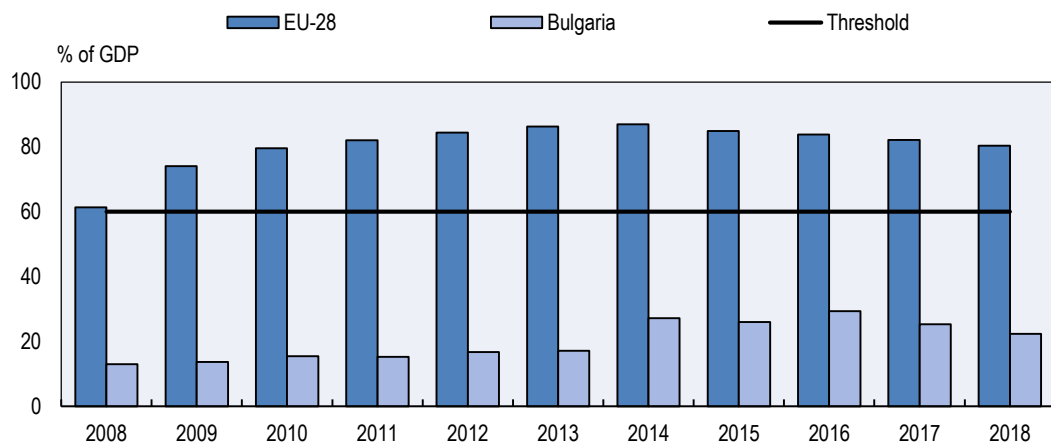
Bulgaria exceeded the EU deficit threshold of 3% of GDP in 2009 in the wake of the financial crisis and in 2014 when Corporate Commercial Bank (CCB), the country’s fourth largest bank, collapsed. However, quickly, in 2016, the fiscal balance returned to a modest surplus to reach 2.0% of GDP in 2018 (Figure 3). At 22.3% of GDP in 2018, the government debt-to-GDP ratio is one of the lowest among EU countries (Figure 3). Positive fiscal status in Bulgaria is due basically to improved government revenues based on robust economic growth. The general government revenue in 2018 increased by 32.9% compared to 2014.

**Figure 3. General government fiscal balance, Bulgaria, 2007-18**



Source: Eurostat (2019<sup>[21]</sup>), *National Accounts Database*, <https://ec.europa.eu/eurostat/web/national-accounts/data/database> (accessed 19 May 2020).

**Figure 4. General government debt, Bulgaria, 2008-18**



Source: Eurostat (2019<sup>[21]</sup>), *National Accounts Database*, <https://ec.europa.eu/eurostat/web/national-accounts/data/database> (accessed 16 June 2020).

Bulgaria's expenditure is relatively low compared to OECD countries. In the last ten years it has remained at around 36.9%, with the exception of 2009, 2014 and 2015. The biggest share of public expenditure in 2017 was accounted for by central government, at 24.1% of GDP, local government with 7.1% of GDP and the social security fund with 14.3% of GDP. The 2018 budget allocation by Classification of the Functions of Government (COFOG) shows that welfare and social protection constitutes 32.8%, followed by economic affairs (18.2%), healthcare (13.6%), and education (9.7%), whereas defence and housing/community amenity account for around 3%; environmental protection is at the bottom with 1.9% (Table 2).

**Table 2. Bulgaria's budget allocation according to COFOG, 2018**

	Budget (million BGN)	Portion
Total	40 088	100%
General public service	3 585	8.9%
Defence	1 245	3.1%
Public order and safety	2 720	6.8%
Economic affairs	7 315	18.2%
Environmental protection	768	1.9%
Housing and community amenity	1 156	2.9%
Health	5 441	13.6%
Recreation, culture and religion	852	2.1%
Education	3 872	9.7%
Social protection	13 132	32.8%

Source: National Statistical Institute.

Bulgaria intends to continue its prudent fiscal policy. The authorities aimed for a small cash deficit in 2019<sup>2</sup> and a balanced budget in subsequent years.<sup>3</sup> Another objective in the coming years will be to increase the quality of public spending so as to create a fiscal stimulus for the economy. The authorities intend to generate this stimulus through increases in expenditures on education and health, as well as increased capital expenditure (IMF, 2019<sub>[3]</sub>).

## 2. Institutional and legislative framework for budgeting

### ***Institutional organisation***

#### *Administrative organisation*

Bulgaria has a unitary system of government with three levels of government – the state, regions and municipalities – whose functions and responsibilities are defined in the Constitution. It also has a social security system, which has its origins in the social insurance model whereby independent institutions finance various benefits to workers by levying mandatory contributions on employers and employees.

The central administration consists of the Council of Ministers, ministries, state and executive agencies, state commissions, as well as a variety of other administrative structures created by law or by a decision of the Council of Ministers.

State agencies report to the Council of Ministers and usually cover an area for which there is no separate ministry; executive agencies are in charge of implementing specific policies and regulations; state commissions exercise monitoring and control over specific policy areas.

A number of extrabudgetary funds have existed in the past in Bulgaria. There were eight at the time of the 2009 OECD review. Today, the use of extrabudgetary funds is prohibited, but special accounts can be used only for managing resources from the EU and other donors and programmes. The main one is the National Fund within the Ministry of Finance, which is responsible for handling resources from the EU to beneficiaries according to all applicable EU legislation and requirements.

At the subnational level, the country is divided into regions, municipalities and districts. Each region is governed by a regional governor supported by a regional administration. The regional governor, appointed by the Council of Ministers, is responsible for implementing state policies within the region, protecting the national interest, the rule of law, public order and exerting administrative control.

Municipalities are the basic administrative territorial units of self-governance. They are legal entities and have their own budgets, but receive transfers from the state budget. Executive power at the municipal level is exerted by the mayor, who is elected for a four-year term.

A public institution, the National Social Security Institute, manages the benefits for sickness, maternity, unemployment, accidents at work and professional diseases, disability, old age, and death. Another public institution, the National Health Insurance Fund, administers medical care. Both are funded by contributions from employers and employees, but also receive transfers from the state budget.

### *Consolidated Fiscal Programme*

In Bulgaria, fiscal policy has been managed for almost two decades at the level of the so-called Consolidated Fiscal Programme. It aggregates the following individual budgets:

- State budget, comprising the central budget, the independent budgets of the National Assembly and the judiciary, the budgets of the executive bodies, the budgets of the other state authorities and budgetary organisations at the central level. These budgets accounted for 33.2% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of public entities, which accounted for 2.7% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of 265 municipalities, which accounted for 13.9% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of the two social insurance funds, which accounted for 38.0% of the Consolidated Fiscal Programme for 2018.
- Special accounts (including the funds for the management of the EU funds), which accounted for 12.2% of the Consolidated Fiscal Programme for 2018.

According to the Public Finance Act, all legal persons whose budgets and accounts are listed above are called “budgetary organisations”. The Consolidated Fiscal Programme has an institutional coverage that is broadly similar with the statistical concept of general government. Indeed, the general government includes all entities within the Consolidated Fiscal Programme, plus all legal entities controlled by the state and/or municipalities that do not form part of the Consolidated Fiscal Programme.<sup>4</sup>

As a general rule, autonomous budgets are approved not by the parliament, but by an independent administrative authority, e.g. the municipal council (the local parliament местния парламент) for municipalities and a board for the public entities. As further described below, the imperative of fiscal co-ordination within the Consolidated Fiscal Programme has, however, led to greater involvement of the Ministry of Finance, the Council of Ministers and the National Assembly in the process of ensuring compliance with the fiscal rules.

The budgets of the State Social Security and National Health Insurance Fund are approved by their own Board, in which representatives of the government, employers' organisations and trade unions participate. After this approval, they are presented to the Council of Ministers for their submission to the legislature and their adoption through separate laws. The executive and legislature should ensure consistency between the three budgets, both in general and as regards budgetary transfers between the state budget and the budgets of the social insurance funds.

#### *Main participants in the budgetary process and budgetary organisation*

The main players in the budget system are the Council of Ministers, the National Assembly, the Ministry of Finance, as well as the first-level spending units (or FLSUs). Lower level spending units engage in the budget system via their FLSU.

The Ministry of Finance is the central budget authority. Core budgetary functions are centralised in four directorates under the authority of one deputy minister, as follows:

1. the Budget Directorate is mostly concerned with fiscal policy, both medium term and annual, the budget projections of the Consolidated Fiscal Programme and the general government sector, co-ordination of budget legislation and methodology, programme budgeting, and training in the area of public finance
2. the State Expenditure Directorate is mostly concerned with monitoring the formulation and execution of the budgets of the FLSUs (see below)
3. the Local Government Financing Directorate is mostly concerned with the oversight of the subnational finances
4. the Treasury Directorate is responsible for the financial processes underlying the budget execution and accounting functions.

Other functions – e.g. debt management, preparation of the macroeconomic framework, co-ordination of the European Semester and member state's economic policies, the certification of the legality and propriety of spending of EU funds – are managed by directorates operating under the authority of another deputy minister. The 2009 OECD review noted that the organisational structure of the ministry created burdens for the FLSUs in that they had to work with multiple departments. Although the organisational structure of the Ministry of Finance has not changed, the authorities consider that the aforementioned burdens are decreasing, as one lead directorate is now tasked with issuing a single set of guidelines for all stages of the budget procedure.

For budgetary purposes, the heads of budgetary organisations are divided into first-level, second-level and lower level spending units. The term first-level spending unit, or FLSU, is actually defined in the legislation.

FLSUs are the main spenders within the Consolidated Fiscal Programme. They include the ministers, the prime minister (for the budget of the Council of Ministers), the chairman of the National Assembly (for the budget of the National Assembly), the Supreme Judicial Council (for the budget of the judiciary), the chairmen of some state agencies, regulatory bodies and other state authorities, and the managing authorities of autonomous organisations (for their budgets), as well as the mayors of municipalities.

Each of the FLSUs receives funds from the state budget and bears the responsibility for using and managing this funding in accordance with their policy objectives. They transfer some of these resources to second-level spending units that implement these policies.

Second-level spending units comprise a large range of public administrations with different legal status, such as schools, agencies or funds. Some second- and lower level spending units apply delegated budgets, which makes them relatively independent from the FLSUs in managing their budget.

### **Organic budget law**

The 2009 OECD review noted that the Bulgarian budget preparation process was being modernised and that the 2009 budget process exhibited many of the modern budgeting techniques found in OECD countries, such as top-down budgeting, multi-year budgeting perspectives and the use of performance information.

However, the review noted that the real challenge for Bulgaria was to make the modern practices work by implementing them effectively and thoroughly. Moreover, the report noted that although the Constitution laid out a number of foundational budget principles and more detailed rules were provided in the State Budget Procedures Act,<sup>5</sup> there was no legislation in Bulgaria presenting an up-to-date and comprehensive set of fiscal and budgetary principles and procedures, as modernisation efforts were introduced in an ad hoc manner through the annual budget law. Importantly, Bulgaria did not have a legally entrenched fiscal rule and the fundamental guidelines for fiscal policy were established by coalition agreements.

The adoption in 2013 of a new and ambitious organic budget law, called the Public Finance Act, provided an answer to these concerns. Article 20 of the PFA establishes the key principles within which public finances must be managed, including universality, accountability, transparency, economy and sustainability. It enshrines past modernisation efforts in legislation, with, for example, the introduction of the concept of programme classification. It regulates the scope, structure and content of the medium-term budget framework and also integrates into the national legislative framework the obligations agreed in March 2011 by the European Council, which mandated, in particular, the implementation of new fiscal rules. The PFA was amended in 2016, following an impact assessment, and in 2017, when some of the provisions pointed out in the European Commission's review on the degree of transposition of Council Directive 2011/85/EC into the national legislation of member states were refined.

In addition to the PFA, a number of other important legislations regulate specific financial operations, including:

- the Law on Normative Acts, which aims to improve the preparation and implementation of new legislation and policies through a number of measures, including impact assessment
- the Public Debt Act, which regulates the procedures under which borrowing is undertaken and ensures that it is consistent with the requirements of the PFA
- the Municipal Debt Act, which regulates the terms and procedures for the incurrence of municipal debt and for the issuance of municipal bonds, as well as the types of municipal debt
- a Government Ordinance on the Requirements to be met by Investment Projects Financed by Government Loans and Projects Applying for Financing by Government Guarantee, and the Procedure for their Consideration,<sup>6</sup> which was adopted in accordance with the Public Debt Act.

Overall, following the adoption of the PFA, the Bulgarian legislative framework for budgeting appears comprehensive. A single law underpins the principles driving fiscal policy and the budget cycle; the procedures required to ensure the preparation of the key budgetary documents; and establishes the roles and responsibilities of the key institutions responsible for ensuring the sustainability of public finances. There is now full compliance with EU Directive 85/2011 as well as follow-up actions in the event of any deviation from the fiscal rules. The act has also led to the provision of more information on the general government sector in budgetary documentation, more reliable and more detailed medium-term forecasts.

It also provides a legal and operational framework that facilitates broad compliance with the OECD *Principles of Budgetary Governance*. It must be noted, however, that with regard to actual implementation, there are a number of challenges and exceptions, which are discussed in more detail in the following sections.

## Budget cycle

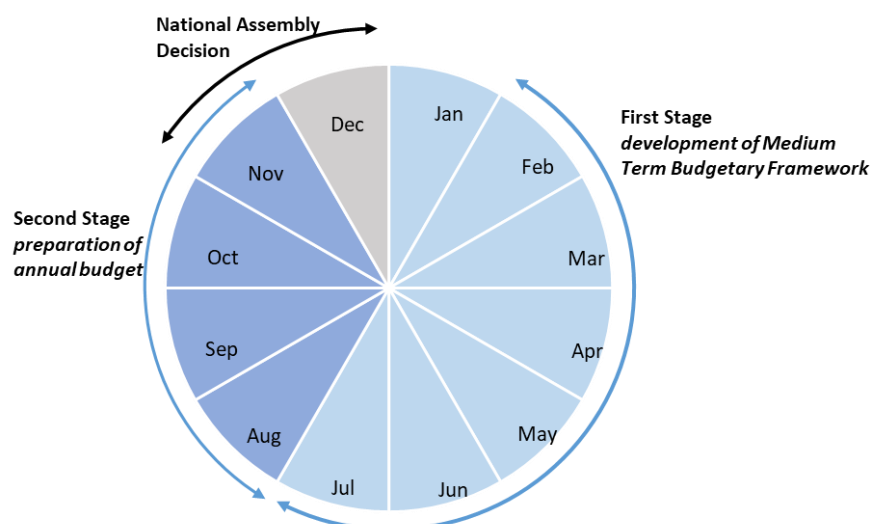
The reforms to the budget cycle introduced in Bulgaria in the 2000s were intended to introduce a top-down character to the budget cycle, anchored with a sound framework for fiscal policy. This approach continues to this day, although the budget cycle has been redesigned, with a move from a three-stage process resulting in the Medium-Term Budget Framework (MTBF) and main assumptions, a three-year budgetary framework with expenditure ceilings and annual budget being prepared separately into a more integrated two-stage process that is aligned with the European Union's Semester and "Two Pack" (Box 1).

Specifically, the first stage deals mainly with the procedures for developing the MTBF, which is the aggregate fiscal plan of the government and the three-year budget forecasts for the FLSUs. The first stage of the budget cycle is co-ordinated with the so-called European Semester of the European Union, which is the cycle of economic and fiscal policy co-ordination within the EU, and is part of its economic governance framework. This first stage of the budget cycle is discussed in more detail in Section 3.

