REPUBLIC OF BULGARIA
Ministry of Finance

2020–2023 CONVERGENCE PROGRAMME

2020 April, Bulgaria

CONVERGENCE PROGRAMME

2020–2023

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Table of Contents

List of Abbreviations

ATR	Annual tax return
BGN	Bulgarian leva
BNB	Bulgarian National Bank
CITA	Corporate Income Tax Act
CMD	Council of Ministers Decree
CP	Convergence Programme
EC	European Commission
ECB	European Central Bank
ESA 2010	European System of Accounts 2010
EU	European Union
EUR	euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HICP	Harmonised Index of Consumer Prices
IMF	International Monetary Fund
LIBOR	London Inter-Bank Offered Rate
LMASE	Law on Measures and Actions during the State of Emergency
MF	Ministry of Finance
NULC	Nominal Unit Labour Costs
p.p.	Percentage points
PFA	Public Finance Act
PIT	Personal Income Tax
SBA	Republic of Bulgaria’s State Budget Act
SGP	Stability and Growth Pact
SSC	Social Security Code
USD	U.S. dollar
VAT	Value Added Tax

INTRODUCTION

The Convergence Programme (CP) of the Republic of Bulgaria is drawn up annually in April on following the rules of the enhanced Stability and Growth Pact (SGP) - the regulatory framework for the coordination of the national fiscal policies of the EU Member States. The preparation of the programme shall follow the guidelines set out in the *Code of Conduct of the Stability and Growth Pact*[1].

The global pandemic of COVID-19 and the resulting economic uncertainty and inability to produce a realistic medium-term macroeconomic and budgetary forecast led to a change in the standard content of the Convergence Programme. This year's programme format follows the European Commission's (EC) Guidelines for Streamlined Format of the 2020 Convergence Programmes aimed at refocusing and simplifying the content of the programme as a result of the pandemic.

The Convergence Programme consists of three parts: part One describes the overall budgetary policy in response to the pandemic; part Two reviews the economic development of the country; and part Three describes the balance and the General Government debt and the measures taken in response to COVID-19.

This year's CP focuses on 2020, with medium-term information limited to a qualitative description of the expected developments in the General government debt and deficit, the economic assumptions and the effects of the measures taken.

The Convergence Programme complies with the provisions of the Public Finance Act (PFA), as well as with the fiscal parameters set out in the Republic of Bulgaria’s State Budget Act (SBA) for 2020 and its update. The Convergence programme has been prepared in accordance with and simultaneously with the update of the National Reform Programme of the Republic of Bulgaria (NRP) for 2020.

Pursuant to § 8, para. 2 of the Final Provisions of the amended SBA for 2020 with the approval by the Council of Ministers of the Convergence Programme, both the macroeconomic forecast and the medium-term budgetary forecast are considered approved in accordance with the requirements of § 34 of the Transitional and Final Provisions of the Law on Measures and Actions during the State of Emergency (LMASE), announced by decision of the National Assembly of 13 March 2020.

[1] http://data.consilium.europa.eu/doc/document/ST-9344-2017-INIT/en/pdf

PART 1

BUDGETARY POLICY IN RESPONSE TO THE COVID-19 PANDEMIC

The COVID-19 pandemic outbreak has a strong negative impact on all EU Member States. The unprecedented measures taken to contain the spread of the infection and strengthen the health systems in most Member States have serious economic consequences. Bulgaria, like many countries in Europe and the world, is using all available resources to contain the spread of the COVID-19 infection and reduce its impact on the health and life of the population, the social life and the economy as a whole. The dimensions of the crisis, both for the European and the global economy, cannot yet be fully assessed and realistically predicted. The expectations are for a significant delay and potential entry into recession this year, with all forecasts accompanied by a high degree of uncertainty as to how deep the economic consequences of the actions taken to combat the pandemic will be. On the other hand, it is also unclear how long and to what extent the social exclusion measures will continue to have a negative effect on the domestic consumption. However, it is clear that the serious restrictions against the disease will have significant economic consequences and the economic recovery will only begin once the threat of the pandemic has been effectively contained.

Bulgaria entered the crisis in good fiscal condition. A disciplined and consistent policy to maintain a positive or close to a balanced budget position in recent years has allowed buffers to be maintained in the fiscal reserve, which gives some room for financing of the emergency measures in the area of healthcare and social policy, as well as those supporting the business. The budget implementation parameters at the time of the declaration of a State of Emergency in Bulgaria are good, with a reported ongoing excess of revenue over expenditure under the consolidated fiscal programme. However, all scenarios, even those with a shorter and less delayed economic activity in Bulgaria, highlight an unfavourable development regarding revenue and expenditure parameters during the year, which is reflected in a deterioration of the budget balance compared to the target set in the projections to the SBA for 2020. The impending impossibility to achieve the budget revenues set out in the SBA for 2020, as well as the need to provide additional expenditures in implementation of the Law on Measures and Actions during of the State of Emergency announced by decision of the National Assembly of 13 March 2020, necessitated the preparation and adoption of an update of the budget for 2020. The draft amended SBA for 2020 was finally voted on by the National Assembly on 06.04.2020 and came into force after its promulgation in the State Gazette (SG, issue 34 of 09.04.2020).

A cash deficit under the Consolidated Fiscal Programme (CFP) of BGN 3.5 billion is foreseen in the amended SBA for 2020. The General Government Sector's deficit is expected to reach 3.1% of the projected gross domestic product (GDP). It should be noted that this is a temporary deviation from the initial budgetary objective (balanced budget position on a cash basis under CFP and a minimum General Government Sector's deficit of 0.1% of GDP) and an eligible measure under the activated general escape clause under the SGP. The budget update provides for the increase of the ceiling for the maximum amount of the new government debt that may be assumed during the year up to BGN 10 billion compared to the initially set up to BGN 2.2 billion.

The State of Emergency has also called for rethinking of the objectives to date and reallocation of funds to arising emergency expenditures. A top priority of the state is to support the abilities of the health system to fight the infection. Among the other priorities are: guaranteeing the operation of the security services so that they can help the health system, as well as taking measures to alleviate the impact on the economy, safeguard the employment and support the most affected sectors of business.

The implementation of the overall strategy and the main policy initiatives in response to the COVID-19 pandemic requires the mobilisation of significant resources, including financial, and the government is committed to providing funds from the national budget in the form of direct expenditures and other operations in the part of the financing, as well as support through the Operational Programmes from the 2014-2020 programming period amounting to around BGN 870 million to finance measures of a socio-economic nature to support the persons and enterprises directly affected by the crisis. In addition, other public resources have been mobilised, including in the form of financial instruments, whose effect for supporting and restoring economic activity is estimated at around BGN 4.5 billion. The measures are set out in detail in Chapter 3 "Government balance and debt".

Together with its efforts to combat the pandemic and overcome its consequences in a timely manner, the Government expects a favourable decision regarding the simultaneous accession to the Exchange Rate Mechanism II (ERM II) and the Banking Union.

The fiscal policy in the medium-term will also focus on preserving the sustainability of the budgetary framework. In this update of the Convergence Programme, Bulgaria reaffirms its commitment to achieving a medium-term budgetary objective of an annual structural balance of -1% of GDP.

PART 2
THE ECONOMIC OUTLOOK

2.1 Economic development in 2019

2.1.1 Economic development

In 2019 the GDP in Bulgaria grew by 3.4%, continuing the relatively high economic growth trend starting in 2015 and accelerating the process of real convergence to the EU average. The growth during the year was driven by the domestic demand. The private consumption has accelerated and has been influenced by the positive developments in the labour market in recent years as well as by the credit growth. The Government expenditures continued to support the growth and the exports of goods recovered after the poor performance in 2018.

The employment and activity rates of the population aged 15-64 reached their historically highest values in 2019, of 70.1% and 73.2% respectively, and the unemployment rate has fallen to its lowest level of 4.2%[2]. The employment number[3] accelerated its growth rate to 0.3%, with a leading contribution from the services sector. The high labour demand in the economy led to an increase in the compensation per employee of 6.1%, while real labour productivity[4] sustained its stable growth rate of 3%. The nominal unit labour costs[5] (NULC) have slowed the pace of increase to 3% in 2019, from 6.3% in 2018.

The average inflation was 2.5% in 2019 and was close to the previous year - 2.6%. The external factors of the rising consumer prices have been constrained by the fall in the international oil and non-energy raw materials prices. The cost-competitiveness of the economy was underpinned by a moderate increase in the NULC. The housing prices continued to rise, but at a slower pace. Their development was in line with fundamental factors.

In 2019, the current and capital account recorded a significant surplus of EUR 3.3 billion (5.5% of GDP). The positive balances on both accounts reflected the country's stable external position since 2011, which in 2019 was underpinned by the good export performance in a situation of fragile external environment, and the transfers to the country through EU funds. The surplus in trade of goods and services has increased to 3.4% of GDP, as the reduction in the primary income deficit (by 1.7 percentage points (p.p.)) to 2.8% of GDP was also crucial

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2 According to Labour Force Survey (LFS) data.

3 As defined by the ESA 2010.

4 The indicator is calculated as the ratio between GDP at constant prices and the number of employed, as defined by the ESA 2010.

5 The indicator is calculated as the ratio between the compensation per employee at current prices and the GDP per employee at constant prices, as defined by the ESA 2010.

for the improvement of the current account balance in 2019. Since September 2018, as a result of the decline in the gross external debt and, above all, the increase in the gross external assets, the country has been a net creditor to the rest of the world.

2.1.2 **Monetary sector**

The main objective of the monetary policy in Bulgaria is to maintain price stability by ensuring the stability of the national currency. This objective is achieved by means of the Currency Board arrangement and a fixed exchange rate of the national currency to the Euro.

As of end December 2019 the market value of the international foreign exchange reserves of Bulgaria – assets in the balance sheet of the Issue Department[6] of the Bulgarian National Bank (BNB) amounted to EUR 24.8 billion, which constitutes a decrease of EUR 236.6 million on an annual basis. According to the operating principles of the currency board, the dynamics of the international reserves corresponded to a decrease in the amount of the liabilities of the Issue Department balance sheet. The decrease of the Issue Department's liabilities was mainly influenced by the decrease of bank reserves on account of the lower excess reserves of banks and to a much lower extent by the decrease of the government deposit in the BNB. As of end of December 2019, the international reserves ensured coverage of 8.2 months of imports of goods and non-factor services and their ratio to Bulgaria's short-term external debt was 294.8%.

The continued increase in the labour income and the increase in the growth rate of gross operating surplus overall for the economy as well as the high propensity to save maintained by economic agents contributed to the upward dynamics of broad money in 2019. The lack of a reliable saving alternative to the bank deposits was an additional factor for the growth of the broad monetary aggregate. As of December 2019, M3's annual growth accelerated to 9.9% (8.8% at the end of 2018).

The main positive contributors to the broad money growth continued to be the overnight deposits. In an environment of historically low interest rates, overnight deposits remained the preferred form of saving for firms as well as households.

In 2019, the favourable macroeconomic environment, the low interest rates and the persistent high inflows of attracted funds in the banking system contributed to maintaining a relatively high growth rate of credit for non-financial corporations and households. As of December, the loans to the non-financial corporations increased by 5.9% year-on-year (5.4% at the end of 2018). Following the exhaustion of the base effect of the inclusion of a new reporting entity in the scope of monetary statistics, from the beginning of the second quarter of 2019 the loans to households followed an accelerating trend, to which the housing loans contributed mainly. The contribution of consumer loans remained relatively stable between April and December. By the end of 2019, the total loan growth for households amounted to 9.5% on an annual basis (11.2% in December 2018).

In 2019, the banking sector was operating in line with the capital and liquidity requirements and at profitability levels that improved the capital position of credit institutions[7].

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6 The market value of the international foreign exchange reserves includes the changes due to transactions, exchange rate differences and price revaluations.

7 The assessment of the situation of the banking system is based on data from the supervisory reports on an individual basis from the end of December 2019, received until 3 April 2020 and from the end of December 2018, received until 7 March 2019.

The capital position of the banking system remained stable with indicators continued to exceed the minimum regulatory and prudential requirements. Additional capital requirements were introduced during the period, with all banks having Common Equity Tier 1 capital above the required minimum and complying with the capital buffer requirements. The total capital adequacy ratio of the banking system remained high at 20.21% at the end of the year (20.38% in December 2018), including the Tier 1 capital adequacy ratio of 19.55% (19.41% in December 2018). At the end of the period, the excess of capital over the regulatory requirements under Pillar 1 amounted to BGN 8.0 billion, or BGN 0.9 billion more compared to 2018. The capital exceeding capital requirements and the capital buffers during the year decreased by BGN 0.6 billion to BGN 3.3 billion. The factors contributing for this were the growth of risk exposures and of the necessary capital and capital buffers calculated on this basis, as well as by the additional requirements introduced in 2019. The banking system's profit as of December 31, 2019 amounted to BGN 1.7 billion, and was similar to the one reported for 2018. Due to the higher growth rate of assets and balance sheet capital, the return on assets (ROA) and return on equity (ROE) ratios decreased and at the end of December 2019 amounted to 1.47% and 11.64% respectively (compared to 1.58% and 11.97% at the end of 2018).

In 2019, the trend towards improving the asset quality indicators of the banking system continued. The gross amount of the non-performing loans and advances decreased by BGN 663 million (9.8%) to BGN 6.1 billion at the end of the year, while the total gross loans and advances increased by BGN 5.4 billion (6.1%). As a result, the share of gross non-performing loans and advances in the total stock of gross loans and advances decreased by 1.1 p.p. to 6.5% at the end of 2019 (7.6% at the end of 2018). The downward trend in gross non-performing loans and advances was also accompanied by a decline in the level of their coverage by the inherent impairment to 48.6% at the end of the year (with coverage of 51.4% at the end of 2018). The net value of the non-performing loans and advances[8], which represents the potential credit risk in the balance sheet of the banking system, decreased by 4.5% to BGN 3.2 billion at the end of 2019 and its share in net loans and advances decreased to 3.5% (3.9% at the end of 2018). The amount of the residual risk remained fully covered by the excess of the total capital over the capital requirements.

The liquidity position of the banking system remained stable throughout the year, exceeding the minimum requirement of 100% for all credit institutions. At the end of 2019, the liquidity coverage ratio (LCR) of the banking system decreased to 269.9% (294.1% at the end of 2018) but remained well above the regulatory requirement.