The second stage deals mainly with the preparation of the annual budget, which involves updating the MTBF and three-year budget forecasts prepared earlier during the budget cycle. This takes place during the second half of the year. In the European Semester, this is the cycle during which member states draw up their national budgets for the following year and are expected to reflect any recommendation agreed by the Council of the European Union. The second stage of the budget cycle is discussed in more detail in Section 4.

An annual budget procedure is adopted annually by the Council of Ministers no later than 31 January to specify reporting requirements, timelines, allocation of responsibilities, etc. for each of the two stages of the budget cycle (Figure 5).

Figure 5. Bulgaria's annual budget cycle



Notes: In March, first-level spending units (FLSUs) submit their budget forecasts for the next three years to the Ministry of Finance and the spring Medium-Term Budget Framework is approved by the Council of Ministers in April. Regarding the second stage, the FLSUs submit their draft budgets and updated budget forecasts to the Ministry of Finance. After consultations with the FLSUs, the Ministry of Finance prepares the draft state budget and the updated MTBF and submits them to the Council of Ministers. After their approval, they are submitted to the National Assembly until the end of October.

Source: Adapted from the Ministry of Finance.

## Box 1. European Union: Basic rules of EU economic and fiscal surveillance

### Basic rules of EU economic and fiscal surveillance

The Stability and Growth Pact sets a limit of 3% of gross domestic product (GDP) for general government deficit and 60% of GDP for public debt for all European Union (EU) member states. Member states can be placed in the Excessive Deficit Procedure if they have a general government deficit above 3% of GDP or a debt ratio above 60% that is not being reduced by at least 5% per year on average over three years. The preventive arm requires that member states set their own medium-term budgetary objectives in terms of the structural balance (corrected for cyclical deviations). In addition, the net growth rate of government spending must be at or below a country's medium-term potential economic growth rate, unless matched by additional discretionary revenue measures (the expenditure benchmark).

### The Fiscal Compact

The Fiscal Compact is a treaty (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) outside EU law which obliges signatories to enshrine medium-term objectives in national law. Moreover, it stipulates that medium-term budgetary objectives should aim at a structural balance or a structural deficit of less than 0.5% of GDP in the medium term or up to 1% where the ratio of the general government debt to GDP is significantly below 60% and the risks in terms of long-term sustainability of public finances are low. In addition, it requires member states to establish an independent institution to monitor compliance with European fiscal rules as well as an automatic correction mechanism in case of deviations. All EU member states are obliged by this treaty.

### The European Semester and the “Two Pack”

The European Semester cycle starts in November with the publication by the European Commission of a number of macroeconomic documents (the Annual Growth Survey, containing general economic and social priorities for the EU and policy guidance for member states; the Alert Mechanism Report, identifying macroeconomic imbalances and providing guidance for correction; the draft Joint Employment Report, containing analysis of the employment situation in Europe and policy guidance for member states; and the Recommendations for the Euro Area, containing policy guidance for the national dimensions of EU economic governance in the euro area). Prepared through discussions at ministerial level, the European Council considers the reports in February and March. In February, the Commission publishes a country report for each member state analysing its macroeconomic situation and progress with implementing the member state's reform agenda. In April, member states present their national reform programme (on macroeconomic issues) and their stability programmes (for euro area countries) or convergence programmes (for non-euro area member states) containing three-year budget plans. The Commission assesses these plans in May and presents a series of country-specific recommendations on macroeconomic and fiscal issues. These policy recommendations are discussed and endorsed by the European Council in July. According to the “Two Pack”, member states of the euro area must submit draft budgetary plans for the following year by 15 October. The Commission assesses these plans against the requirements of the Stability and Growth Pact and provides outstanding macroeconomic recommendations in November.

Source: OECD (2019<sup>[6]</sup>).

### 3. Fiscal policy and medium-term planning

#### ***Fiscal rules***

Discussions on establishing a fiscal rule in Bulgaria's national legislation started in 2011, when the authorities proposed a "Financial Stability Pact", including a rule that would improve the fiscal balance relative to GDP growth. In June 2011, after broad consultations, the parliament introduced a rule in the organic budget law limiting the deficit under the Consolidated Fiscal Programme to 2% of GDP on a cash basis and capping expenditure under the Consolidated Fiscal Programme at 40% of GDP starting in 2012.

When the PFA was drafted, the fiscal rules established by EU legislation were added to these national fiscal rules, including specifications of corrective actions in the event of deviations from targets. Bulgaria, consequently, operates now with a large set of fiscal rules, which can be segmented into deficit rules, expenditure rules and a debt rule as detailed below.

#### *Deficit rules*

- The deficit for the national concept of general government, the Consolidated Fiscal Programme, calculated on a cash basis, may not exceed 2% of GDP and if it does, the government is required to take corrective action until it returns to at least a balance of zero.
- The medium-term budgetary objective for the general government structural deficit, calculated on an ESA 2010 basis, shall not exceed 0.5% of GDP, except when the general government debt-to-GDP ratio is less than 40%, in which case it may be up to 1%, on the basis that the risks in terms of the long-term sustainability of public finances are low. Failure to meet the medium-term objective is permitted in exceptional circumstances, such as an economic downturn of more than 3% in real terms or an event outside the control of the government. A temporary departure from the medium-term budgetary objective for the structural deficit on an annual basis shall be allowed in the event of implementing major structural reforms with a major impact on fiscal sustainability, provided that the general government deficit does not exceed 3%.
- The general government balance, calculated on an ESA 2010 basis, shall be in balance and may not exceed 3% of GDP, and in the event of a deficit, the government must take steps towards reaching at least a balance.

#### *Expenditure rules*

- The maximum amount of expenditures under the Consolidated Fiscal Programme may not exceed 40% of GDP and if it does, corrective action must be taken in the following year.
- The annual growth rate of expenditure shall not exceed the reference growth rate of potential GDP unless the excess is matched by offsetting measures to increase budgetary revenue. The additional measures shall lead to a sustainable revenue increase and shall not be one-off. However, it may exceed the reference growth rate of potential GDP if the medium-term budgetary objective is exceeded and if the fiscal rule for the structural deficit is met.

#### *Debt rule*

- The general government debt-to-GDP ratio may not exceed 60% at the end of every year and if it does, corrective action must be taken.

All these fiscal rules have good theoretical justification. However, Bulgarian fiscal rules are complex, which may hinder their understanding by policy makers and transparency for the wider public, a challenge that is not unique to Bulgaria within the EU. There may be some scope, therefore, for considering simplification

options while keeping the three key objectives of the current set of rules: 1) containing public expenditures; 2) ensuring long-term fiscal sustainability of the public debt; and 3) allowing countercyclical fiscal policy.

### **Medium-term budgetary framework**

The MTBF is the fiscal plan of the government, which brings together the macroeconomic and fiscal forecasts and defines fiscal targets in compliance with the national fiscal rules. It covers a three-year period and is updated at least biannually on a rolling basis, so that it constantly reflects the most recent evaluation of the macroeconomic environment, as well as any policy decisions.

The MTBF is prepared during the first stage of the fiscal year and forms the basis of the Convergence Programme formulated as part of the European Semester. The MTBF and the Convergence Programme are both approved by the Council of Ministers by the end of April at the latest each year. They are presented to the National Assembly for information – i.e. they are not submitted to a formal approval or vote – and published on the Ministry of Finance’s website.

The updated MTBF is an update of the previous document, which reflects the impacts of changes in the macroeconomic environment, any new policies of the government as well as the Council of the European Union’s recommendations from the follow-up review of the Convergence Programme and the National Reform Programme. It is laid out before the parliament with the draft state budget before 31 October of each year.

Finally, changes to the updated MTBF can be made in the event of a significant change by the National Assembly to the draft state budget, the Law on the Budget of the State Social Security and the Law on the Budget of the National Health Insurance Fund.

The biannual (or more) revision of the MTBF is a specific feature of the Bulgarian budget system. The fact that the revenue and expenditure forecast are reset twice a year has its benefits and challenges. As noted above, the main benefit is that the MTBF is constantly up-to-date with the latest economic and fiscal policy decisions of the government. The challenges are mainly that, as revenue and expenditures can be revised several times without any consequences, the MTBF provides relatively little certainty about future expenditure at either aggregated or detailed level.

For example, Table 3 shows that the initial revenue projections for 2018 were conservative in each of the last three MTBFs, with actual revenue being higher than originally projected. The unforeseen revenue was used to allow a mix of additional expenditure and debt reduction. Although this is consistent with Bulgaria’s fiscal rules, it is not clear what policy changes led to such a significant increase of spending and this supports the perception that the expenditure targets in the MTBF are indicative, as further discussed below.

**Table 3. Aggregate revenue and expenditure forecasts in the medium-term budgetary framework in Bulgaria**

Million BGN

	2016-18	2017-19	2018-20	2018 actual
Revenue, grants and donations	35 347	36 509	38 214	39 651
% of GDP	37.2%	37.9%	36.2%	36.1%
Expenditure	36 337	37 509	39 314	39 516
% of GDP	38.2%	38.9%	37.2%	36.0%
Nominal GDP	95 055	96 338	105 609	109 695

Note: The assessment of the nominal GDP is periodically updated on the basis of notified recalculations of GDP reporting values following Eurostat methodological requirements.

Source: Ministry of Finance.

The forecasts underlying the MTBF are prepared by a variety of actors, as described in the following sections focusing on the preparation of the macroeconomic and expenditure forecasts. It should be noted that tax revenue forecasts are prepared by the Ministry of Finance's Tax Policy Directorate. They are essentially determined by the tax bases derived from the macroeconomic forecast. In recent years, revenue forecasts have been prudent and conservative and this has helped to ensure that the expenditure base remains tightly controlled.

### *Macroeconomic forecasts*

Since the 2009 OECD review, the responsibility for preparing the forecasts was transferred from the Executive Agency for Economic Analysis and Forecasting, attached to the Ministry of Finance and headed by a political appointee, to the Economic and Financial Policy Directorate within the Ministry of Finance, reporting directly to a deputy minister of finance and headed by a civil servant. In addition, until 2013, the State Budget Procedures Act had only very general requirements (i.e. the Ministry of Finance to develop the budget forecast in accordance with macroeconomic analyses developed by its own and other budgetary institutions), but the PFA provides more detailed directions concerning the preparation of the forecasts.

Macroeconomic forecasting takes place twice a year, first in the spring to support the preparation of the Convergence Programme and the MTBF, and then in the autumn to underpin the formulation of the updated MTBF and state budget. In both the spring and the autumn, the Economic and Financial Policy Directorate prepares one preliminary and one official macroeconomic forecast. Preliminary forecasts are for internal analysis and discussion, while the official forecasts are published and must be finalised no later than 25 March and 25 September of each year.

Macroeconomic forecasts are prepared using a spreadsheet model in which elasticities and other required parameters are estimated using econometric equations, or which are calibrated based on estimates drawn from other sources. As reliable macroeconomic forecasting is a crucial prerequisite for successful medium-term planning, the PFA mandates that "forecasts should be prudent and conservative".<sup>7</sup> To comply with this requirement, the PFA regulates that the Ministry of Finance systematically compare its economic forecast with that of the European Commission and explain any major differences.

This approach has worked fairly well so far. However, current forecasting models do not allow full analysis of interactions among key economic and fiscal variables and could be improved. Since the autumn forecasting in 2019, the Economic and Financial Policy Directorate has used the macro simulation model. It should ensure that the simulation model is designed to be used for both macroeconomic and fiscal forecasting, as well as policy simulation.

### *First-level spending units' three-year budget forecasts and draft budgets*

As already mentioned in the 2009 review, the FLSUs' three-year budget forecasts are established to ensure that activities will be planned within ceilings that are in compliance with fiscal rules, but also to provide a fair degree of predictability over resources available to the FLSU. Although Bulgaria's recent compliance with its fiscal targets highlights the success of the three-year budget forecasts in delivering the first objective, achieving the second one has proven more challenging.

The PFA requires the ministries and state agencies to present the budget according to a programme classification. In addition, it is legally possible for a programme classification to be extended to other public bodies, by a decision of the appropriate authority, i.e. the Council of Ministers for other bodies included in the state budget, the respective supervisory bodies for the State Social Security and the National Health Insurance Fund, and the municipal council for the municipalities. For 2020, the Council of Ministers decided that a programme budget should be applied by all FLSUs under the state budget, except for the judiciary and the National Audit Office. Budgetary forecasts are prepared through a top-down, but iterative, process.

In February and September, the Budget Directorate<sup>8</sup> within the Ministry of Finance provides guidelines to all FLSUs for the preparation and presentation of their budget forecasts for the next three years, and after that, their draft budgets and updated budget forecasts. This is a change compared to the procedure in place in 2009, under which only the first year budget was prepared by the FLSUs and the latter two years were estimated by the Ministry of Finance.

The State Expenditure Directorate and the Budget Directorate, both within the Ministry of Finance, hold consultations and negotiations with the FLSUs on their forecasts, which may lead to adjustments. Once agreed, the three-year budgets are aggregated to form a medium-term expenditure framework. The processes in the spring and autumn are not entirely similar. Indeed, in the autumn, as part of the update of the three-year budget, in-depth discussions take place with the State Expenditure Directorate on allocations for the following year, which will form the basis of the draft state budget as described in Section 4. For municipalities, the process is different, in that municipalities prepare budget forecasts only for local activities, as the state-delegated activities are financed through transfers.

Despite transferring the responsibility for preparing the budgets of the latter two years to the FLSUs, interviews conducted for this review suggest that the reliability of the three-year budgets beyond the first year remains questionable. Line ministries tend to focus on achieving the highest amount possible for the upcoming year, and place little emphasis on the latter two years of the medium-term period due to the short horizon of new policies and measures. In other words, the FLSUs may accept allocations that cannot fund existing programmes in the medium term, and are hoping that more will become available at the necessary time. This clearly calls into question the strength of the link between resource allocation and strategic planning, since there is no certainty about the funding that underpins realistic planning. This suggests that there is room for Bulgaria to streamline the procedure underpinning the preparation of the MTBF and three-year budgets of the FLSUs. In order to strengthen the link between resource allocation and strategic planning, the Ministry of Finance should deepen the working relationship it has been developing with the Strategic Planning Unit of the Council of Ministers, which is responsible for drafting the Law on Strategic Planning of the Republic of Bulgaria. Linking resources to strategic policy objectives will ensure that policy making in Bulgaria is on a more certain footing.

In particular, Bulgaria could consider adopting a more sequenced budget cycle, progressing from the presentation of high-level fiscal aggregates in the spring through to the more detailed three-year budget proposals in the autumn. In this regard, the experience of Sweden, where the budget cycle has been streamlined and a fiscal margin integrated into the MTBF to ensure that expenditure ceilings are not reopened from one year to another, could provide interesting insight (Box 2).

## Box 2. Streamlining medium-term and annual planning in Sweden

### Spring Fiscal Policy Bill

The Spring Fiscal Policy Bill, which needs to be submitted by 15 April each year, allows the government to frame the context for the annual budgetary process in broad terms in the early part of the year. The Spring Bill includes comprehensive information on the fiscal policy outlook, perspectives on fiscal risks and long-term sustainability, a follow-up of budgetary policy targets and extensive baseline information on all areas of public spending. It focuses clearly on medium-term fiscal plans and omits details on expenditure, which is reserved for the Budget Bill.

The Spring Bill provides for parliamentary debate on fiscal policy, in general terms. As the bill does not generally deal with detailed budgetary matters, in practice it serves to introduce greater transparency to the budget process to the benefit of the Swedish parliament and the public in general. A functional benefit of the Spring Bill for parliament is providing a channel for parliamentary engagement in matters of fiscal policy prior to the drafting of the detailed budget.