In line with its mandate, the BNB supervises banks in order to maintain the stability of the banking system. In 2019, the regular and comprehensive analysis of the trends in the banking system was the basis for the effective implementation of the BNB macro-prudential mandate. The implemented macro-prudential instruments were supported by periodic assessments of the cyclical and systemic risks in the banking system, measured by well-established methodologies, guidelines and best practices. In 2019, an annual review was carried out of the identified as other systemically important institutions (OSIIs) and their designated capital buffer rates. As a result of this review and in compliance with the methodology capital buffer rates were set for eight credit institutions. The assessment of the structural risks in the banking sector confirmed the level of the systemic risk buffer applied (3%). As of October 2019, a

[8] The net value of non-performing loans and advances is calculated using the EBA methodology. The gross amount is decreased with the accumulated impairment for this classification category.

positive level of the countercyclical capital buffer rate (0.5%) applied to local credit risk exposures entered into force. To increase the resilience of the banking sector to potential adverse developments in the economic environment, in 2019 the BNB Governing Council increased the countercyclical capital buffer rate applicable to local credit risk exposures from 0.5% to 1.0%, effective from 1 April 2020, and further to 1.5% since the beginning of 2021.

In 2019, the banking supervision continued to operate under the European regulatory framework applicable to credit institutions, focusing on the consistent application of delegated acts of the European Commission as well as the guidelines of the European Banking Authority and the recommendations of the European Systemic Risk Board.

In 2019 the BNB participated in the process related to the application submitted by Bulgaria on 18.07.2018 for establishing close cooperation between the European Central Bank (ECB) and the BNB and joining the Single Supervisory Mechanism when the Bulgarian lev joins the ERM II. The BNB provided assistance to the European Central Bank on the specifics of the Bulgarian banking system in relation to the ECB's comprehensive assessment, including an asset quality review and a stress test of six Bulgarian banks. The comprehensive assessment of the selected banks was carried out by the ECB according to a methodology and macroeconomic scenarios for the purposes of the stress test, adopted by the ECB. The results published on the ECB's website in July 2019 showed a high resilience of the Bulgarian banking sector as a whole. According to the results, each of the six banks fulfils the prudential requirements of Article 92 of Regulation (EU) № 575/2013 of the European Parliament and of the Council. In applying the adverse macroeconomic stress test scenario, a necessary increase in the capital position of two banks was identified. These banks have prepared capital plans, which are still ongoing in 2020. In the context of establishing close cooperation, in 2019 active work continued on synchronising the supervisory and prudential practices of BNB with those of the European Central Bank, of the internal rules and processes and the information flows between the two institutions.

The banking sector in Bulgaria ended 2019 with very good overall indicators and positive trends of development – high capital adequacy and liquidity, improving asset quality and historically the highest annual profit for the banking system.

2.2 Assumptions concerning the development of the world economy

The global economic activity has slowed down in 2019, posting the lowest GDP growth since 2009. The intensifying trade disputes have significantly contributed to this, affecting both developed and developing economies, and continued to be a major factor in shaping the economic expectations at the beginning of 2020.

At the same time, the global picture in early 2020 has been changed by the COVID-19 pandemic. The economic consequences of the spread of the coronavirus worldwide will be significant. The direct effects are reflected in disrupting global supply chains, falling final demand for goods and services, falling tourism (especially internationally) and business travel, constraints in some industries, decreases in the employment and labour income. The business climate and the consumer sentiments are deteriorating and the asset prices as well as the international commodity prices are decreasing. The particular feature of this economic crisis is that, in order to preserve people's lives and health, social constraints are being imposed which reduce the economic activity.

The external environment assumptions used in the macroeconomic scenario for 2020 are own calculations based on analyses and assessments published by international financial organisations as of 27 March 2020. There is high uncertainty about the pandemic's impact on the global real GDP growth. Therefore, assumptions for the international environment for 2021, supported by specific numbers, and respectively quantitative estimates of their impact on Bulgaria's economy are not included. The main assumption is that in the second half of 2020 the pandemic will gradually subside internationally and the restrictive measures will be lifted, suggesting a smooth recovery in the second half of the year. In 2021, with the normalization of economic activity and as a result of the stimulus measures taken recovery of the European and global economy is expected.

This Convergence programme is based on the macroeconomic framework for 2020, which has been developed using the Ministry of Finance's (MF) medium-term macroeconomic model, and presents a macroeconomic scenario during a State of emergency, due to COVID-19.

Table 1. **Assumptions on key macroeconomic indicators**

	2019	**2020***
Global economy (real growth, %)	2.9	-0.3
EU GDP (real growth, %)	1.5	-4.0
Exchange rate USD/EUR, annual average	1.12	1.11
International commodity prices (in USD, %)		
Crude oil Brent (in USD, %)	-9.9	-43.8
Non-energy goods	-4.1	-11.6
Food	-3.8	4.4
Beverages	-3.7	4.6
Agricultural raw materials	-4.1	-18.2
Metals	-5.0	-20.6
6-month LIBOR on USD denominated deposits	2.32	1.81
6-month LIBOR on EUR denominated deposits	-0.36	-0.39

* Expected development (MF)

Source: EC, IMF, MF

2.3 Economic outlook and cyclical developments

The macroeconomic scenario has been developed under the assumption of managing the pandemic in Bulgaria in line with international developments and a parallel economic recovery. The State of Emergency declared in Bulgaria on 13 March, aimed at curbing the spread of the virus, will have a significant negative impact on the economic activity at the end of the first and second quarters, partly affecting the third quarter of 2020 as part of the recovery process.

It is assumed that the strict social distancing measures in the country will be lifted in the second quarter, while certain restrictions will be maintained in the third. The economic shock will be temporary, with a strong decline in GDP in the second quarter of 2020 and a lower impact in the third quarter of 2020. In 2021, we expect the economy to recover to pre-pandemic levels. It is assumed, that such a profile of the economic activity will also happen internationally, in particular for the countries that are important trading partners of Bulgaria.

The recovery phase of Bulgaria's economy is expected to start smoothly from the third quarter, in terms of production, and the labour market will begin to recover from the last quarter of 2020.

The sectors most affected by the measures to contain the spread of the pandemic in the economy are in the services sector: transport, tourism, hotels and restaurants, culture and entertainment, trade.

2.3.1 Economic growth

The assessment of the economic growth has been made taking into account the sectors in view of the final demand. The strictest measures to contain the spread of the virus are expected to last about three months and have a significant negative economic impact. We expect Bulgaria's GDP to fall by 3% in real terms this year.

The restrictive measures imposed are expected to lead to a significant drop in household consumption in the second quarter. There will be a reduction in the consumption of services such as culture and entertainment, hotels and restaurants, holiday packages and transport. The purchase of goods such as clothing and shoes and durable goods will also be affected. In the third and fourth quarters, the consumption of these goods and services will start to recover, but the overall consumer expenditure growth will be suppressed as the restrictive measures will lead to a fall in employment, an increase in unemployment and a limited increase in disposable income. The increased uncertainty will also contribute to overall limitation of the consumer spending and formation of precautionary savings by households. The private consumption will decrease by 2% in 2020. By contrast, the government consumption will grow by 7.7% in real terms and will make a positive contribution to the GDP growth.

The increased uncertainty will also be reflected in a decline in private investment in the economy. The degraded external environment will postpone the investment decisions until companies' activities, orders and exports are normalised to ensure the return process. A negative impact from the domestic demand can also be expected in the context of the expected decline in the private consumption. Uncertainty will exist for both investment projects already under way, which may be delayed or cancelled, and the planned investments. At the same time, a two-digit growth in the government investment is expected, limiting the overall drop to 2.5%.