During the preparation of the Spring Bill (February-April), high-level working groups involving the Ministry of Finance and the Prime Minister's Office meet regularly to help identify political and policy priorities which ought to be reflected in the budget planning. These discussions are informal and help to structure thinking and planning processes; they do not lead to definitive policy conclusions at this early stage. However, when line ministries present their "budget request" in May, it is expected that they will reflect the discussions and orientations from the spring meetings.

### Budget Bill

In the autumn, the Budget Bill containing the government's detailed proposals for the coming year is the focal point of the parliament's annual budget dialogue. It aligns with, but provides greater specificity to, the general guidance set out in the Spring Fiscal Policy Bill. The Budget Bill is the legal vehicle whereby the parliament decides the ceiling for central government expenditure for the third year ahead. The expenditure ceiling for the current budget year is thus decided three years in advance.

The principle of compliance with the expenditure ceilings appears to be widely understood within Sweden's public administration, and ceilings are rarely, if ever, revised. This lends a strong, medium-term continuity to the budgeting and planning processes. The application of this principle is facilitated by the operation of the "fiscal margin" amounts, which are buffer amounts within the overall expenditure ceiling and which provide some measure of flexibility, from year to year, to respond to emerging pressures without reopening the overall expenditure ceiling for that year.

The margin is calculated according to the guiding principle that actual expenditures should be allowed some leeway to move automatically in response to macroeconomic developments, without jeopardising the overall expenditure ceiling. To achieve this, the government's guidelines specify that the fiscal margin should amount to at least 1.5% of ceiling-restricted expenditure for the budget year (year  $y$ ), 2% for the following year (year  $y+1$ ) and 3% for each of the following two years (year  $y+2$  and  $y+3$ ). In practical terms, the fiscal margin is left unaccounted for (and unbudgeted for) within the annual budget allocations and multi-annual expenditure ceilings. The fiscal margins are not regarded as "contingency reserves", but rather as operational stabilisation mechanisms.

Source: Downes, Moretti and Shaw (2017<sup>[7]</sup>).

*Fiscal co-ordination*

Municipalities and social security funds represented respectively 7.4% and 14.1% of general government spending in 2018. They are both administratively independent, but are also part of the Consolidated Fiscal Programme. Therefore, they, along with the state, are subject to the obligations resulting from Bulgaria's fiscal rules. To reconcile the principles of administrative autonomy and joint fiscal responsibility, municipalities' and social security funds' budgetary systems have been kept separate from that of the state, but all have been systematically harmonised in terms of timetable, presentation and reporting, and the monitoring of their financial situation has been strengthened over the last decade.

**Subnational government**

The Ministry of Finance provides guidelines to the municipalities for the formulation of spending forecasts related to local activities as a part of the guidelines to the FLSUs. Under the budget procedures, the Council of Ministers, upon the proposal of the Minister of Finance, adopts standards for financing state-delegated activities involving in-kind and value indicators. The standards for state-delegated activities are developed jointly by the minister concerned, the National Association of Municipalities in the Republic of Bulgaria and the Minister of Finance. The Ministry of Finance holds consultations with the National Association of Municipalities concerning the total amount of the main fiscal relations between municipal budgets and the central budget, as well as other proposals concerning the draft state budget for the relevant year. This is a highly formal process. At the end of the consultations, a protocol is signed with the National Association, which is part of the annual budget documentation prepared for the Council of Ministers and the parliament.

A number of procedures have also been established for safeguarding the financial situation of municipalities. To prevent municipalities from accumulating unsustainable debt or otherwise taking on excessive risks, they are required to have a medium-term objective of a balanced budget measured on a cash basis and there are restrictions on expenditure increases that may be undertaken by municipalities. In addition, municipalities are submitted to strict reporting requirements, with the Ministry of Finance monitoring a number of financial indicators to identify any financial difficulty as early as possible.

The PFA provides for rehabilitation procedures for municipalities in financial difficulty. Support from the state budget is contingent on the municipality developing its own financial recovery plan, which must be realistic. These reforms attempt to strike a balance between ensuring budgetary discipline at the local level while at the same time strengthening financial decentralisation.

**Social security**

Social security systems are operated on a pay-as-you-go basis and have their own sources of revenue from employers' and employees' contributions, but they also rely on transfers from the state budget for funding their benefits.

There are restrictions on the borrowing powers of social security funds and in the event of the general government debt ratio exceeding 60%, the government's corrective actions may include placing further restrictions on their borrowing.

The budgets of State Social Security and of the National Health Insurance Fund are submitted respectively and adopted by the National Assembly separately from the state budget. In order to ensure consistency between them, the Ministry of Finance co-operates with the National Social Security Institute and the National Health Insurance Fund when they develop their budget forecast and their draft budget.

### ***Fiscal risks and fiscal sustainability***

Sustainability is one of the key principles laid out in the PFA concerning the management of public finances and has been a focus of the fiscal policy of successive governments in Bulgaria. Most of the government's and the European Commission's recent estimates suggest that the country's long-term public finances are robust, with sustainability risks low over the medium and long term.

However, in the recent past, Bulgaria suffered from two fiscal shocks. The first one was a consequence of the global economic crisis, which hit the Bulgarian economy at the end of 2008, when real GDP contraction intensified, leading to a fiscal deficit of -4.1% of GDP in 2009, followed by fiscal consolidation measures. The second shock was in 2014, when liquidity pressures in two national banking institutions necessitated government intervention.

While it should be noted that the relatively low debt-to-GDP ratio is an advantage in maintaining fiscal sustainability, Bulgaria, being a very open economy, is generally vulnerable to macroeconomic risks, such as lower demand from its main trading partners and rising international prices (e.g. oil, exchange rate). The country is also facing a number of important demographic challenges, including a shrinking and ageing population, which is creating significant long-term pressures for the public finances.

In addition to the macroeconomic, fiscal and demographic risks, Bulgaria is facing a number of smaller risks over the short to medium term, including, for example, the risks related to state guarantees and the deteriorating financial situation of some state-owned enterprises<sup>9</sup> (IMF, 2019<sub>[3]</sub>).

In recent years, the emphasis of the fiscal risks management strategy has been on adopting a prudent fiscal policy stance for mitigating very large or long-term fiscal risks. In particular, conservative fiscal targets have been set to ensure there would be sufficient fiscal space to cope with future shocks. In this respect, the International Monetary Fund's most recent Article IV (IMF, 2019<sub>[3]</sub>) noted that Bulgaria's low level of public debt provided ample space for coping with unexpected shortfalls in external demand or other shocks, and that medium-term fiscal targets preserved existing buffers.

In addition, a contingency reserve is included annually in the budget, to create "headroom" in the event of the realisation of some risks or other unforeseen expenditure. The level of the reserve reached BGN 80 million in 2019. Article 43, Paragraph 3 of the PFA provides that the contingency reserve can be used on the basis of a decree adopted by the Council of Ministers under certain rules and procedures for determining the financing of the necessary measures and activities, without any reporting to the parliament at the time of their approval. This is because the cases provided for in the Disaster Protection Act require urgent action for prevention, protection or assistance outside the normal planned prevention and protection activities. While any such decision should be exercised with care lest it undermine the role of parliament, which is responsible for the stewardship of the public finances, the act contains some mitigating provisions, such as having to inform the chair of the parliament,<sup>10</sup> and penalties for misappropriations.<sup>11</sup>

Successive governments also acted to prevent or mitigate specific risks that materialised in the past. For example, following the 2014 short-term deposit runs on some banking institutions, policy responses to financial sector risks included asset quality reviews and stress tests of the commercial banks. In addition, there were comprehensive reforms of the Central Bank's banking supervision and regulatory framework and practices. The Central Bank was attributed resolution functions that were compliant with the European Bank Recovery and Resolution Directive through its implementation in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms in July 2015.

Contingent liabilities and long-term sustainability of public finances are disclosed and discussed annually in both the MTBF and Convergence Programme prepared for the European Commission. The identification and reporting on contingent liabilities is the responsibility of the Ministry of Finance. For example, in 2019, the contingent liabilities measured in the Convergence Programme comprised state guarantees, the guaranteed debt of the general government sector and the liabilities of state-owned enterprises.

Public-private partnerships were mentioned, but without any evaluation of the associated contingent liability.

The annual long-term fiscal sustainability assessment is a shared responsibility prepared by the Ministry of Finance and the National Social Security Institute. The framework used for realising the annual assessment is similar to the one developed by the European Commission for its Ageing Report, published every three years.

Although Bulgaria has well-established procedures identifying and measuring risks over the short to long term, and these have informed the national debate about the appropriate fiscal policy course for the country, further progress should be possible. In particular, to increase the comprehensiveness of the fiscal risks identification and credibility of the forecasts, the Ministry of Finance could consider establishing an annual assessment of the sources of deviations from the initial macroeconomic and fiscal forecasts of the previous year.

### **Summary of key recommendations**

- Medium-term spending priorities should be more comprehensively and clearly signalled in the MTBF and systematically linked to the Law on Strategic Planning of the Republic of Bulgaria. For this, increased co-operation between the Ministry of Finance and the Strategic Planning Unit of the Council of Ministers, as well as between the Ministry of Finance and the line ministries, could prove useful in the formulation of the MTBF and for increasing the quality of the programme budgets of the FLSUs.
- The MTBF should be formulated in the spring with enough fiscal space to accommodate macroeconomic developments and new policy initiatives. This would help to avoid changes to the expenditure ceilings in the autumn, which do not arise from regulatory and structural changes affecting the activities of the FLSUs, from the implementation of new and/or revised policy development measures recommended by the European institutions, or from changes in the macroeconomic environment affecting the fiscal parameters of the budgetary framework. This would eliminate the current weakness of the MTBF formulation process, which is that unjustified frequent requests for revisions of expenditure ceilings generate little incentive for realistic planning.
- Macroeconomic forecasting should be done using a fully integrated macroeconometric model that takes into account dynamic interactions between key economic and fiscal indicators. In the short term, the application of the simulation model should be extended and the Ministry of Finance should assess the impact of economic shocks and strengthen the assessments of the economic and fiscal impact of new policies, in addition to conducting sensitivity analysis.
- Building on existing practices, a more systematic approach to managing fiscal risks should be developed. In particular, the sources of past deviations from the forecasts should be systematically identified and analysed to ensure that the government and National Assembly have a comprehensive and up-to-date understanding of what might endanger compliance with fiscal rules over time.

## **4. State budget formulation and execution**

### **Budget formulation**

The formulation of the State Budget is integrated in the wider framework of establishing the MTBF and the three-year budget forecasts of the FLSUs, but it follows a distinct procedure led by the Budget Directorate within the Ministry of Finance. It takes place during the second half of the year and aims at establishing

the judiciary's, legislature's and executive bodies' individual budgets that will be aggregated for establishing the draft State Budget, as well as the updated MTBF.

**Table 3. Bulgaria's budget calendar**

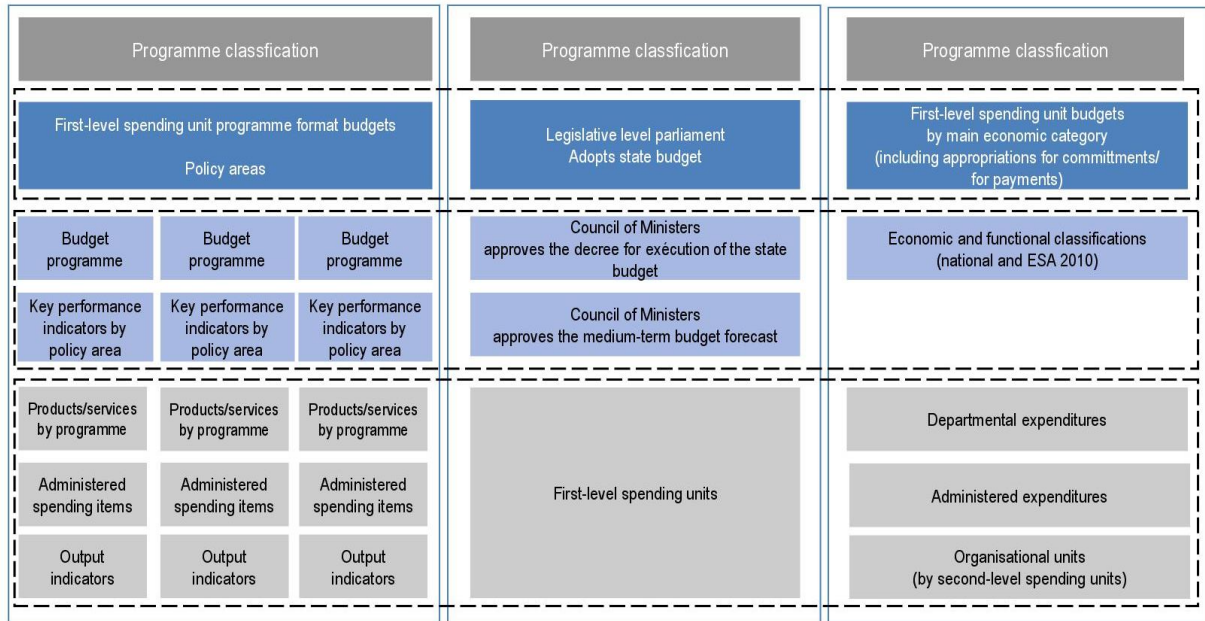
Month	Activities
January	1. The Council of Ministers adopts the budget procedure prepared by the Ministry of Finance.
February	1. The Ministry of Finance defines the main macroeconomic parameters for preparing the forecasts. 2. The Ministry of Finance gives guidelines to the first-level spending units (FLSUs) for the preparation of their budget forecasts.
March	1. The Ministry of Finance prepares the spring macroeconomic forecast by 25 March. 2. The FLSUs, including the chairman of the National Assembly and the Supreme Judicial Court, develop and submit their budget forecasts to the Ministry of Finance. 3. The Ministry of Finance makes an assessment of the FLSUs' budget forecasts.
April	1. The Ministry of Finance submits a draft decision to the Council of Ministers for adoption of the medium-term budgetary forecast (MTBF). 2. The Council of Ministers approves the MTBF and submits it to the National Assembly for information.
July	1. The FLSUs align their budget forecasts for the next three years in compliance with the approved MTBF.
August	1. The Ministry of Finance updates the main macroeconomic parameters for preparing the forecasts.
September	1. The Ministry of Finance gives guidelines to the FLSUs for preparing their draft annual budgets and updated budget forecasts for the second and for the third year. 2. The FLSUs present their draft annual budgets and updated budget forecasts for the second and for the third year to the Ministry of Finance. 3. The Ministry of Finance makes an assessment of the draft annual budgets for the next year and of the updated budget forecasts for the second and for the third year of the FLSUs. 4. In case of incompliance with the requirements of the guidelines, the Ministry of Finance returns the draft budgets for the next year and the updated budget forecasts of the FLSUs without those of the National Assembly, the judiciary and municipalities. The FLSUs submit the revised draft budgets and updated budget forecasts to the Ministry of Finance. 5. The Ministry of Finance conducts budget dialogues with the FLSUs on the budget parameters of their draft annual budgets and updated budget forecasts. 6. The Ministry of Finance prepares the autumn macroeconomic forecast by 25 September.
October	1. The Ministry of Finance develops the draft state budget law and the updated MTBF. 2. The Ministry of Finance informs the chairman of the National Assembly and the chairman of the Supreme Judicial Court on its opinion on their draft budgets for the next year. 3. The Ministry of Finance co-ordinates with the FLSUs on their draft budgets and the updated budget forecasts. 4. The Ministry of Finance co-ordinates with the Fiscal Council on the draft state budget law for the next year and the draft of the updated MTBF, which represents motives to the law. 5. The Ministry of Finance informs the FLSUs on the main parameters on the draft state budget law for the next year and their expenditure ceilings for the second and third year. 6. The Ministry of Finance prepares and submits the draft state budget law and the updated MTBF to the Council of Ministers for approval. 7. The Council of Ministers approves the draft state budget law and the updated MTBF. 8. The Council of Ministers submits the draft state budget law and updated MTBF, its opinion on the draft budget of the judiciary and the programme formats of budgets of the FLSUs under the state budget, which correspond to the parameters of the draft state budget law and updated MTBF to the National Assembly.

Source: Ministry of Finance.

The draft state budget and the updated MTBF are prepared according to a traditional budget nomenclature, using both the economic and functional classifications. In addition, Bulgaria has been experimenting with programme classification since 2002, introducing it at legislative level in 2004 with full coverage of all ministries from 2006.

This practice was legislated in 2016 in the PFA. The Ministry of Finance prepares an annual budget using the traditional nomenclature. The budget is also segmented into main government policies, with information on the budget programmes attached to each of these policies provided in the individual budgets of the FLSUs (Figure 6).<sup>12</sup>

Figure 6. Nomenclatures used in Bulgaria at different levels of authorisation



Source: Ministry of Finance.

Negotiations on the FLSUs' individual budgets are carried out at the level of the Deputy Minister of Finance with the participation of directors and experts. The Minister of Finance is involved only in the most strategic decisions. The co-ordination process takes the form of a highly formalised dialogue, with the FLSUs presenting the main objectives and challenges related to the financing of the policies they implement. The potential for introducing new measures is considered by discussing opportunities for prioritisation within the budgets of the FLSUs and/or providing additional financing.

Rarely, a budget dispute occurs that cannot be resolved at the level of the Minister of Finance. In such an instance, the relevant budget organisations submit opinions in accordance with the Rules of Procedures of the Council of Ministers, which arbitrates.

Budget negotiations cover not only payments authorised for the next year, but also the amount of new commitments that line ministries will be authorised to enter into over the next year. Reliable, up-to-date information on commitments, in addition to payments, is key for monitoring the sustainability of the FLSUs' financial decisions against fiscal targets and expenditure rules.

The National Assembly and the judiciary formulate their own draft budgets independently and submit them to the Minister of Finance and the Council of Ministers. The Minister of Finance must notify the National Assembly and the Supreme Judicial Council of his/her views on their budget proposals in writing. In preparing the state budget, the Ministry of Finance conducts dialogues with representatives of the National Assembly and the judiciary in order to inform the view of the Minister of Finance. In case of a dispute concerning the National Assembly, the Prime Minister and the Chairman of the National Assembly must reach an agreement. In the case of the judiciary, the final decision about its budget rests with the National Assembly.

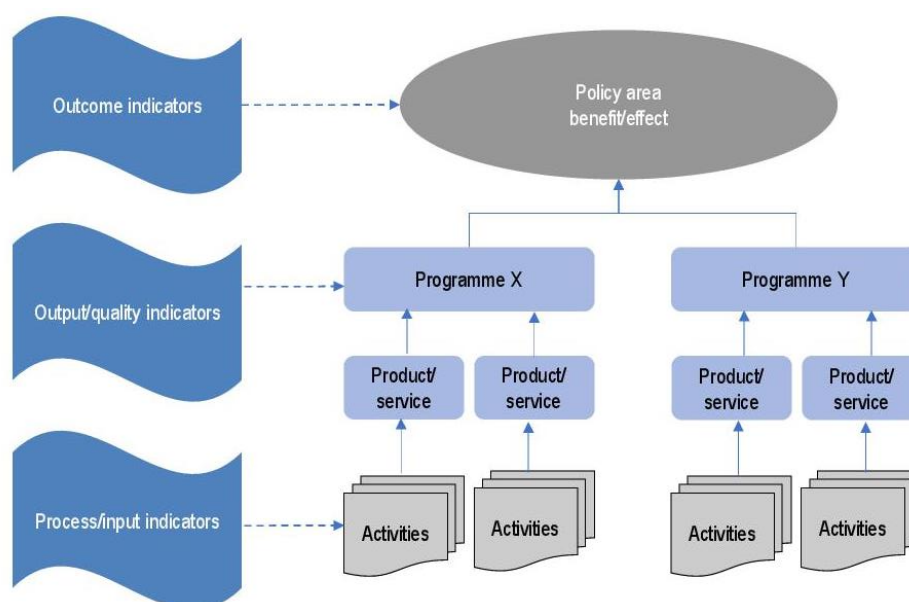
## Performance evaluation

### Performance budgeting

In the ministries and other FLSUs' individual budgets, which apply a programme budget format, detailed performance information (Figure 7) is provided as follows:

- General information on the organisation's mission and vision for organisational development and capacity.
- For each policy area, a vision for the development of the policy; strategic and operational objectives and their expected benefits or effects; performance indicators and associated targets; and how the organisation will collaborate with other entities to deliver these.
- For each budget programme, the objectives of the programme; performance indicators and associated targets; and responsibilities. Generally, around 10-15 performance indicators are defined by policy area and around 20-25 by budget programme. These performance indicators can be of different types, as follows: input, output, outcome, quality or process (see Box 3).

Figure 7. Elements of the structure of the programme and result-oriented budget in Bulgaria



Source: Ministry of Finance.

Monitoring of the targets within the FLSU is not undertaken by the Financial Directorate, but by the department in charge of the strategy. However, performance information is considered to be an integral element of budgetary reporting: results *vis-à-vis* performance indicators and targets are presented in both the half-year and year-end budget execution reports prepared by the FLSU.

A weakness of the system of programme and performance budgeting is that information, on both objectives and performance indicators, is provided in the FLSUs' budgets as opposed to in the core budget documentation – that is, the MTBF and the updated MTBF/state budget.

The Ministry of Finance has therefore started paying attention to providing strategic performance information in these documents. In particular, the government has set so-called headline indicators in five key policy areas in the context of the EU-wide “Europe 2020” strategy. In addition, the National Reform Programme comprises output indicators to monitor the progress of policies supporting these targets.

Finally, Bulgaria wishes to introduce monitoring and performance evaluation through the already identified key performance indicators, which are an element of the review of expenditure policies in the MTBF/updated MTBF, to track progress in achieving policy targets.

The OECD defines performance budgeting “as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved” (OECD, 2019<sup>[8]</sup>). While Bulgaria has a basis for implementing performance budgeting, there is some way to go before it can be said to be fully operational and being used to inform budget planning. This is because the actual impact of performance information on the allocation of resources in the formulation of budgets has been weak so far. Furthermore, the performance system is multi-layered and therefore complex. The Bulgarian authorities acknowledge that it is a challenge to identify clear and measurable outcome indicators that will support enhancing transparency and accountability, since parliamentarians and civil society may find it too complex to focus on the key outcomes.

The OECD provides a list of good practices that, if adopted, would place performance budgeting on a strong footing in Bulgaria. In particular, consideration could be given as to whether the performance information clearly reflects the priorities of the key stakeholders; whether expenditure is strongly aligned with the strategic priorities of the government; whether the system has sufficient flexibility to handle the complex relationship across the public sector between spending and outcomes; and whether there are sufficient human resources, data and infrastructure to make optimum use of performance budgeting.

### Box 3. Types of performance indicators in Bulgaria

Performance indicators are set in compliance with the strategic and operational objectives of the policy areas and budget programmes of the budget organisation and are usually related to the provided products and services and the expected results/benefits/effects in the process of implementation of the budget programmes.

Input indicators (10%) measure the planned resources for providing products and services, like human resources, material resources, equipment, capital and financial assets.

Process indicators (1%) measure productivity, like the price of products, average costs per student in a school, hospital beds occupancy, the number of kilometres that are patrolled by a policeman, etc.

Output indicators (80%) represent the volume and the quality of the provided products/services and measure the amount of provided products/services or the number of users who have been serviced.

Quality indicators (1%) measure the level of satisfaction of the beneficiaries' expectations. Important characteristics are reliability, accuracy and competency.

Outcome indicators (8%) measure the benefits, effects, results and the impacts of the programmes and thus may be used as an assessment tool of the overall success of the programme. They are the most important kind of indicators, as they reflect the changes in the economic, social and cultural environment.

Source: Ministry of Finance.

### *Spending reviews*

Although programme and performance budgeting have become a recognised tool in Bulgaria for showing how the government plans to deliver its key policies, in the past there has been no procedure for systematically identifying less effective spending and regularly reprioritising expenditure. Although individual spending reviews have been conducted before, to address this, the Ministry of Finance has engaged more systematically in spending review exercises since 2016, with the technical assistance of an international organisation. A spending review manual has been established based on the results of the pilots, but the governance and role of the future spending reviews in the budget cycle still need to be clarified.

In particular, the governance of spending reviews will be a crucial factor for their success. For example, the involvement of the Council of Ministers would send a clear message about the prominence of the spending reviews in the political decision-making process and provide the necessary platform to assess the social and political acceptability of ambitious savings proposals, proposals for prioritisation of expenditures, and optimising activities and services, clarify political trade-offs and force collective agreement on competing priorities.

This review therefore recommends that Bulgaria develop an agenda or road map towards implementing periodical spending reviews, with the ultimate objective of creating a formal stage in the budget cycle during which the efficiency and effectiveness of government programmes is analysed, which takes into account the budget process features and the scale of government policies and programmes. An option to consider would be to analyse results of spending reviews at the outset of the formulation of the MTBF and to use them for setting the three-year budgets of the FLSUs, as is done, for example, in the United Kingdom (Box 4). This would help develop the planning and performance aspects of the three-year budgets, which, as noted above, have been lacking so far.

#### **Box 4. Spending reviews and medium-term planning in the United Kingdom**

Multi-year spending reviews were introduced in the United Kingdom in 1998. They usually set three- to four-year resource and capital discretionary budgets for each ministry, with the final year of each spending review period becoming the first year of the subsequent one – deliberately designed to deal with the rising uncertainty associated with medium-term targets.

Spending reviews are a principally top-down process designed to force allocative trade-offs between competing priorities. Four to six months before the outcome of spending reviews is announced, individual spending ministries (departments) are required to submit capital and operational spending proposals based on several scenarios set by the finance ministry (HM Treasury). The scenarios are measured against a baseline agreed between each ministry and the Treasury, itself usually the subject of a negotiation. Each bid is scrutinised – sometimes by a ministerial committee led by the budget minister, the Chief Secretary to the Treasury – before final decisions are taken by the finance minister (Chancellor of the Exchequer) in close collaboration with the head of the government (Prime Minister). The spending reviews done for each spending ministry are often supplemented by parallel strategic reviews of major spending areas, or try to identify areas of reform, such as the Strategic Defence & Security Reviews that often provide the policy context to spending on external security spending decisions.

Multi-year budgets resulting from the spending reviews are presented for information to the UK parliament, although the parliament votes only on the annual budget (Supply Estimate Bill).

Note: This procedure was not followed for the 2019 spending review.

Source: Based on public information.

### Capital budgeting

The government's main capital investment priorities are set out in the Governing Programme of the Government of the Republic of Bulgaria 2017-2021, where individual sectoral policies are defined, and specific measures and objectives are set out for the implementation of the programme.

Table 5 shows the capital expenditure in the state budget in recent years.

**Table 4. Capital expenditure in the state budget of Bulgaria, 2016-18**

	2016	2017	2018
Total expenditure (million BGN)	21 788	22 236	23 821
Capital expenditure (million BGN)	1 975	1 687	2 472
Capital % of total expenditure	9.1%	7.6%	10.4%

Source: Ministry of Finance.

The amount involved has been significant. For that reason, it should be subject to robust planning, appraisal, selection, monitoring and review procedures. This cycle, therefore, forms the basis for the review of capital budgeting.

Capital investments that are co-financed by European Structural and Investment Funds are subject to monitoring and reporting requirements. Furthermore, planning and approval for capital investment that is not EU co-financed is regulated by an ordinance adopted by the Council of Ministers Decree 337/2015.<sup>13</sup> It regulates the conditions to be met by investment projects financed by state loans and projects applying for financing with a state guarantee and the procedure for their consideration. This ordinance regulates the conditions to be met and the procedures to be followed before investment projects financed by state loans or with a state guarantee can be approved. It provides that, in general, capital expenditure is subject to the same scrutiny that applies to all public expenditure under the Public Finance Act. Despite these basic provisions, there is no clearly defined standard methodology for planning, monitoring and reporting on capital investments, which would apply across all sectors equally.

Under the Defence and Armed Forces Act, projects with a cost in excess of BGN 50 million must first be approved by the Council of Ministers. In addition, projects with a cost in excess of BGN 100 million must also receive the approval of the National Assembly.

The MTBF and the updated MTBF present the capital expenditures of the Consolidated Fiscal Programme both on a sectoral basis and on an aggregated basis. It also presents the capital expenditures by source of funding, namely national budget and EU fund accounts. The expenditures are presented also at the aggregated level in terms of capital transfers, gross fixed capital formation and other capital expenditure.

The annual state budget law presents capital expenditures at the level of the total state budget and at the level of the FLSUs, as well as capital transfers from the state budget to non-governmental organisations and enterprises. The municipal budgets also show the amount received from the state budget for capital expenditures. If a capital investment is considered to have a significant impact on the budget, it is highlighted in the budget documentation. In recent times, highlighted capital measures have included the decision of the National Assembly to approve the acquisition of combat aircraft and combat equipment, and the decision for the introduction of a toll fee to fund the construction of a road. Significant investment projects are also included in the relevant expenditure programmes. This information includes non-financial information and key performance indicators. The threshold of what constitutes a significant impact is set

at BGN 1 billion, which is very high. For investment projects below that threshold, it appears to be a matter of judgement as to whether individual projects are highlighted.

Capital investment is prioritised on the basis of the need to implement sectoral development strategies that have been adopted by the Council of Ministers. In approving an investment strategy, the government takes account of the cost of large investment projects within the overarching financial constraint of the fiscal targets. Following on from this, the individual ministries determine the priority projects for financing within the framework of the funds provided by the State Budget Act. The sectoral development strategies include all sources of project funding, such as the state budget, own contribution by beneficiaries, EU co-financed programmes and other donors.

There is no standard methodology for appraising and prioritising capital investment projects based on value for money. Instead, the primary basis for approving projects derives from the need to draw down EU co-financing and the overall budgetary aggregates, which decides what can be afforded. The guiding principle is that the individual ministries are best placed to develop policies in their area of competence. The head of each budget organisation is responsible for managing the budget for each particular year and prioritising expenditures, including investment expenditures, as long as this complies with overall expenditure guidelines issued by the Ministry of Finance. Prioritisation for capital investment depends primarily on the relevant FLSUs, with the Ministry of Finance carrying out its monitoring and analysis role in the context of compliance with agreed policies and available resources. Any monitoring of capital expenditure is within the context of the overall budget of the FLSUs. There is no longer a specialist unit within the Ministry of Finance charged with carrying out the monitoring of capital expenditures. Insofar as capital expenditures are currently considered integrated within the budgets of the individual FLSU.

The Resource Management under the European Structural and Investment Funds Act and the Council of Ministers Decree No. 162 of 2016 provide detailed rules for the award of grants under programmes financed by the European Structural and Investment Funds. In addition, where investment projects are not EU co-financed, there is a procedure, within the budget process, for applying, reviewing, approving and monitoring the implementation of these projects, financed by state loans or backed by state guarantees. Nevertheless, these regulations do not provide a methodology that allows for appraisal and prioritisation of projects across sectors in terms of return on investment.