The unprecedented measures adopted by all countries to contain the spread of the disease significantly affect the transport and tourism services, which account for about 62% of Bulgaria's total exports of services. In the scenario it is assumed that no receipts from visits by foreigners to the country are expected between April and June, whereas a gradual recovery is expected from the third quarter. The exports of transport services in the second quarter will also be substantially reduced. A slight decrease over the period is also expected for other business and insurance services. An overall drop in the service exports of 25.7% is forecast for the year, which will be more pronounced than that of exports of goods, down by 13.3%. The real decrease in exports of goods will be driven by the lower external demand (both for final goods, but also for input materials, directly affected by the containment measures imposed or indirectly by disruptions in the supply chains). An overall decrease in exports of goods and services of 16.3% is expected, with a leading contribution from the decrease in goods due to their higher share in exports compared to services. The weaker exports and domestic demand will limit imports, as additional negative impact will stem from disruptions or delays in the supply of raw materials. There will also be some substitution in consumption of imported goods with domestically produced due to a change in the structure of consumption and due to the international transport difficulties. The overall drop in imports is estimated at 12.9%, respectively -11.2% for goods and -21.7% for services. The external sector will make a negative contribution to GDP dynamics of 2.6 p.p.

In 2021, assuming the recovery of the world and the European economy from the decline in 2020, we can expect a return of the level of Bulgaria's GDP, at constant prices, to that of 2019. This may not happen for all major components of final demand. International trade is expected to intensify, leading to an increase in both exports of goods and services and imports, with the contribution of net exports to real GDP growth remaining negative. The investment activity reacts with a lag and may continue to be suppressed in the following year. Catching up may be observed for certain expenditures that have been postponed due to the introduction of the emergency measures.

Between 2022 and 2023, the domestic demand will remain a leading factor for the GDP growth in the context of both consumption and investment. The increase in investment is expected to accelerate, supported in particular by an increase in the public capital expenditure.

2.3.2 **Cyclical developments**[9]

According to MF estimates prepared in autumn 2019, the economy operated at its potential in 2019, i.e. the negative output gap has closed. At the time, the estimates showed that the potential growth was expected to be around 3%, with total factor productivity making a major contribution. The capital contributions were projected to increase slightly, while the labour contributions were projected to decrease due to the limited employment growth opportunities.

In the context of the radically changed economic situation in the world and Bulgaria, the estimates of the cyclical development of the economy will change. Given the expectations for a short-term recession, the potential GDP growth in Bulgaria will slow down in 2020. The economy will function below its potential, i.e. the output gap will return to negative values.

2.3.3 **Labour market and income levels**

The forecast on the evolution of the main labour market indicators has been prepared taking into account the implementation of the employment maintenance measure by subsidising 60% of the wage and social security expenditures[10]. The measure is assumed to benefit the directly affected sectors which have ceased or reduced their activities as a result of the introduction of the State of Emergency, as well as sectors affected by supply or demand disruptions. In view of the requirement to cover 40% of the wage and social security expenditures by employers, it is assumed that the application of the measure will be partial. Micro and small enterprises in the activities directly affected will have the greatest difficulties in providing the necessary financial resources, so it is assumed that in the second quarter of the year around 25% of the affected persons will transform into unemployed. Bearing in mind that the scenario assumes that the emergency measures will have a longer duration and will have a significant impact on the economic activity not only in the second but also partly in the third quarter of 2020, an additional inflow of unemployed persons will also be observed

[9] Cyclical developments in the economy is measured by the output gap indicator. It is calculated as a difference between the actual and the potential output expressed as a ratio to the potential GDP.

[10] According to CMD 55/2020

through the sectors indirectly affected, but the expected negative effect will be relatively lower than that in the activities directly affected and will be more pronounced in the third quarter[11]. Thus, the employment number is expected to decrease by 3.7% in the second quarter and by 5.3% in the third quarter on an annual basis, with a recovery expected only at the end of the year. The annual average drop in employment is estimated at 2.1% and the unemployment rate is expected to rise by about 2 p.p. from 2019 to reach 6.2%.

The cessation of the economic activity in the enterprises is expected to have a strong negative impact not only on the dynamics of compensation of employees but also on the operating income of the entrepreneurs. It is quite possible that some of them will suffer losses on an annual base as a result of the COVID-19 crisis. Therefore, it is expected that the decrease in the gross added value will be more due to the decrease in the gross operating surplus, while the reduction in the compensation of employees will contribute relatively less. The increase in the compensation of employees in 2020 will slow down to 2.6%, the main factor for this will be the reduction in employment. The slower increase in the compensation per employee as a result of optimising labour costs while retaining employment will also have an impact. In 2020, the real labour productivity growth will be negative 0.9%, or around 4 p.p. below the registered increase in 2019.

For 2021, it is assumed that the recovery of the economic activity in the country will also be linked to a recovery in the number of employed at their level as of 2019. This implies a full compensation of the decline in employment in 2020 and a decrease of the unemployment rate to the expected one in the medium-term of around 4%. The employment dynamics is expected to be negative between 2022 and 2023, driven by the negative demographic trends and the labour supply constraints.

In line with the expected employment recovery in 2021, the real labour productivity dynamics will also shift to a positive territory and the nominal growth in compensation of employees will accelerate again and move closer to the pace recorded in 2019. Along with the expected discontinuation of the employment increase in 2022-2023, the growth rate of the compensation of employees will gradually start to slow down.

2.3.4 **Inflation**

In 2020, the external and domestic price drivers in the country appear to have little influence. The drop in the international oil prices, which in the current scenario is over 40%, as well as the significantly lower gas import prices, will result in cheaper energy goods, including the price-regulated goods, further limiting the increase in producer and consumer prices in the country along the interconnection chain. The Energy and Water Regulatory Commission, by its decision, introduced lower gas prices by 42.8% and heat prices by 21.8% on average, effective as of early April.

At the end of the year, we expect a fall in the prices of the energy and non-energy industrial goods. Given the projected drop in the final demand for Bulgaria, the expected trend in the consumer prices is downwards.

In the assumptions about the international prices of raw materials, this year we expect an increase only in food and beverages. Some global food supply shocks, such as the spread of swine fever, which is reflected in the appreciation of meat products, are not excluded. Due to

[11] Since the scenario was prepared on 27 March, the scope of sectors eligible for support under CMD 55/2020 has been extended compared to the original option, covering only the activities directly affected by the introduction of the restrictive measures in the country.

the difficulties in the international trade, the imports of certain fresh products may be restricted. The possible food supply shocks, together with the expected higher demand due to stockpiling during the period of the emergency measures, are expected to translate into positive food inflation, which will also cause prices of certain services such as catering to rise.

In the monthly distribution of the inflation on an annual basis, we expect it to be slightly negative from the second half of the year. The annual average inflation is expected to be 0.1%.

The country's inflation processes in 2021 will depend primarily on the degree of recovery in the international commodity prices and the oil prices. The current international estimates of the oil price developments show a slight rise in 2021. Assuming a return to inflation levels in the country in terms of rising consumer prices at the end of 2021, the effect of the base in 2020 will technically result in a relatively low average annual inflation for the following year. The inflation may accelerate in the period 2022-2023 compared to the period 2018-2019, due to the expected recovery in the international commodity prices.

2.3.5 **External sector**

The assumptions about the international price developments under the current scenario suggest negative external trade deflators in 2020. The expected contraction of the traded quantities, in a context of a price decrease in most of the internationally traded commodities, will be reflected in lower nominal exports and imports of goods by 20.3% and 18.4%, respectively, compared to 2019. The trade deficit will increase to 3.2% of GDP. At the same time, the surplus in the trade with services will fall to 4.3% of GDP. The drop in the service exports will reach 25.6%, with a major negative contribution from the foreign travel revenues in the country, while the imports will drop by 21.2%.

The expected drop in the net operating surplus due to the worsened financial performance of firms will be reflected in a decrease in investment income paid to non-residents. The compensations paid to the short-term employed Bulgarians abroad and foreigners in the country will be also lower. The net effect will be an increase in the primary income deficit to 2.9% of GDP. The secondary income balance will also be lower (surplus of 3% of GDP compared to 3.4% in 2019) due to the limited remittances from abroad. As a result, the current account surplus is expected to contract to 1.2% of GDP.

A nominal growth in both exports and imports of goods and services is expected in 2021, as well as an increase in the transfers from short- and long-term employment abroad.

The annual inflows of Foreign Direct Investment (FDI) reached 2.2% of GDP in 2019, slightly above EUR 1.3 billion. The FDI in the country were almost equally distributed among debt instruments to non-financial companies and reinvested earnings. The FDI in the country are expected to decline in 2020, reflecting the limited global investment activity and the lower company revenues. This will affect, on the one hand, the new investments in the country and, on the other hand, will have a negative impact on the reinvested profits. The annual inflow will be around 1.8% of GDP. Some recovery can be expected in 2021. In the current scenario, it is assumed that the flows under the remaining articles of the Financial Account will be similar in terms of dynamics, but slightly more limited in volume than in 2019. It should be borne in mind that this scenario does not include effects of a possible change in the internal/external financing ratio of both the public and private sectors.

2.3.6 **Monetary sector**

The Ministry of Finance's expectations for the development of the Private Sector Loans in 2020 reflect the labour market and income dynamics resulting from the limited economic activity stemming from Covid-19. The increased unemployment, the loss of income, the increased uncertainty and the resulting tendency to postpone purchases will lead to a lower demand for loans for consumption by households. The lower disposable income, the worsening households' expectations of the economic situation in the country and their financial situation, respectively, will also have a negative impact on the demand for housing loans. The companies in sectors not directly affected by the crisis will continue their normal business activity and demand mainly for working capital. The annual loans growth for households at the end of 2020 is expected to slow down to 1.4% and for non-financial corporations to around 1.7%[12].

The monetary supply will slow down its annual growth in 2020 due to expectations of a slowdown in the pace of the private sector deposit growth. Despite a higher propensity for savings, this will reflect the expected developments in the labour market and in the activities of companies.

The loans demand will begin to recover smoothly in 2021. On the part of non-financial corporations, it will be influenced by expectations of relatively low private sector investment activity and predominantly a need for working capital. In households, restoring the consumer confidence will have a dampening effect. On this basis, the growth rate of loans to the private sector is not expected to exceed the growth achieved in 2017.

The giving of loans will accelerate slightly between 2022 and 2023 and is unlikely to reach the growth rate of 2019. The demand side effects will be reflected by the secondary role of the private investment in the growth of the overall investment, the expected slowdown in the rate of increase in the compensation of employees, and the impact of the demographic factors on the labour market.

2.3.7 **Risks for the implementation of the presented scenario**

The current scenario is based on the above-mentioned assumptions for the spread of COVID-19 and the duration of the measures to contain the pandemic. Any deviation from them in terms of the depth and duration of the State of Emergency, the severity of the restrictions, etc. presents a risk to the realization of the forecast. A lack of synchronisation between the EU Member States and Bulgaria in removing/reducing the restrictive measures, will limit the expected positive effect of restoring the trade and the transport links.

The effects of the spread of COVID-19 on the global economic activity and the financial markets may be more negative and lasting than expected. The actions taken to delay and contain the spread of the virus may then remain in force for longer, i.e. after the first half of the year. The return to economic activity in Bulgaria in the second half of the year, and especially in the fourth quarter of 2020, is linked to the expectations of activation of the world trade. Any rise in the geopolitical tensions, exacerbation of the trade disputes, introduction of protectionist measures and trade restrictions, as well as the risk of subsequent waves of the

[12] In assessments of included measures by the government through the BDB and of BNB for strengthening the capital and liquidity of the banks, as well as the moratorium on payments of loan obligations in relation to the EBA guidelines for a period of 6 months.

pandemic, will hamper this activation and reduce substantially the expected positive contribution of the external sector to GDP at the end of the year.

The uncertainty about the behaviour of the economic agents is also a risk. Greater and longer uncertainties, similar to those observed during the 2009 crisis, will lead to slower than expected recovery and lower consumer and investment expenditures.

In case of a deeper than expected GDP contraction in the second quarter of the year, a longer duration of this negative trend can also be expected, posing the risk of a slowdown in the planned recovery in the fourth quarter.

PART 3
GOVERNMENT BALANCE AND DEBT

3.1 Policy strategy

At present, the dimensions of the crisis for the global and the European economy in particular cannot yet be assessed and realistically predicted. The same applies to the fiscal policy and the possibility of drawing up precise medium-term budgetary forecast parameters up to 2023 in a context of high uncertainty when the baseline scenario is subject to severe adjustments and reassessments of the expected macroeconomic and budgetary parameters.

Bulgaria, as a small open economy, cannot remain isolated from the ongoing developments in the world's leading economies and in the Eurozone, which are expected significantly to slowdown and potentially enter into recession this year. With the dynamic developments and uncertainty about the duration of the emergency measures in the country, it is extremely difficult at this stage to estimate the full extent of any potential direct and indirect effects on the main macroeconomic and budgetary indicators for both the current budget year as well as in the medium term perspective.

It is important to note that, according to our national legislation on public finances, the current situation falls within the definition of an emergency circumstance. On the verge of this emergency, Bulgaria is in a good fiscal position. A disciplined and consistent policy to maintain a positive or close to a balanced budget position in recent years has enabled buffers to be maintained, which, as is evident in the current situation, is vital.

As a result of the consistent policy pursued to achieve and maintain a balanced budget, is the possibility to finance additional measures without excessive deterioration of the budget balance, as well as to ensure its financing with available liquidity buffers (the fiscal reserve) and additional debt financing, given that the country's debt performance is among the lowest in the EU and well below the upper limits of the fiscal rules. Thus, the government has the possibility to show flexibility to take measures that imply an increase in the public expenditures against the background of expected revenue shortfalls and consequently temporary fiscal loosening.

The need to provide additional expenditures in implementation of the LMASE, as well as the emerging impossibility to achieve the fiscal objectives set out in Budget 2020, necessitated the adoption of an amendment of the State Budget of the Republic of Bulgaria for 2020. The necessary conditions and financial resources are provided to ensure the proper functioning of the systems of public health, the social sector, the internal order and security, which are directly involved in the implementation of activities and measures in response to the outbreak of the COVID-19 pandemic. The assessment of the fiscal effects resulting from the Budget 2020 update calls for a revision of the consolidated fiscal programme balance target, which from a balanced position is expected to reach a deficit of 3% of GDP, with a General Government Sector's deficit of 3.1% of GDP, respectively.