The MTBF includes calculations for capital spending in the upcoming budget year and the following two years. Furthermore, the programme budgets are drafted within the ceilings of the expenditures of the FLSUs for the next three years, with capital expenditures being included in these programme budgets. These are, however, indicative and subject to amendment each year, when it is necessary to provide additional funding for measures/projects complementing the policies conducted. Nevertheless, where capital expenditures are included in a programme budget, the information relating to these expenditures is presented in a three-year perspective, including for those ministries that have significant capital expenditure, such as the Ministry of Transport, Information Technologies and Communication; the Ministry of Environment and Waters; and the Ministry of Regional Development and Public Works. For the Ministry of Defence, the Council of Ministers approves the allocation of investment costs over a period of seven years, although this is not published.

The municipalities also incur capital expenditures, which are funded by a combination of own revenue and transfers from the state budget. The amount of the targeted capital expenditure subsidy and the mechanism for distributing it per municipality is set out in the State Budget Act for the relevant year. According to the guidelines for the FLSUs for the preparation of their budget forecasts, municipalities have to plan the amount of transfers from the state budget, on the same level as defined in the State Budget Act for the current year. Therefore, their ability to plan for capital expenditure is restricted. Despite this restriction, the municipalities prioritise capital investments by drawing up a list after consulting with both citizens and business at local level. Every mayor has a four-year plan that includes a list of projects, which address the investment requirements of the municipality.



There is no evidence to suggest that in prioritising capital investment subsequent recurrent costs are also taken into account. In Bulgaria, current expenditures are regarded as being separate from capital expenditures and are not bound to a specific investment project. This is surprising, as some capital projects can have significant implications for current expenditures once the physical building is completed. If capital budgeting is an integral element of the budget, planned investments should take account of subsequent current expenditure commitments. Additionally, for large projects at least, the current costs should also be published alongside the initial capital investment.

The implementation of investment projects is often subject to delay. While some delay is inevitable owing to unfavourable weather conditions or the challenges that complex projects often present, in two of the three most recent years actual capital expenditure has been less than 80% of the planned allocation. On the other hand, in 2018, the actual capital expenditure was just under 10% more than the planned allocation.

**Table 5. Actual capital expenditure compared to planned expenditure, Bulgaria, 2016-18**

	2016	2017	2018
Planned expenditure (million BGN)	2 554	2 120	2 285
Actual expenditure (million BGN)	1 975	1 687	2 472
Actual as a % of planned	77.3%	79.6%	108.2%

Source: Ministry of Finance.

There is no provision for the carry-over of unspent capital funds into the following year. Neither is there a provision for virement between capital and current expenditures. Since the first-level spending units have a degree of flexibility for selecting capital projects as long as they remain within their respective total budget allocations, it is possible that a delay in one particular project could result in another project being initiated in its place. This could lead to projects being selected mainly to avoid underspend on the budget units' capital allocation. Nevertheless, the fact that in two of the three years in Table 6, actual capital expenditure was less than planned expenditure suggests that this may not be a major problem.

For the preparation of the 2020 Budget, the Ministry of Finance guidelines instructed the FLSUs to prepare their three-year budget forecasts for capital expenditures and capital transfers in more detail. Each FLSU also was required to submit an explanation of its investment policy in general (including in the current year) and a list of priority investment projects with an estimated cost of more than BGN 500 000 planned for the period 2020-22. This is a step towards better prioritisation and ensures that plans for new projects take account of the progress of existing ones.

One of the most important criterion as regards the selection of investment projects is their anticipated contribution to achieving "key indicators" target values in the MTBF. Another criterion is the anticipated feasibility of the project, with projects already in train or in the preparation phase being prioritised in order to guarantee greater absorption of the available resources. To guard against underspending on capital projects, the FLSUs are required to have some reserve projects in place.

It is also required to assess the conformity of the investment project with the programme and financial framework. The selected investment projects should be appropriate and realistic for implementation; related to the development strategies in the respective sector; and consistent with the priorities, objectives and measures set out in the governance programme of the government of Bulgaria, in strategic documents and programmes. Each project should take into account the long-term benefits to the society or the sector targeted by the project and the long-term social and/or economic benefits to which the project will contribute.

The reporting on the implementation of large investment projects includes data on the overall costs and on the physical progress of the projects. Data on capital expenditures are included in the quarterly, six-monthly and annual reports to the Ministry of Finance. In compliance with the ministry's guidelines, each FLSU reports every quarter in a standard form on the capital expenditure under each separate project. Additional information on the implementation of investment projects by the FLSUs is contained in their semi-annual and annual programme reports. These reports contain information to demonstrate that both the total cost and the physical progress of major investment projects are being monitored by the responsible government unit. These reports are in a programme format, and contain detailed information on the degree of implementation and achieved societal benefits with regard to key performance indicators for each policy area. Units responsible for individual policy areas are also required to report to the minister and senior management as regards the progress on major investment projects. In addition, each line ministry is required to report monthly on the implementation of projects funded by state investment loans, accompanied by an explanatory note. For projects funded by European Structural and Investment Funds and other international programmes and contracts, the reporting format and periodicity is regulated in the grant agreement. Financial statements are submitted quarterly to the Steering Committee. A request to the Steering Committee for payment is accompanied by a technical report demonstrating the physical progress of the projects in question.

Despite the reporting requirements, the absence of a centralised methodology for appraisal and evaluation means that there is a greater concentration on the procedural part of the capital investment than on resource management. Across different budget units and different projects, there are different assessment procedures and different performance criteria. Furthermore, there is no established procedure for conducting reviews or evaluations of investment projects to determine whether the projects were actually delivered in line with expectations and/or to identify lessons that could be learnt with a view to improving capital investment in the future.

The Bulgarian authorities should consider adopting a basic methodological framework common to all investment sectors and project types. Such a framework should establish a common approach for the assessment of projects, as well as a reference point against which *ex post* evaluations can be measured. It should also take account of the OECD Framework for the Governance of Infrastructure, which sets out the ten dimensions regarding the prioritisation, planning, budgeting, delivery, regulation and review of infrastructural investment. Furthermore, given that the municipalities have a capital budget, a methodological framework should also take account of the principles established in the OECD's *Principles on Effective Public Investment across Levels of Government*. The adoption of such a framework would result in improved institutional arrangements; improved monitoring tools; harmonised appraisal techniques and selection criteria; an evaluation and review process; and a better socio-economic return to the state on its capital investments.

#### **4.4. Budget execution**

The State Budget Act enters into force on 1 January for the relevant year. Guidelines for the execution of the State Budget and the EU funds accounts are published on the Ministry of Finance's website. The Ministry of Finance's Treasury Directorate is responsible for the organisation, co-ordination and analysis of the budget execution, cash management, as well as accounting (including payments).

On the basis of the Law on Financial Management and Control in the Public Sector, each FLSU is tasked with developing rules for the organisation of its budget's execution, including policies and controls to ensure that all major risks are managed. Preventive controls on payments include double signature requirements, as well as legality compliance controls.

Operational managers are responsible for complying with all applicable rules and the Ministry of Finance exercises only aggregate control. Acting in contravention of any legislation is considered a violation of budgetary discipline. In the event of such a violation, the Minister of Finance may restrict or discontinue transfers, or restrict payment limits of budgetary organisations.

### *Spending control and monitoring*

The National Assembly approves resource allocations in the state budget at the level of policy areas, i.e. a fairly aggregate level, which in theory would give an almost total autonomy to the FLSUs in deciding how to use their funding. However, this autonomy is limited in practice, as the decree on the execution of the state budget approved by the Council of Ministers allocates resources to the FLSUs at a more detailed level (programme and economic category). These detailed allocations are discussed during the budget preparation and provided to the National Assembly's committees that examine the FLSUs' budgets. In addition, past practices restricting the use of their full appropriations by the FLSUs (freezing of appropriations) have gradually been phased out.

Great attention has traditionally been paid to expenditure control in Bulgaria, after the public sector experienced substantial arrears in the wake of the 1996-97 crisis. For this purpose, resources allocated to the FLSUs are managed in an IT system called SEBRA. This system is used in turn by the FLSUs to allocate some of these resources to second- and lower-level spending units. Ceilings are entered into the system by the Ministry of Finance, which do not allow for any commitment or payment to be recorded in excess of this authorised amount.

To facilitate the monitoring of actual spending by the State Expenditure and Treasury Directorates, at the outset of the fiscal year, the FLSUs are required to present a monthly allocation of their annual budgets to the Ministry of Finance classified by budget programmes and economic category. The Ministry of Finance then monitors budget execution against the initial forecasts on a monthly and quarterly basis. In accordance with a provision in the PFA (Article 135), the Minister of Finance informs the Council of Ministers on a quarterly basis about the current parameters of the budget execution and prepares a semi-annual report, which is presented to the National Assembly by the Council of Ministers.

This monitoring is based on monthly and quarterly cash reports, presented by all FLSUs to the Ministry of Finance. In addition, information is reported quarterly to the Ministry of Finance with the trial balance reports in a web-based system, including levels of commitments and appropriations accumulated by the FLSUs, as well as EU funds. Consistency checks are carried out on the information provided by the FLSUs, based on data collected by the Bulgarian National Bank.

### *Flexibility measures*

The legislation provides for considerable flexibility in reallocation of resources during budget execution, within certain limits – i.e. the budget balance shall not be affected and reallocations shall comply with the overall ceiling on wages approved in the state budget. The main flexibility measures can be summarised as follows:

- Under the state budget, the FLSUs may make internally compensated changes to their budgets, including the budgets of their second-level spending units, whereby those changes shall not affect expenditure per policy area and budget programme. In such cases, the overall staff expenditure may not be affected, either, unless changes are made to the delegated budgets.
- The Minister of Finance may make internally compensated changes to the established budget programme expenditure within the FLSUs' budgets under the state budget, upon their proposal, which shall not affect the established expenditure per policy area. In such cases, the overall staff expenditure may not be affected, either, unless changes are made to the delegated budgets.

- The Council of Ministers may approve internally compensated changes to the established expenditure, by policy area, within the FLSUs' budgets under the state budget, upon their proposal, in co-ordination with the Minister of Finance. Excluding the delegated budgets, the Council of Ministers may approve changes to the established staff expenditure within the budgets of the FLSUs under the state budget, upon their proposal, in co-ordination with the Minister of Finance.

At the level of the Council of Ministers, reallocations can be made between policy areas, provided that the budget balance is not affected and reallocations comply with the overall ceiling on wages approved in the state budget. This has led, in the past, for example, to transferring appropriations from the capital budget to the operating expenditure such as transfers to municipalities without any external oversight.

Supplementary budget laws are mandatory only in case of a negative deviation from the annual objective for the budgetary balance under the consolidated fiscal programme or in the case of a change to the main variables of the budget, including additional revenues being realised. Supplementary budget laws must also ensure compliance with the fiscal rules. Although over the last decade at least one supplementary budget law has been submitted to the National Assembly, there would be room to increase parliamentary control and general transparency over budgetary reallocations. In doing so, Bulgaria could consider the experience of France (Box 5).

#### Box 5. France: Flexibility measures and reporting to parliament

Under certain circumstances and within given thresholds, a number of flexibility measures ("*mesures de régulation*") are authorised by the Organic Budget Law (Loi organique de lois de finances) through budget execution. They include reallocations between appropriations, cancellation of appropriations, supplementary appropriations, as well as increases or decreases of precautionary reserves. All flexibility measures must be notified to parliament, either at budget approval stage or throughout the year. Net supplementary appropriations, or reallocations beyond those thresholds, can only be provided by a supplementary budget.

According to the law, reallocations between appropriations can take two forms: remittances ("*virements*") and transfers ("*transferts*"). Remittances modify the partition of appropriations within a ministry and are allowed within the limit of 2% of the appropriations authorised for a programme in the initial budget law. Transfers modify the partition of appropriations between ministries and are allowed under the condition that the appropriations remain reserved for activities of the same nature (for instance appropriations for the purpose of road safety can be transferred from one ministry to another). Remittances and transfers are implemented by decree and the relevant committees of parliament must be informed in advance of issuing the decree.

Cancellation of appropriations is possible in order to prevent deterioration of the budget balance as defined by the latest Budget Act. This requires a decree as well. The relevant committees of parliament must be informed before the annulation decree is issued.

In case of emergency, the Council of Ministers can also reallocate appropriations between programmes. Such reallocations are capped at 1% of the total amount of appropriations. The emergency situation must be explained and communicated to the relevant parliamentary committees, which are required to provide an opinion on the reallocation. This requires an advance decree ("*décret d'avance*").

Reallocations and cancellation of appropriations must be regularised in the first upcoming supplementary State Budget Act and the Court of Accounts must express its opinion on these measures.

Source: Moretti and Kraan (2018<sup>[9]</sup>).

### *Cash management*

Payments of the FLSUs are initiated in SEBRA, within the ceiling set in the system by the Ministry of Finance. The controls to be exercised prior to a payment to a third party are defined by each FLSU in compliance with the Financial Management and Control Act, which requires all FLSUs to have financial controllers and an internal audit function. In 2016, a Control Methodology and Internal Audit Directorate was created in the Ministry of Finance to support the co-ordination and harmonisation of financial management and control systems within the FLSUs.

Cash payments have been managed by the Bulgarian National Bank through a Treasury Single Account (TSA) since the 2000s. The TSA allows the “pooling” of all cash balances in the Bulgarian National Bank and also handles cash transfers to third parties. Its basic principles, rules and requirements are regulated by the PFA.

The cash balances of the state (including the National Assembly, judiciary), as well as the funds received from the EU and other international institutions in the form of grants, aid or loans are managed in the TSA. Only the cash balances of municipalities are not yet transferred to the TSA, due to concerns over any limitation to their administrative independence.

The PFA authorises the opening of accounts in commercial banks in certain cases (e.g. for opening letters of credit or servicing payments under international programmes or contracts that explicitly require a separate account). In such cases, entities transfer liquidities daily in and out of commercial banks to enable them to make payments for certain expenses and therefore operate a so-called “zero balance account”.

The Minister of Finance is entrusted with the management and disposal of the resources in the TSA. Based on operational information for expected proceeds and payments for a three-month perspective, given by the respective responsible directorates in the Ministry of Finance, the State Treasury Directorate makes a forecast and schedule for cash flows in the TSA on a daily basis.

#### **4.5. Summary of key recommendations**

- As part of the annual budgeting process, line ministries should be responsible for evaluating and prioritising within their spending ceilings, and bringing forward evidence-based options for allocating resources using their performance data and indicators. More generally, this report recommends benchmarking the performance budgeting system against the *OECD Good Practices for Performance Budgeting* (see OECD (2019<sup>[8]</sup>)).
- Spending reviews should be scaled up to allow regular government-wide reviews of expenditures and identification of potential economies within the main spending areas based on efficiency and effectiveness analyses. The spending reviews should draw upon, and complement, the more regular evaluations carried out by line ministries mentioned above. An option to consider would be to analyse the results of spending reviews at the outset of the formulation of the MTBF, to inform the multi-year spending plans.
- The Bulgarian authorities should adopt a basic methodological framework common to all investment sectors and project types. Such a framework should establish a common approach for the assessment of projects, as well as a reference point against which *ex post* evaluations can be measured. It should also take account of the OECD Framework for the Governance of Infrastructure, which sets out the key factors regarding the prioritisation, planning, budgeting, delivery, regulation and review of infrastructural investment.
- Legislation should require that reallocations between policy areas be submitted for the approval of the National Assembly. Increases without the approval of the National Assembly should be authorised only for certain categories of expenditures (e.g. entitlements), or according to a certain criterion (e.g. below a specific threshold).

## 5. Transparency and openness in budgeting

### 5.1. Budget documentation and accounts

Bulgaria has paid increasing attention over the last decades to provide a higher level of transparency in the financial operations and situation of the State Budget and the Consolidated Fiscal Programme. The OECD's 2009 Budget Review underlined, for example, progress in making the budget more comprehensive of public activity and efforts for developing programme and performance budgeting, as well as the fact that the Ministry of Finance was publishing budget documents and accounts through the budget cycle.

Against this background, since 2009, the authorities have focused their efforts on improving the comprehensiveness and quality of budget documents, as follows:

- Compared to the three-year budget forecast prepared prior to the adoption of the PFA, the MTBF details the main assumptions that underpin macroeconomic and budgetary forecasts, the priorities of government policies, and discusses the sustainability of the public finances and main fiscal risks.
- Within the MTBF, information on the past fiscal performance and prospects for the Consolidated Fiscal Programme is more developed. In particular, information is provided on actual spending and revenue over the last two years and forecast for the next three years, as opposed to only one year back in 2009.
- The draft state budget is a more comprehensive document than in the past, in that it is accompanied by the updated MTBF reflecting the recommendations of the EU and changes to the macroeconomic environment, the programme formats of the budgets of the FLSUs as well as other documents such as the minutes of the consultations with the National Association of Municipalities, hence providing all of the necessary information for an informed scrutiny of the budget proposal.

In addition to the core budgetary information published as part of the MTBF and the state budget, the government also prepares and publishes some important complementary budget documents, including a Tax Expenditure Report and Debt Management Strategy, as well as a monthly debt bulletin.

Concerning accounting, Bulgaria had already made substantial progress in strengthening its accounting practices back in 2009, with the public sector accounting system built on two main "pillars":

- First, the principle of "regularity, sound financial management and transparency", with, within each entity, responsibilities clearly allocated for defining all of the necessary internal controls and processes and monitoring their implementation.
- Second, the harmonisation of accounting practices within the Consolidated Fiscal Programme, with all relevant entities required to use a double entry accounting system and a common chart of accounts and to follow the same accounting principles (i.e. the National Accounting Standards, so-called NASs) defined by the Ministry of Finance.

The PFA requires that the NASs be consistent with both the requirements of Bulgarian legislation and all relevant international frameworks for public accounts and statistics; that is, namely, the European System of Accounts 2010, or ESA 2010; the Government Finance Statistics Manual 2014; and the International Public Sector Accounting Standards, or IPSASs. ESA 2010 is considered the primary reference, due to the EU requirement that transmission of government accounts from member states to Eurostat will follow ESA 2010 rules.

In practice, the many regulations enacted by the Ministry of Finance over the years have made it difficult to navigate and understand the accounting framework, with practical guidance lacking on how to implement certain requirements. In addition, the legislation, by referring to three different international frameworks (even if ESA 2010 is the primary reference), has left a significant degree of discretion to the Ministry of

Finance in diverging from generally accepted accounting principles, for example in terms of reporting of tax revenue, revaluations or consolidation.

The Ministry of Finance justifies these divergences by the requirements of the PFA, which states that accounting standards, instructions and the chart of accounts shall enable the generation of data concerning the general government sector and its sub-sectors in compliance with EU requirements.

However, there have been calls from the National Bulgarian Audit Office for a move to full accrual accounting and more rigorous alignment of national accounting standards with the IPSASs, in the wider context of the EU's project for developing a set of European public accounting standards based on the IPSASs. Such a move would be consistent with the practices observed in the OECD, where around three-quarters of countries have adopted accruals and around one-third use standards aligned with the IPSASs or other international accounting standards (OECD/IFAC, 2017<sup>[10]</sup>).

Before undertaking such a reform, Bulgaria should, however, ensure that, going forward, accounting standards will be developed under a governance framework ensuring a high level of expertise and integrity, for example by obliging the Ministry of Finance to consult an independent advisory body before enacting any accounting standard (Box 6). In addition, the Ministry of Finance could consider declustering and streamlining its accounting and financial reporting procedures. This would require developing and issuing a "government accounting manual", consolidating in a single document all accounting policy guidance and promoting consistency in methodologies for reporting or measuring for similar items between entities.

### Box 6. Financial reporting advisory bodies in selected OECD countries

In setting financial reporting advisory bodies, OECD countries such as France, Portugal and the United Kingdom have adopted different models – i.e. accounting standards and policies are established by the government and reviewed by the advisory body (United Kingdom) or the advisory body establishes standards and submits them to government for endorsement (France and Portugal).

#### France

Accrual accounting standards are enacted by the Ministry of Finance, after receiving advice from an independent advisory council, the Public Sector Accounting Standards Council (Conseil de Normalisation des Comptes Publics).

The council is tasked with proposing standards to the Ministry of Finance for three separate sectors: 1) the state and its agencies; 2) Social Security; and 3) local governments.

The Public Sector Accounting Standards Council has a Standing Committee (*collège*) comprising a chair and 18 members, including 9 *ex officio* members and 9 technical experts, who are appointed by the Minister of Finance for a 3-year fixed-term period, with the possibility of renewal.

For each sector, a sectoral committee, working under the leadership of a chair, composed of qualified professionals is in charge of establishing sectoral standards. Each sectoral committee comprises members with sectoral knowledge, with some members taking part in all committees.

#### Portugal

In Portugal, the accounting standard-setter role was redesigned following a major reform of the organisational structure of the Ministry of Finance in 2012.

The Accounting Standards Committee (Comissão de Normalização Contabilística) was created by Law-decree 134/2012. It is an independent body under the Ministry of Finance comprising stakeholders from both the private and the public sectors. The Accounting Standards Committee comprises two

committees: one for business accounting and another for public sector accounting (Comissão de Normalização Contabilística Pública, CNCP).

According to Article 18, the main task of the CNCP is to issue public sector accounting standards and interpretations taking the IPSASs as a reference, as well as to contribute to its development, implementation and improvement.

The CNCP comprises nine members, including representatives of the accountants and auditors institutes, the Budget General Department, Local Government General Department, Finance Inspection Directorate, National Institute of Statistics; universities teaching accounting, and an independent member acknowledged as expert (Article 16).

### **United Kingdom**

The accounts of central government departments and agencies are prepared in accordance with the Government Resources and Accounts Act 2000 and the *Government Financial Reporting Manual*, which applies International Financial Reporting Standards as adapted or interpreted for the public sector by HM Treasury, and sets out the framework by which government departments should prepare their resource accounts. To prepare the *Government Financial Reporting Manual*, HM Treasury is advised by an independent advisory board, the Financial Reporting Advisory Board.

The Financial Reporting Advisory Board is composed of representatives from the accountancy profession in the private and public sectors, academia, and government bodies.

Source: Moretti et al. (2019<sup>[11]</sup>).

Concerning reporting requirements, within the scope of the state budget, the FLSUs are required to provide regular reports on a cash basis in accordance with the budget nomenclature defined by the Ministry of Finance. This budget information, including commitments and appropriations, is reported to the Ministry of Finance on a monthly and quarterly basis, through a web-based portal (the so-called Treasury Management Portal), to allow for efficient monitoring of budget execution and timely identification of any deviation. In addition, all FLSUs communicate NAS-based financial outturns to the Ministry of Finance on a quarterly basis and at year-end (annual financial report).

On this basis, the Ministry of Finance establishes two types of reports throughout the course of the year:

1. cash-basis monthly bulletins, half-year and year-end outturns to report on the execution of the state budget
2. NAS-based quarterly and annual financial statements to report on the financial position of the Consolidated Fiscal Programme.

Year-end financial statements and cash reports are systematically submitted for financial audit by the Bulgarian National Audit Office. In particular, the Consolidated Fiscal Programme shall be communicated to the supreme audit institution by 30 June at the latest and be submitted to the Council of Ministers by 30 September. Once approved it can be laid before the National Assembly.

## **5.2. Accessibility and legibility**

Providing accessible, clear and regular budgetary and financial information to the public is increasingly considered by the Ministry of Finance as an important part of its core functions. In this spirit, the Ministry of Finance is using a number of tools for its communication towards external stakeholders:

- First, online access to all budgetary documents prepared through the budget cycle on the Ministry of Finance’s website. The comprehensiveness of the documentation provided is recognised in Bulgaria’s ranking on the Open Budget Index 2017; it ranks 21st out of a total of 115 countries.
- Second, access to a number of data sets, including budgetary and financial outturns of the Consolidated Fiscal Programme and State Budget on the government’s Open Data Portal.<sup>14</sup>
- Third, a monthly newsletter on the outturn of the state budget and the main consolidated fiscal programme indicators.

Virtually all observers with whom the OECD met within the framework of this review, including parliamentary and civil society stakeholders, journalists and think tanks, underlined progress in the government’s financial reporting practices, including the accessibility of the budgetary and financial information. They also identified areas where progress is needed, as detailed below.

First, the sheer volume of information published by the Ministry of Finance (see Table 7) poses challenges for the institutions of government, both in terms of generating this material to a high standard of quality, as well as in terms of the assimilation and use of this information by parliamentarians and civil society organisations, while efforts are made to make the materials more accessible to different target groups.

Second, the different institutional coverage, accounting basis and budget nomenclature used across reports sometimes makes it difficult to navigate among them for non-expert readers. For example, the MTBF is prepared on a cash basis, but the main budgetary indicators in the medium term are also presented using the rules and principles of ESA 2010.

Third, some observers also noted that the monthly bulletin and newsletter on the state budget’s execution, although it includes a short commentary to assist in interpreting the report, did not always provide sufficient information or explanation of significant transfers between budget categories.

Overall, concern was expressed that increased “transparency”, as measured through the number and regularity of reports, was partially outweighed by a lack of “accessibility”, defined as the ability to identify the salient points of a budgetary document and the provision of clear and legible narrative explanations on important financial operations. Improvements in these areas are possible, and would increase the usefulness of budgetary and financial material for policy scrutiny and accountability purposes.

Governments increasingly publish documents tailored to the needs and responsibilities of each target audience, including citizens’ budgets and financial statements for the general public, as well as fiscal report summaries and commentaries for parliamentarians and technical users OECD (Moretti and Youngberry, 2018<sub>[12]</sub>). The government of Bulgaria therefore could explore possibilities to prepare a wider set of reader-friendly summaries and commentaries of technical, complex and sometimes overly detailed fiscal reports, in addition to the existing Citizen’s Budget, at different stages of the budget process.

**Table 6. Publicly available budget documents and financial reports in Bulgaria**

	Institutional coverage			Frequency			
	First-level spending unit	State budget	Consolidated Fiscal Programme	Monthly	Quarterly	Half-year	Annual
<b>1) Forward looking</b>							
Pre-budget statement (medium-term budgetary framework)		✓	✓				✓
Executive's budget proposal (including draft State Budget Act, updated medium-term budgetary forecast)		✓	✓				✓
Enacted budget (State Budget Act)		✓					✓
State Debt Strategy		✓					✓
Programme-based budgets	✓						
<b>2) Backward looking</b>							
Execution of Consolidated Fiscal Programme			✓		✓		✓
Monthly bulletin for the execution of the state budget and main indicators under the Consolidated Fiscal Programme		✓	✓	✓			
Stock of arrears <sup>1</sup>			✓	✓			
Execution of the programme-based budget expenditures	✓				✓		
Report on municipalities' finances			✓		✓		
Half-year budget execution report for the Consolidated Fiscal Programme			✓			✓	
Tax expenditure report		✓					✓
Annual state budget execution report, including annual report on the Consolidated Fiscal Programme		✓	✓				✓
Programme budget execution report	✓					✓	✓
Annual financial statements	✓						✓

1. Arrears are overdue payments towards third parties.

Source: Ministry of Finance.

### 5.3. Citizens' consultation

Heightened engagement with societal stakeholders is considered “critical to building citizen trust and is a key contributor to achieving different policy outcomes in diverse domains” (OECD, 2017<sup>[13]</sup>) and is now relatively common practice for OECD public institutions.

In Bulgaria, there is a tradition of consultation with “intermediary representative bodies”. For example, during the budget formulation, the Ministry of Finance holds a series of consultations with the line ministries as well as with the National Association of Municipalities in the Republic of Bulgaria. Regarding social benefits, the Ministry of Labour and Social Policy meets annually with the representatives of trade unions and some professional organisations to consult them on policy changes.

Budget processes do not allocate time, however, to engage in meetings with other stakeholders, including ordinary citizens. This is an area where substantial progress is possible and needed in Bulgaria, through, for example, public calls for budget proposals or public meeting consultations (Box 7).

In addition, in OECD countries, the National Assembly will often encourage public participation as part of its scrutiny of the draft budget proposal. For example, permanent committees hold public hearings on the budget in 25 OECD countries, and select committees hold hearings in 11 OECD countries (OECD, 2019<sup>[6]</sup>). Similar practices could be considered in Bulgaria.

### Box 7. OECD: Making the budget more inclusive and participative

While proposing and implementing the budget are the legal duty of the executive, strengthening the involvement and participation of citizens and civil society, in ways that are compatible with national legal frameworks, can increase responsiveness, efficiency, impact and trust. Heightened citizen engagement also reduces opportunities for corruption and strengthens the culture of open democracy. The OECD Budget Transparency Toolkit identifies three main best practices to make the budget more inclusive and participative.

1. Opportunities for participative approaches across the budget cycle and with different institutions should be developed, through introducing open, innovative and responsible approaches. As a general principle, participative approaches should aim to complement established legal and constitutional mandates, and so designed to enhance the effectiveness of policy making and accountability at each stage. Suggested starting points regarding opportunities for participative approaches are:

- the government should consider timely consultative processes across the budget cycle, taking into account the knowledge, interests and capacities of citizens
- enhance parliamentary engagement and consultation with citizens during the phases of the policy and budget cycle where parliament is most actively involved
- (...)

2. Realistic and informed public participation is necessary to ensure that the public can form an overview of budget design, results and impacts, and to set the basis for a productive and meaningful engagement with other stakeholders in the budget process. Suggested starting points to support realistic and informed participation are:

- information on budgetary constraints, policy costings, opportunity costs and policy trade-offs, as well as contributions to major policy goals and cross-sectoral issues
- (...)
- ideally, multi-dimensional impacts of policy options, including economic, social and environmental impacts, as well as effects on gender equality.

3. Designing a participation process should aim to demonstrate its usefulness and relevance for budget policy making, thus helping to sustain the approach across policy cycles and different administrations. Public participation should naturally respect legal prerogatives of the executive and parliament; and indeed it is helpful if the legal framework allows for, and supports, an orderly and transparent approach to public participation. Suggested starting points regarding the design of a participation process include:

- (...)
- tailoring methods of engagement that are best suited to the various participants
- (...)
- following up and giving citizens timely feedback about progress and results
- making sure that the most vulnerable parts of the population are included.

Source: OECD (2017<sup>[14]</sup>).

#### 5.4. Summary of key recommendations

- Accounting standards should be established under a governance system that would ensure appropriate levels of technical expertise and independence. In addition, the alignment of the national framework with a single international framework would be desirable for clarity over the rationale for any departure from generally accepted accounting principles.
- The government should develop and issue a “government accounting manual”, consolidating in a single document all accounting policy guidance and promoting consistency in methodologies for reporting or measuring for similar items between entities.
- A wider set of reader-friendly summaries and commentaries should be prepared by the government, including a Citizens’ State Accounts document.