To the extent that the conditions for temporary deviation from the limits of the relevant fiscal rules are available, the flexibility granted to the national budgets will enable the support of the economy and adequate response to the COVID-19 pandemic to be given by taking discretionary fiscal measures by the government. Additional support is also available under the Operational Programmes financed from the EU budget to combat the crisis, which includes the use of financial resources under the Cohesion Policy as well as the Solidarity Fund.

The forecast of deteriorating macroeconomic indicators for 2020, which is the basis for the budget 2020 update, as well as the measures taken to contain the spread of COVID-19, requiring the mobilisation of significant financial resources for certain systems, will also have an impact on the forecast of the main budgetary parameters for 2021 and in the medium term. This will inevitably require a revision of the fiscal targets already set by the latest updated medium-term budgetary forecast for a balanced budgetary position under the consolidated fiscal programme, but as uncertainties remain at this stage for fiscal aggregates for the base year 2020, it is still too early to make precise digital projections in the future.

With the implementation of the measures to gradually remedy the current situation, the medium-term objectives will be to gradually reduce the budget deficit on the path of rebalancing without adversely affecting the economic growth. The lifting of the restrictive measures at national and international level would have a positive impact on the budget, but the potential risks require careful analysis and a smooth adjustment of fiscal policy and budgetary planning to the changing economic structure in order to ensure the stability for the fiscal stance.

The positive expectations are in case of a synchronised and rapid recovery of the European economy, supported by a number of stimuli and economic, social and growth-enhancing measures, Bulgaria also to reverse the downward trend and address the fiscal challenges, with the possibility to implement a consolidation step in structural terms of at least 0.5% of GDP as early as 2021 in order to rebalance the budget by 2023. This would be possible under the assumption that the revenue side of the budget is stabilised as a result of the measures taken by the government and that no additional expenditure is imposed to limit the spread of COVID-19 in the coming years.

Regarding the General government debt, it is expected the “Central government” subsector to continue to determine the rate of change in 2020 and in the medium term (with share of 97% as of 31.12.2019). Government debt is predominant in its structure - 94%, which determines the debt management as dominant importance in defining the current position and assumptions for development of the consolidated liabilities. The other two components “Local Government” and “Social Security Funds” subsectors will remain with almost neutral impact on the total debt of the sector.

The extremely dynamic situation due to the Covid-19 spread and the related expectations of a serious deterioration of the parameters in the revenue and expenditure side of the 2020 Budget, combined with the need to provide liquid fiscal buffers, led to an increase in the government debt ceiling for the maximum amount of the new government debt that may be assumed during the year from up to BGN 2.2 billion to up to BGN 10 billion.

On this basis, the government debt management policy for 2020 and in the medium term is fully consistent with the need to provide effective debt funding sources to refinance the debt outstanding, to finance the budget deficit as well as to secure a buffer to minimise potential liquidity risks in the event of a more negative than expected scenario. The government's issuance strategy is planned to be achieved through maximum diversification of the debt portfolio, diversification of instruments and their characteristics. The efforts will be directed towards an optimal selection of the debt instruments, taking into account the specific needs in terms of the borrowing size and its parameters.

3.2 Actual balances and updated budgetary plans for the current year

3.2.1 Budget developments in 2019

Bulgaria's good performance in recent years in terms of the General Government Sector's budget balance continued in 2019 and the budget balance was positive for a consecutive year. The target for 2019 set in the previous Convergence Programme was a broadly balanced budget stance (deficit of -0.3% of GDP), and the reporting shows that there has been a significant improvement compared to this objective. Based on the data from the April Notification Tables for Bulgaria's deficit and debt, the General Government Sector's balance is positive at 2.1% of GDP, representing an improvement of 2.4 p.p. compared to the forecast in the previous Convergence Programme.

Both the revenue and the expenditure side of the budget contributed to the significant improvement of the budget balance in 2019 compared to the forecast. The upward trend in revenues of the recent years has continued, as a significant nominal increase in all the main components of the tax and social-security revenues as well as in the grants (received current and capital transfers) from the European Union were reported, while the expenditure remained below the annual projections. The increased revenues from the taxes and social contributions are mainly the result of the positive development of the macroeconomic indicators and, at the same time, the positive results of the measures implemented by the revenue administrations to increase the revenue collection, reduce the shadow economy and tax evasion, reduce the administrative burdens and other steps in this direction.

On the expenditure side, the actual outcome is lower compared to the forecasted in the previous Convergence Programme. The total expenditure of the General Government Sector, presented as a share of GDP, is lower by 1.7 p.p. compared to the projections, mainly due to long-term investment contracts concluded, with a cash resource provided in advance and the supplies foreseen in the following years. These are the expenditures of the investment project of the Bulgarian Army for the purchase of a new multi-purpose fighter aircraft and some of the major infrastructure projects, including for several Lots of the Hemus Motorway, which projects, although executed on a cash basis in 2019, are to be accounted for on an accrual basis in the following years under the European System of Accounts 2010 (ESA 2010) methodology, following the principle that the expenditure is accounted for at the time of delivery or inclusion of the asset in the balance sheet of the government. It is also expected that, as the projects under the programmes funded by EU funds enter the final phase, the expenditures on accounts for EU funds will increase significantly. The implementation of investment projects for military equipment and infrastructure projects and the increase in expenditure in the accounts for EU funds will translate into an increase in expenditure for gross fixed capital formation (GFCF) over the next several years.

The revenues as a ratio of GDP reached 38.4% and remain close to the previous year level (a minimal decrease of 0.1 p.p.). Compared to the forecast in the previous Convergence Programme, the General Government revenues are higher by 0.7 p.p.

The revenues from taxes on production and imports, the current taxes on income, wealth, etc., and the capital taxes increase in nominal terms by over BGN 2.5 billion, and their ratio to GDP also increases – by 0.5 p.p. compared to 2018.

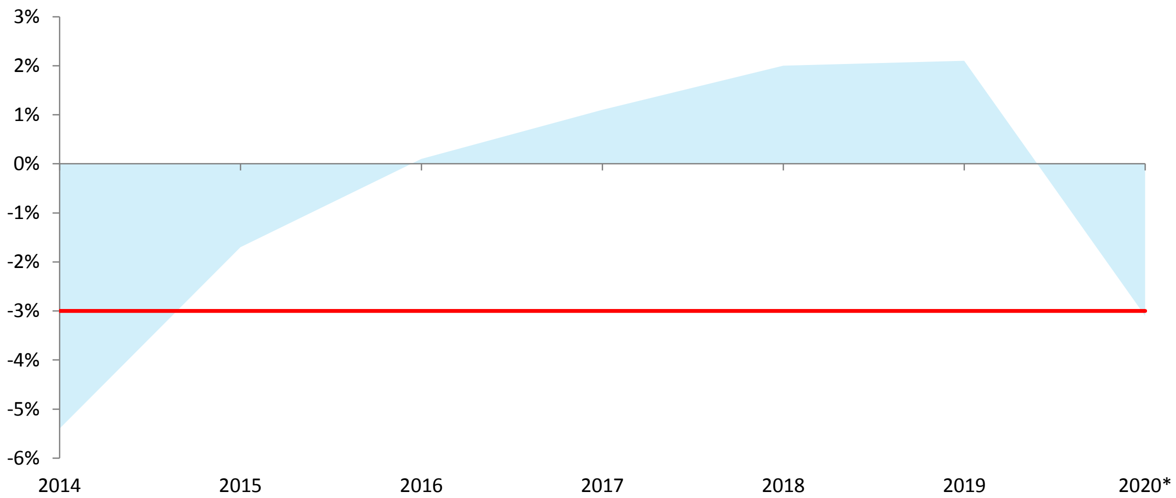
Compared to 2018, the taxes on production and imports registered a significant increase, both as a share of GDP – by 0.4 p.p. and nominally – by over BGN 1.8 billion. It is worth noting the very good level of Value Added Tax (VAT) revenues, where the increase is due to the growth of the domestic demand and imports, the increased activity of the economic agents and the positive effect of the revenue administration actions to improve the revenue collection and fight against the shadow economy and the tax evasion, while in regarding excises – the increase corresponds to the recorded growth of domestic consumption.