## 6. Parliamentary involvement and external oversight

### 6.1. Parliamentary role in the budget process

#### *Pre-budget debate*

In many OECD countries, parliamentary committees, especially budget committees, hold hearings with stakeholders, including non-governmental organisations, trade associations, chambers of commerce and so on. The objective is to compile a menu of economic, social and fiscal policies that the government can consider in formulating its budget. While governments generally are not obliged to accept the policy recommendations initiated in the National Assembly, such a process can help governments better understand what citizens may expect in a budget. As shown in the results of the OECD 2018 Budget Practices and Procedures Survey, around two-thirds of OECD countries submit a pre-budget report to the legislature before the annual budget is tabled for approval. The Bulgarian government, after approving the MTBF, which is classified as a pre-budget statement by the International Budget Partnership, sends it for information purposes to the National Assembly without any feedback being required. The National Assembly in Bulgaria does not appear to be actively engaged in budget planning before the budget is formulated. It does not have a formal process for providing budgetary advice to the government and influencing its policy decisions before the formulation of the budget. The Budget and Finance Committee may consider establishing a pre-budget consultation process. It can consult with all stakeholders and prepare a submission containing policy proposals for the government’s consideration. The results of the pre-budget consultation should be submitted to the government before it finalises the annual budget.

#### *Approval process*

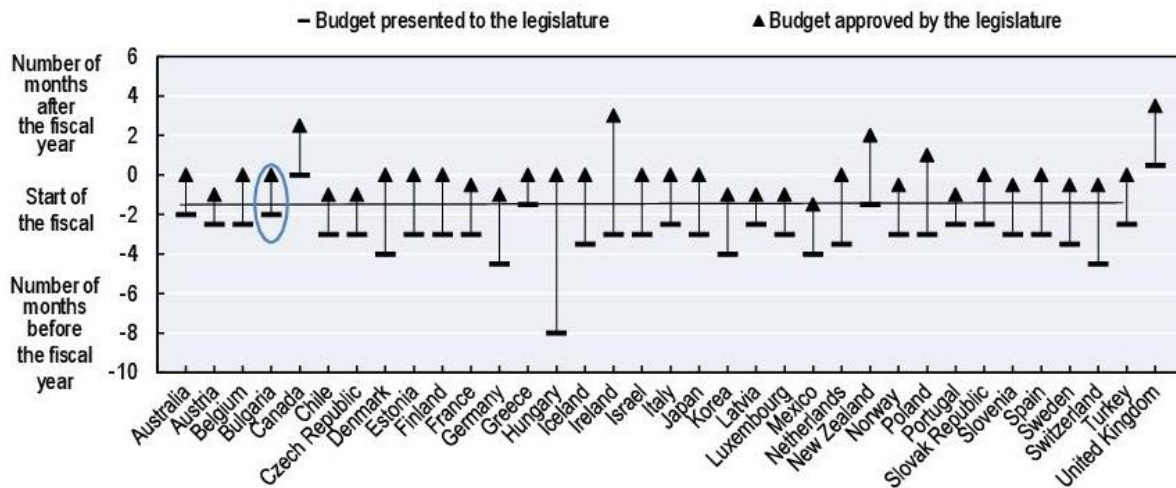
By 31 October, the Council of Ministers approves the draft state budget as well as the draft budgets of the National Health Insurance Fund and the State Social Security. The draft budgets must be submitted to the National Assembly for its examination and approval.

The Council of Ministers submits the approved draft State Budget Act to the National Assembly, along with the updated MTBF, which presents the underlying assumptions for the budget, its opinion on the proposed budget of the judiciary that has been prepared independently by the Supreme Judicial Council and the FLSUs’ budgets in a programme format. All of these must conform to the parameters of the draft State Budget Act and the updated MTBF.

The approval process, including promulgation by the President of Bulgaria, must be completed before the end of the year. This leaves less than two months for the National Assembly to debate and approve the draft budgets. This time frame of two months is relatively short, compared to the OECD Best Practices for Budget Transparency (OECD, 2002<sup>[15]</sup>), which recommend that the executive should submit its budget

proposal to the legislature at least three months prior to the start of the fiscal year (Figure 8). Furthermore, it is notable that the medium-term budgetary forecast is submitted to the National Assembly for information purposes only and does not have to be approved by the legislature. Although it is indicative, it complies with the annual State Budget Law with regard to the main budgetary parameters. This means that apart from a truncated time frame for debate on the budget, there is no provision for the budgetary framework to be debated and approved before the budget is drafted.

**Figure 8. Amount of time for legislative debate of budget proposal, Bulgaria vs. OECD countries**



Notes: Where timelines differ for the approval of tax and expenditure policy measures, the timeline for the approval of expenditure measures is shown. In Hungary since 2015, the budget is submitted to the parliament at the end of April. While the parliament legally has until the end of December to approve the budget, in practice it has been approving the budget in early July before the summer recess. In Ireland, all of the estimates that have been voted by the legislature for the budget year are not finally implemented in legislation until the annual Appropriation Act is passed. It is usually one of the last pieces of legislation to be enacted each year. Statutory confirmation of the appropriation of moneys, pursuant to Article 17.1.2 of the Constitution, therefore takes place after these moneys have been spent, almost 12 months after the start of the budget year. Data for the United States are not available. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>. Source: OECD (2018<sub>[16]</sub>).

The chairman of the National Assembly sends the draft budgets to standing committees for their consideration. The lead committee is the Standing Committee on Budget and Finance. It has 22 members selected in proportion to the number of seats of each parliamentary caucus and is chaired by a member from the governing coalition. The Budget Committee consults with experts from the Ministry of Finance and other stakeholders on various financial matters of importance throughout the year, including the budget process. In particular, it works with the Ministry of Finance on necessary amendments to the tax laws. Such amendments have to be submitted to the National Assembly for debate and approval before the National Assembly considers the state budget.

The standing committees invite officials of relevant ministries and the Ministry of Finance to discuss the draft budgets. Each committee prepares a report that includes a summary of the committee's deliberation, as well as any proposed amendments to the draft budget. According to the PFA, members and committees of the National Assembly can propose amendments to the draft budgets, subject to the pay-as-you-go rule. This means that any proposal to increase spending in one area must be funded by either reducing spending in another area or by increasing revenues.

The Budget Committee's role is to prepare a report for the National Assembly summarising the reports from other committees and including its own assessment of the draft budgets. The Budget Committee also takes into account the assessment and analysis of the Fiscal Council of the draft budgets. Before finalising the summary report to the National Assembly, the Budget Committee holds a wrap-up meeting to which various officials are invited to discuss their views on the draft budgets. Participants at the meeting, which is broadcast publicly, include the Minister of Finance, the Minister of Labour and Social Policy, the Minister of Health, trade unions, employers' organisations, academic organisations, non-governmental organisations, the National Bank, and the National Audit Office. The Budget Committee tables the summary report at the National Assembly. This report will be the basis of debate at the plenary at the first reading of the draft budgets. After the first reading, members of the National Assembly vote to proceed with the bill.

At this stage, every member or a group of members of parliament has at least seven days to propose amendments to the draft budgets. In practice, it is possible for members of parliament of a certain parliamentary group to propose an alternative budget (a combination of many proposals). The Budget Committee considers all proposed amendments. After consultations with government officials and other stakeholders, the committee drafts a report expressing its views on the proposed amendments. This report will be tabled at the National Assembly before the second reading and the final vote on the draft budget bills. During the debate, every member can propose additional amendments. The National Assembly must vote on every proposal separately.

Following the second vote, the Chairman of the National Assembly sends the budget bills to the President of Bulgaria for promulgation. The President has 14 days to sign the bills as passed or return them to the National Assembly for further consideration. If the President returns them for further consideration, the Chairman of the National Assembly assigns the Budget Committee to examine the President's concerns. The National Assembly must vote again within 15 days on the budget bills. The President has never returned the draft budgets to the National Assembly without signing them.

If the approval process is not completed before the end of the year, budget units can continue their operations on the basis of spending limits approved in the previous year's budget. Tax revenues can be collected on the basis of the existing tax laws.

#### *Monitoring the execution of the budget*

The National Assembly of Bulgaria has the authority and obligation to monitor the execution of the budget during the fiscal year. According to the PFA, the government is obligated to provide information on the execution of the budget on a regular basis. The National Assembly receives detailed reports from the government on implementing budget measures and the government's financial health. The legally established reporting process is transparent; it provides the National Assembly with the necessary information to discharge its oversight responsibility and hold the government to account on the budget's execution.

Within 45 days from the end of each quarter, the Minister of Finance reports to the Council of Ministers the cash performance of the state budget and the main variables of the Consolidated Fiscal Programme, based on monthly reports prepared by budget units. These reports are published on the Council of Ministers' website.

No later than 15 September, the Council of Ministers submits a half-year report on the cash performance of the Consolidated Fiscal Programme to the National Assembly, which is also published on the Council of Ministers' website.

Every year, the Minister of Finance prepares an annual report on the implementation of the previous year's state budget, which is audited by the National Audit Office. The Minister of Finance submits the report to the Council of Ministers for consideration by 30 September of the next year. After adopting this report, the

Council of Ministers tables it at the National Assembly, along with information on the implementation of the Consolidated Fiscal Programme and the annual report on the government's debt position. The Minister of Finance is then invited to discuss these annual reports before the National Assembly. The National Assembly issues a decision adopting the annual report on the state budget before the end of the next year.

The annual report on the implementation of the state budget provides information on the results of government policies implemented by the line ministries. The FLSUs submit reports to the National Assembly on the implementation of programme budgets. These reports, which are on a six-month and year-end basis, provide financial and non-financial data and performance information.

Throughout the year, members of the National Assembly can pose questions and interpellations to the Council of Ministers or to certain ministers, including questions about the current budget implementation. The ministers provide oral or written answers to the questions. In addition, parliamentary committees can schedule hearings and invite ministers and government officials to discuss budget implementation. The committees then report the results of the hearings to the National Assembly. These meetings are open to the public.

The government's accounts are scrutinised by a standing subcommittee on the accountability of the public sector of the Budget and Finance Committee. This may undermine the importance of this function. In most OECD countries, a standing committee of public accounts is in charge of this important role. In addition, this committee could be put in charge of examining the National Audit Office's reports.

#### *Amendment power of the National Assembly*

In Western democracies, elected representatives have an obligation to scrutinise government spending, hold the government to account and promote budget transparency. Wehner (2004<sup>[17]</sup>) groups legislatures into three broad categories in terms of their role in the budget process:

1. legislature lacks the authority or capacity (or both) to amend the budget proposed by the executive in a meaningful way, mainly because of the risk of causing the fall of the government
2. legislature has the legal authority to amend or reject the executive's budget proposal but does not have the authority to develop a budget of its own
3. legislature has both the legal authority and technical capacity to amend or reject the executive's budget proposal and to submit its own proposal.

Most European countries, including Bulgaria, fall into the second category.

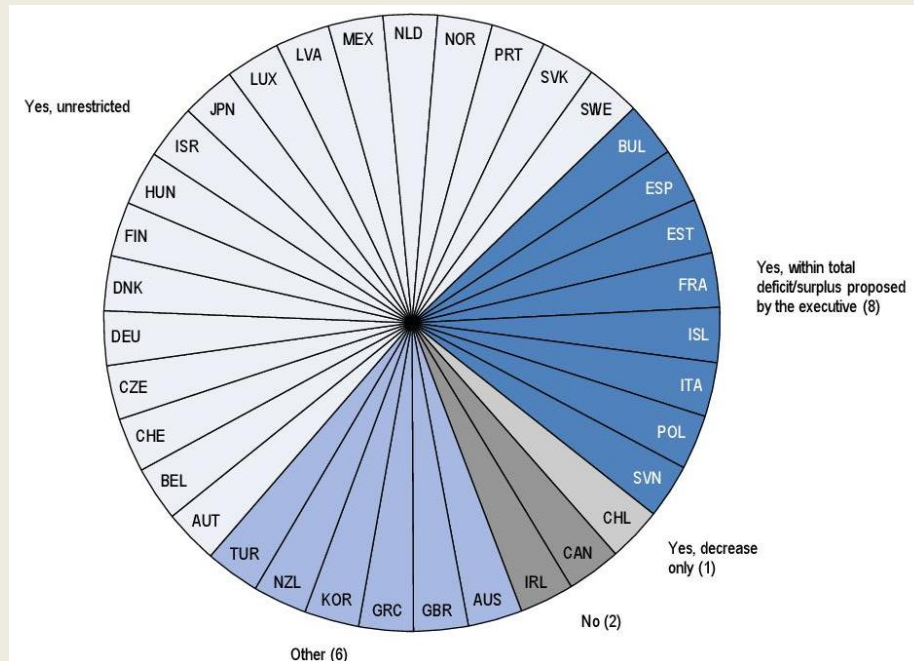
According to the PFA, the National Assembly of Bulgaria can propose amendments subject to the pay-as-you-go restriction. However, given the majority power of the coalition government in the legislature, only a limited number of amendments are approved. For example, for the 2018 Budget, members of the parliament submitted 110 amendments, but only 16 of them were adopted. It is also important to note that analysing the budget and suggesting amendments require expert resources to help parliamentarians grasp complex financial issues. Bulgaria's National Assembly does not have separate administrative units with experts, except in a limited way through the Fiscal Council.

The National Assembly should consider establishing an independent parliamentary budget office. If the idea for an office is accepted, it would provide research and analysis to parliamentarians and parliamentary committees independently and in a non-partisan way to help parliamentarians in their budget scrutiny. This could include economic and fiscal analysis, as well as independent costing of programmes. An alternative is to expand the Fiscal Council's mandate and resources to fill this gap.

**Box 8. Amendment powers of the national assembly in OECD countries and Bulgaria**

Amendment powers are a key indicator for the potential of the legislature to impact the budget. Although over half of OECD countries report unrestricted amendment powers, in some countries the legislature can amend the budget within the executive’s aggregates. Bulgaria belongs to this category. In practice, most OECD legislatures only make minor adjustments to the executive’s budget proposal.

**Figure 9. Amendment powers of the National Assembly in OECD countries and Bulgaria**



Notes: Data for the United States are not available. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>. Source: OECD (2018<sub>[16]</sub>), Question 39.

According to the Constitution of Bulgaria and the PFA, the National Assembly has a clear role in the budget process. There are, however, certain areas where the role of the National Assembly can be strengthened, resulting in better outcomes.

**6.2. Fiscal Council**

An important change in the budget process since the OECD’s 2009 Budget Review has been the establishment of the Fiscal Council of Bulgaria, consistent with EU requirements. The establishment of these independent fiscal institutions has been a major trend across OECD countries in recent years.

The Fiscal Council’s enabling legislation specifies its general objectives:

- independently monitor and analyse the budgetary framework with a view to preserving sustainable public finances
- increase the quality of official macroeconomic and budgetary forecasts by performing unbiased and comprehensive evaluation based on objective criteria
- improve transparency and public awareness of the fiscal governance of the country.

The legislation to establish the Fiscal Council, promulgated on 21 April 2015, regulates the Council's functions and structure. In addition, it implemented automatic corrective mechanisms in the event of a significant deviation from the medium-term budgetary targets. The principles of independence, objectivity and transparency are enshrined in the Fiscal Council's enabling legislation.

The council has five members appointed by the National Assembly for six years. Members cannot be appointed for more than two consecutive terms. The necessary qualifications to become a council member are specified in its enabling legislation (Box 9). The council is supported by a small group of experts/analysts seconded from the administration of the National Assembly.