An increase is observed in the current taxes on income, wealth, etc. – 0.1 p.p., which in nominal terms is close to BGN 0.7 billion. The main factors for the personal income tax revenues increase are the historically highest employment rates achieved in 2019 and the wage growth recorded in both the private and public sectors (another step in the increase in school wages and the overall remuneration growth of the budget sector employees). The capital taxes keep their share of GDP – 0.3% unchanged compared to 2018 and nominally increase by BGN 27.6 million.

Related to GDP, the revenues from social and health insurance contributions increase by 0.3 p.p. compared to 2018, which is close to BGN 1.1 billion. Both the favourable development of the macroeconomic indicators, the labour market and the income growth, also affecting the revenues from personal income tax (PIT), as well as certain administrative measures such as increases in the minimum wages and the minimum insurance thresholds contribute to this.

The capital transfers received increased by 0.1 p.p. of GDP. This reflects the increase in funds paid in 2019 under EU programmes and funds.

Chart 1. **Budget balance (ESA 2010, share of GDP)**



* Forecast

Source: Eurostat, MF

The total expenditure of the General Government Sector in 2019 amounted to 36.3% of GDP, which is 0.2 p.p. lower than the level reported in 2018 and 1.7 p.p. lower than the forecast in the previous Convergence Programme. Under the individual expenditure items an increase as a share of GDP compared to the level in 2018 was recorded in the compensation of employees, the social and capital expenditure. Within the capital expenditure an increase was recorded in both GFCF of 0.1 p.p. and other capital expenditure items of 0.4 p.p. The nominal increase in capital expenditure is over BGN 0.9 billion.

The expenditure on the compensation to employees increased by 0.8 p.p. as a share of GDP. There are several reasons for this increase. The public sector remuneration growth is essential, including the 10% increase of the staff expenditures of the employees in the budget sector during the year, in order to improve the remuneration adequacy of the labour market situation and the third consecutive increase (as of 1 January 2019) in the remuneration of the secondary school pedagogical staff, which is the next step in the policy to increase the funds for education and make it a top priority and a driver of the country's future development. The maintenance expenditures, in addition to nominally are also decreasing significantly as a share of GDP, by 0.4 p.p., which reflects the policy of maximising the relevance of spending.

The amount of social transfers as a share of GDP increases by 0.4 p.p., and in nominal terms these are almost BGN 1.7 billion. The main increase is in the social transfers in kind, reflecting the increased expenditures in healthcare, including the payment of arrears. The share of GDP of social transfers other than in kind decreased by 0.2 p.p., but in nominal terms they increased by over BGN 0.7 billion. This includes the pension expenditures, where all pensions were updated by 5.7% from 1 July 2019 and supplementary funds were made available twice during the year for the pensioners with the lowest pensions (the so-called Easter and Christmas top-ups), amounting to about BGN 100 million, and the expenditures for social transfers and household allowances, which mainly increase in terms of the expenditures for support for disabled people.

The subsidies have increased by 0.2 p.p. compared to the previous year, mainly due to the higher expenditures of the Electricity System Security Fund.

The interest expenditure decreases as a percentage of GDP with 0.1 p.p. vis-à-vis last year.

3.2.2 **Budget highlights for 2020**

- **Policies and measures according to the updated medium-term budgetary forecast 2020-2022 and the initial SBA for 2020.**

In December 2019, the Government approved by a decision (Council of Ministers Decision № 815/30.12.2019) the updated medium-term budgetary forecast for the period 2020-2022 (updated MTBF), based on the State Budget Act of the Republic of Bulgaria for 2020 (SBA for 2020). In accordance with the parameters and policies on revenue and expenditure in the SBA for 2020, the updated MTBF assessed the main parameters for the General Government Sector (ESA 2010), according to which the budget balance for the year was projected to be close to balanced – minimum deficit of -0.1 percent of the forecast GDP[13] was foreseen. This objective was tailored to the current macroeconomic situation at the time of adoption, as well as to the requirements of the national fiscal rules and constraints laid down in the PFA and the European requirements for the Member States' budgetary frameworks.

[13] The estimated GDP for 2020 in the preparation of UMBF 2020-2022 amounts to BGN 126 769 million.

The envisaged **revenue policy has continued** to adhere to the established principles and guidelines in the recent years, with its main focus once again on maintaining the economic growth and stimulating the labour demand and supply, as well as improving the revenue collection, tackling the shadow economy and reducing the administrative burden and expenditures for businesses and citizens. The envisaged revenue policy measures aim at securing the necessary financial resources to implement the expenditure policies of the government.

Ensuring the proper functioning of the budgetary systems and the implementation of priority policies prior to the outbreak of the COVID-19 pandemic crisis were a key aspiration of the **public expenditure** policy.

- **Priorities on the revenue side:**

A key feature of the government's policy on the revenue from taxes and social security contributions led prior to the outbreak of the crisis and retained since its inception is the maintaining of the VAT rate and the low corporate and personal income tax rates, the maintaining of the rates and ratios of insurer/insured contributions to State Social Security Funds and of the health insurance contributions and the maintaining of the maximum insurance income unchanged compared to 2019. The main positive effects on the revenues from PIT and social security contributions are related to the increase of the minimum wage by BGN 50 to BGN 610 from January 1, 2020; the increase in the minimum insurance income by main economic activities and occupational groups for employees, as well as the minimum insurance income for self-employed persons, as a result of the increase in the minimum wage and the increase in the minimum insurance income for farmers and tobacco producers from BGN 400 to BGN 420, and the increase in the funds for personnel in the budget sphere, including of the pedagogical personnel in secondary education.

- **Priorities on the expenditure side that remain in the changed situation in connection with the outbreak of the global COVID-19 pandemic:**

  - **Income policy**

As of January 1, 2020, the minimum salary for the country was increased by BGN 50 – from BGN 560 to BGN 610. The measure taken is a further stepping-stone of the declared government policy in this area and a component of the overall policy of raising workers' incomes. The increase in the minimum salary is aimed at achieving a nominal increase in the income of the lowest income groups on the labour market. For 2020, an estimated 10% increase in the funds for salaries and remuneration of personnel in the budget sphere recruited under employment and service contracts, including social security contributions, is projected, which will have an impact on the salaries of those employed in the budget sector. In the education sector the implementation of the measures concerning the improvement of the social status of pedagogical specialists continues. For this purpose, additional BGN 360 million are allocated in 2020, which achieves a 17% increase in the salaries of workers in the sector on an annual basis. The increase in the minimum wage and the funds for the budgetary sphere personnel, including secondary education, has an impact towards an increase in the overall expenditure.