### Box 9. Eligibility for the members of the Fiscal Council

The members of the Fiscal Council shall be persons of high morals with a Master's degree in economics. They shall have no fewer than ten years of professional experience in the field of macroeconomic analysis and/or public finance management.

The members of the Fiscal Council may not be persons who:

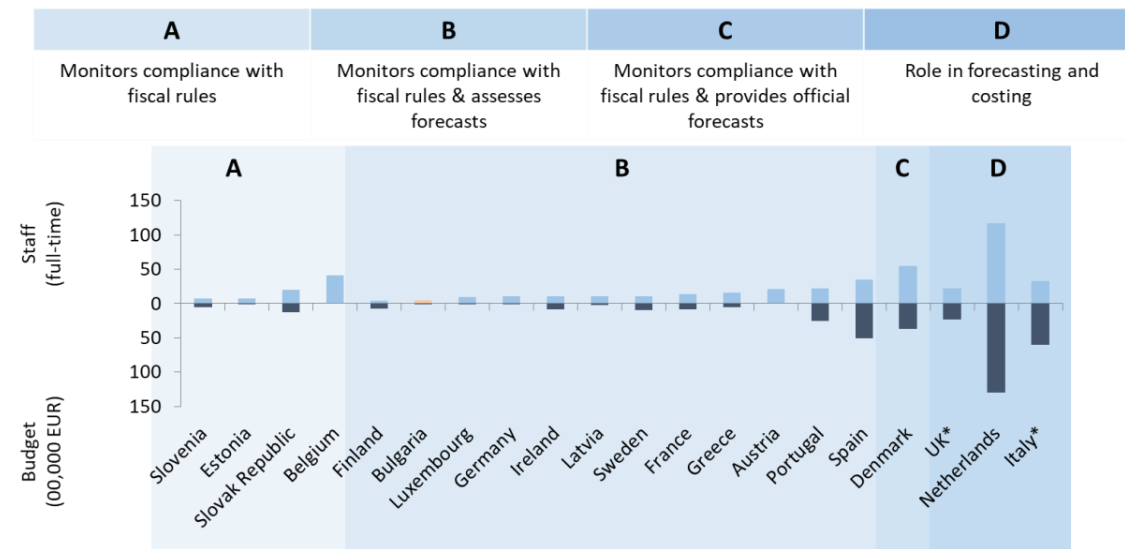
- have been punished for an intentional offence
- have been deprived of the right to take a certain government post, or to practise a certain profession or activity
- have been members of an executive or supervisory body, or have been partners of an unlimited liability company which was wound up due to insolvency, and which has not yet settled with all of its creditors
- in the last five years preceding the date of the decision to declare a bank insolvent have been members of its management or supervisory body.

Council members may have foreign citizenship if they meet the other requirements. They may not take a position with government authorities or perform any activities affecting their independence.

Source: Information provided by the Ministry of Finance.

The organisational, technical and expert procurement of the activity of the Fiscal Council is carried out by five experts in the administration of the National Assembly. Its budget is set by the National Assembly and is included in the National Assembly's annual budget under a separate heading. In 2018, the Fiscal Council's budget was BGN 421 800. Figure 10 compares the size of the main tasks of the independent fiscal institutions of the members of the EU. It is clear that, compared with other European countries, the budget and staff of Bulgaria's Fiscal Council is modest relative to the tasks it is legislated to carry out.

**Figure 10. Capacity and function of independent fiscal institutions in select OECD countries and Bulgaria**



Source: OECD Independent Fiscal Institutions Database (2019), [www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx](http://www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx).

More specifically, the Fiscal Council’s main focus is on monitoring the government’s compliance with the fiscal rules established in the PFA for the general government sector and the Consolidated Fiscal Programme. To fulfil this task, the Fiscal Council prepares analysis and opinions on the spring and autumn macroeconomic forecasts of the Minister of Finance, as well as the three-year budget forecast within ten days following their publication. The Fiscal Council also prepares reports on the state budget and the budgets of the National Health Insurance Fund and State Social Security System.

These reports include an assessment of the reasonableness of the economic and fiscal forecasts, an opinion on the reasonableness of the estimated revenues and expenditures reported in the budget of the National Health Insurance Fund and the State Social Security System, an assessment of fiscal sustainability, and an opinion on compliance with the fiscal rules. These reports are published on line and submitted to the National Assembly, the Minister of Finance and the Council of Ministers.

If the Fiscal Council concludes that the fiscal rules would be violated, it can provide non-binding recommendations to the Minister of Finance on whatever actions are necessary to comply with the rules. In cases where the government’s budget outlook is clearly in violation of the fiscal rules, the Minister of Finance is obligated to prepare a corrective plan and submit it to the Council of Ministers. Depending on the nature of the corrective measures, the government may have to seek parliamentary approval for implementing them. The Fiscal Council monitors the implementation of the measures and reports on them.

One of the main challenges of independent fiscal institutions is free and timely access to information, particularly information that is held by the government. The Fiscal Council Act states that the Fiscal Council is entitled to receive all the information it needs to carry out its tasks. However, the law does not include any enforcement mechanisms. To facilitate better access to information, it has signed a memorandum of understanding with the Ministry of Finance, which appears to have worked well.

### Box 10. OECD independent fiscal institution models

Independent fiscal institutions serve to promote sound fiscal policy and sustainable public finances. Today they are considered among the most important innovations in the emerging architecture of public financial management. The OECD has identified good practices for designing and operating effective independent fiscal institutions through the OECD *Recommendation of the Council on Principles for Independent Fiscal Institutions*.<sup>\*</sup> Independent fiscal institution models can be classified into three groups.

#### **Fiscal Council Model**

Among 18 cases of independent fiscal institutions, over half of them (56%) can be described as under the statutory authority of the executive or standalone, although even within this model there are subsets; for example, some countries have chosen small, largely academic councils (e.g. Ireland, Sweden). Others have followed more of a corporatist tradition in which a larger set of council members may be proposed by different stakeholders or interest groups (e.g. Austria, Belgium, Denmark and France).

One area where fiscal councils differ is their institutional independence. Belgium provides an example of a fiscal council with more limited independence. An example of a fiscal council with stronger independence is the United Kingdom's Office for Budget Responsibility, which is a legally separate arm's-length entity with its own oversight board. The Netherlands' Bureau for Economic Policy Analysis is technically an agency under the Ministry of Economic Affairs, Agriculture and Innovation. Although the bureau is part of the executive branch of government, it enjoys considerable independence, with autonomy over its annual work programme and offices physically separate from those of the Ministry of Economic Affairs.

#### **The Parliamentary Budget Office Model**

Another third (33%) of the institutions in the case studies follow the independent parliamentary budget office model (Australia, Canada, Italy, Korea, Mexico, the United States) with a stronger focus on assisting parliamentary oversight of the budget and supporting the work of the main budget committee. Parliamentary budget offices are also more likely to have a costing role.

#### **Other models**

France and Finland have established autonomous units connected to the national audit institution, although in 2014 Finland also established an Economic Policy Council, comprised of academics.

In France, it was thought that the High Council for Public Finances (Haut Conseil des Finances Publiques) would benefit from being attached to the Court of Auditors due to the court's well-established reputation for independence and its high level of credibility within France's institutional landscape, in particular the trust placed in it by the legislature.

It should be noted that several OECD independent fiscal institutions also have links to the central bank. For example, Oesterreichische National Bank provides staff for Austria's Fiscal Advisory Council and funding for the Council for Budget Responsibility in the Slovak Republic is drawn from the National Bank of Slovakia.

<sup>\*</sup> The analysis draws on the OECD *Independent Fiscal Institutions Database* compiled from a first set of case studies of 18 OECD independent fiscal institutions.

Source: von Trapp and Nicol (2017<sup>[18]</sup>).

The Fiscal Council was established to ensure Bulgaria complied with EU requirements to create an independent fiscal institution. In its first four years, it published more than 30 reports and participated in a number of workshops and seminars with peers and experts from other jurisdictions. Its enabling legislation, organisation, operation and output are generally consistent with OECD and EU principles for independent fiscal institutions outlined in Box 10. For a young institution, the Fiscal Council has made an important contribution to fiscal management in Bulgaria. The following recommendations aim to strengthen the Fiscal Council and make it more effective.

The Fiscal Council plays a critical role in budget oversight and budget transparency. To fulfil its mandate effectively, it requires adequate resources and timely access to information and the government's fiscal plan. More importantly, it receives the budget documents only ten days before the deadline for preparing an analysis of the government's economic and budget forecasts and its opinion on whether the fiscal rules are respected in the government's fiscal plan. It is almost impossible to thoroughly analyse the government's economic and fiscal forecasts in ten days. The Ministry of Finance should establish a process through which it would allow the Fiscal Council to have access to the necessary documents at least one month before the deadline for releasing its statement on the budget.

Non-partisanship of the Fiscal Council is critical in establishing its credibility. To prevent any perception of partisanship, council members must not have ever been officially associated with any political party. Should the Fiscal Council's legislation be revised, the National Assembly may consider adding a condition that individuals with present or past association with a political party cannot be appointed to the council.

### **6.3. National Audit Office**

Bulgaria has had an audit office for over a century. The current National Audit Office (NAO) was established in 1991 and has undergone many changes in its organisation and mandate. The NAO exercises control over implementing the budget and other public resources and activities in accordance with the National Audit Office Act and internationally recognised auditing standards. Its main responsibility is to inform parliament of its official audit opinion on the reliability and authenticity of the financial statements of budget units and the management of public resources and activities.

The NAO is led by a board consisting of a president, two vice-presidents and two independent members appointed for seven years by the National Assembly. Except for the president, board members can be reappointed. To ensure the participation of civil society in audit decisions, the Institute of Chartered Accountants and the Institute of Internal Auditors each nominate one of the two independent board members.

The overall management and control of the NAO rests with the president. The two vice-presidents are in charge of conducting the audits and drafting the audit reports. They work with six specialised audit directorates to discharge their responsibilities. The NAO employs 397 auditors and 103 support staff. Its budget, which is set by its president, is included in the state budget. All audit reports are submitted to the NAO board for approval. The NAO adopts its audit decisions by an open vote requiring the support of at least four of the five board members. A negative vote has to be justified in writing and reported publicly.

The NAO conducts financial audits, compliance audits and performance audits. Every year, it prepares an annual audit programme indicating the number and type of audits to be conducted. In addition to the planned audits, the National Assembly can ask the NAO for up to five other audits. The NAO must conduct the following audits and report them to the National Assembly:

- annual financial statements of all first-level budget units and the second-level budget units that set their own budget independently
- the financial statements of municipalities for which the total amount of budget expenditures exceeds BGN 10 million

- statements of the implementation of the state budget, the budget of the State Social Security System, the budget of the National Health Insurance Fund and the budgetary expenditure of the Bulgarian National Bank
- the management of public resources and activities
- the audit requests from the National Assembly.

The NAO may submit proposals to the National Assembly and its committees on audits that can add significant value to improving the budget discipline and management of budgetary resources and other public resources and activities. All audit reports must be submitted to the National Assembly and published on the NAO website unless the information in the report is protected by law. Any audit report that contains opinions regarding EU funds and funds under other international programmes must also be submitted to the European Court of Auditors and the European Commission.

The NAO does not have judicial power. In cases where an audit reveals evidence of criminal activity, the NAO refers the matter to judicial authorities. However, in cases where the audit finds non-criminal violations in the management of the budgets and accounts, the president of the NAO shall forward the audit report to the competent authority, with a view to seeking appropriate action.

National audit organisations have an important role in ensuring effective, efficient and transparent management of public funds. The NAO is well-designed to carry out its tasks. Its legislation, operational procedures and audit procedures are in line with those of OECD countries. The following recommendations aim to enhance the NAO's role in Bulgaria's budget process.

The NAO does not conduct value-for-money (comprehensive) audits. This type of audit focuses on the overall effectiveness and efficiency of an organisation. Performance audits may examine effectiveness and efficiency within a specific programme. However, they do not provide a holistic assessment of the effectiveness and health of an organisation within the government, or the government as a whole. The NAO should consider adding value-for-money audits to its annual work plan. They enhance the credibility of the government in managing public funds and increase the citizens' confidence in the government's ability to provide public services in an efficient and effective manner.

#### **6.4. Summary of key recommendations**

- The National Assembly does not have a formal process for providing budgetary advice to the government or influencing its policy decisions before the formulation of the budget. The Budget and Finance Committee should therefore consider establishing a pre-budget consultation process with interested stakeholders. The committee could then compile a list of policies for consideration by the government before it finishes formulating its budget.
- The state budget should be submitted to the National Assembly three months before the end of the fiscal year, which would provide adequate time for parliamentary committees to examine the budget and formulate their amendments if necessary. In addition, the National Assembly should consider establishing an independent parliamentary budget office to provide independent research and analysis in the respective areas to help parliamentarians in their budget scrutiny.

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## Notes

Two hundred nine members of parliament elected by the classic proportional representation system and 31 elected individually under the majority representation system in each district.

<sup>2</sup> The 2019 Annual Budget Law was amended in July 2019 (State Gazette 60/2019). A total amount of USD 1.2 billion was allocated for the acquisition of military equipment for the Bulgarian Air Forces. The 2019 amended budget envisages a one-off increase in the cash deficit in 2019 to about 2.0% of GDP, this is consistent with a balanced budget stance in ESA 2010 terms.

<sup>3</sup> These fiscal plans have been revised in the wake of the COVID-19 pandemic.

<sup>4</sup> The concept and criteria of control is defined in the statistical manual ESA 2010.

<sup>5</sup> State Budget Procedures Act preceded the Public Finance Act, which laid the foundation for the introduction of the medium-term budgetary framework.

<sup>6</sup> Adopted by Decree of Council of Ministers No. 337 of 1 December 2015, promulgated in the State Gazette, Issue 94 of 4 December 2015, effective from 1 January 2016.

<sup>7</sup> Article 72.2: “The medium-term budgetary forecast shall be developed by the Ministry of Finance on the basis of the most probable or the more conservative macroeconomic scenario based on the spring macroeconomic forecast”.

<sup>8</sup> The Budget Directorate works jointly with other directorates on the requirements about the presentation of forecast information of the FLSU.

<sup>9</sup> Regarding state-owned enterprises, new legislation – the Law on Public Enterprises – was adopted by the National Assembly in September 2019 and promulgated in the State Gazette on 8 October 2019. In April 2020, the secondary legislation for the implementation of the law was adopted by the Council of Ministers.

<sup>10</sup> Article 62.6: “The competent with regard to the character of the disaster body shall submit to the President of the Republic of Bulgaria and to the Chairman of the National Assembly by equal volume and content information for arisen disasters on the territory of the country”.

<sup>11</sup> Articles 92-100.

<sup>12</sup> Programme and performance budgeting is only mentioned in the “additional provisions” section of the act, but there is a clear provision for this. It states: Programme budget format means a budgetary document which presents the medium-term objectives of a budgetary organisation that require the relevant financing, expenditure under budget programmes that, once implemented, will lead to the achievement of objectives, as well as performance indicators that include information necessary to measure the results achieved and the implementation of the budget programmes.

<sup>13</sup> Ordinance on the conditions to be met by investment projects financed by government loans and the projects applying for financing under a state guarantee and the procedure for their consideration, adopted by the Council of Ministers Decree 337 of 2015.

<sup>14</sup> The Bulgarian open data portal was announced in September 2014. It was originally launched by the Obshtestvo.bg Foundation, a non-governmental organisation. In 2017, 149 new data sets were published on the portal in the domains of health, crime and justice, education, finance and accountability, environment, and tourism (<https://www.europeandataportal.eu/en/news/bulgaria-expands-its-open-data-portal>).