In the field of pension policy, the following measures are in force in 2020:

- in the current year, as a sequential step of the schedule adopted and enshrined in the Social Security Code (SSC) in 2015, the increase in the required retirement age and length of service has continued for all categories of employees, including those working under the third category of labour, those working in the Defence and Security sector, those working under the first and second categories of labour who are not eligible for retirement under a professional pension fund or have changed their insurance;
- from 1 July 2020, the pensions (excluding the minimum pension for insurance service and age) granted until and including 31 December 2019 are updated under the so-called "Swiss rule" by a percentage defined as the sum of 50 per cent of the increase in insurance income and 50 per cent of the consumer price index in the previous calendar year. The projected percentage for 2020 is 6.7%. The minimum pension for insurance length of service and age shall be additionally increased from BGN 219.43 to BGN 250.
- the maximum amount of one or more pensions received is maintained at the level of BGN 1,200 reached in 2019. (40 per cent of the maximum insurance income for the year).
- The value of the percentage (weighting) for each year of pensionable service in the pension formula in determining the amounts of newly granted pensions shall be maintained at the level of 1.2 reached in 2019.
- In April 2020 pensioners whose pension or sum of pensions amounts up to BGN 363, received a one-off additional sum of BGN 40 to their pensions. The necessary funds, amounting to BGN 49.8 million, were provided for through restructuring the expenditures and transfers of the central budget for 2020.

A key feature of the policy on social benefits and assistance paid by State Social Security (SSS) Funds in 2020, which is proving positive in the crisis situation, is to maintain the amounts, timing and requirements for allocating the amounts to individuals when the relevant social risks occur. Upon the occurrence of the emergency situation requiring an increase in the budget of the Unemployment Fund with changes to the Law on the Budget of the SSS for 2020, the main focus of the policy is to preserve the jobs and pay benefits to the newly registered unemployed persons (see "Measures taken against the COVID-19"). The benefits for pregnancy, childbirth and parental care as well as the temporary disability benefits remain a constant focus in ensuring coverage of the social risks, especially in light of the increased number of persons placed in quarantine.

- **Social assistance policy**

The policy objective is to continue addressing the problems of at-risk groups within the limits of the state's financial capacities, including in terms of social integration and poverty. The main priorities include: the employment policy, the importance of which, in the face of the dramatically changing economic conditions and the expected rise in unemployment, is again being highlighted; maintaining and extending the measures in the areas of social assistance and combating poverty, especially against the background of expectations of an increase in the number of people experiencing poverty; and retaining the level of support for people with disabilities, which are one of the most vulnerable social groups.

- **Health policy**

The spread of COVID-19 has converted the health care system into a sector of paramount importance for ensuring the life and health of the population and thus for the normal functioning of the economy. The strengthening and maintaining the viability of the system are among the government's top priorities in the crisis situation. In addition to the increase in the expenditure for health insurance payments provided in the Law on the Budget of the National Health Insurance Fund – by BGN 394.2 million so as to ensure the provision of the necessary health care and the implementation of all planned actions in a non-pandemic situation, additional transfers redirect funds to combat the spread of the coronavirus. These include resources for supplies and equipment for infectious disease compartments, supply of personal protective equipment, delivery of laboratory tests, reagents and equipment, increased expenditure for disinfection and sterilisation and additional remuneration for those directly involved in logistics, service, care and treatment of patients with progressive and severe symptoms of infection.

- **Education policy and Science**

Ensuring broad access to pre-school and school education, reducing the rate of school drop-outs and early school leavers are key factors in creating favourable conditions for reducing social exclusion, improving quality characteristics and competitiveness of the workforce and the well-being of citizens. Adhering to this understanding, measures were taken in the wake of the pandemic crisis, on the one hand, to preserve the lives and health of the learners as a risk category for the infection and spread of the virus and, on the other, to continue the normal functioning of the learning process. To this end, the e-learning started by using internet platforms and TV forms. This presents both pupils and teachers with serious challenges and new demands, but at the same time represents a major step towards deepening the digital technologies into education. As already indicated, in 2020 another step of the planned and started in 2017 annual increase in the funds for activities for education and training of children and pupils with an additional BGN 360 million was implemented. These funds are dedicated to increasing the remuneration of the pedagogical specialists.

The Higher education policy aims to promote the autonomous higher education institutions to continuously raise the quality of the education they provide, to support the academics, to create conditions for the implementation of the best practices of higher education institutions of the EU Member States, and to provide conditions for access to quality higher education aimed at successful life-long realization. In the crisis situation, the higher education faces similar to the secondary education challenges – the cancellation of attendance and the introduction of e-learning. The projections to the SBA for 2020 provide additional funding for the following priority measures and activities in the field of higher education: additional funds amounting to BGN 41.1 million for means of subsistence of the training of students and PhDs and maintaining the total amount of the state guarantee for newly granted student loans amounting to BGN 50 million.

The policy in the area of Science is linked to increasing the quality and the international recognition of the Bulgarian research and development and innovative activities. Support for the National Science Programme and the national roadmap for scientific infrastructure and the participation of Bulgarian scientists in European consortiums for development and shared usage of scientific infrastructure continues.

During this year a new scientific programme was introduced – the national scientific programme “Creation of a national database for blood donors in the Republic of Bulgaria for markers of transmissible infections”, which is aimed at identifying and systematizing of information regarding the spread of HIV, hepatitis B and C amongst blood donors, as well as a risk evaluation for the same viruses amongst blood donors in Bulgaria through researching their spread and frequency.

The emphasis in the crisis situation is put on the financing of scientific research connected to the pandemic. Two thematic competitions will be financed with additional financing amounting to BGN 2.4 million – national projects for scientific studies and bilateral or international projects, related to the pandemic. In this crisis situation scientists from universities and scientific organizations are facing challenges like restraining the work process and the implementation of home-office work. In this regards, measures are adopted for remote access to databases, subject to the national subscription to Elseviear and Clarivate Analytics. Furthermore, free access is provided for scientific publications connected to the coronavirus, that are extremely useful for the scientific community.

- **Transport policy**

The transport policy focuses on developing the basic transport infrastructure, which is an important condition for maintaining sustainable economic growth. Priority is the maintenance and development of the national road infrastructure in accordance with the modern requirements of road transport through the construction of the national network of motorways and speedways, its connection with the European transport corridors, modernization and renewal of the road network and ensuring good operational condition and good level of safety of the existing road network.

In parallel to maintaining the road infrastructure, the government's policy is aimed at securing financial resources and implementing strategic infrastructure projects. Resources from the European Funds and the State Budget, part of which were allocated in 2018 and 2019, are scheduled for the construction works on the following sites: completion of Struma Motorway; completion of Hemus Motorway; construction of "Bypass of the town of Gabrovo”, including a tunnel under Shipka; construction of "Kalotina-Sofia" Motorway; preparation of six sections for construction of the Vidin-Botevgrad speedway; development, construction and rehabilitation of the republican road network.

3.2.3 Update of the 2020 Budget

The implementation of the budget parameters at the time of the declaration of a state of emergency in Bulgaria was good, with a reported ongoing excess of revenue over expenditure on a cash basis under the consolidated fiscal programme. However, all scenarios, even those with a shorter and weaker slowdown in the economic activity in Bulgaria, highlight a serious deterioration in revenue and expenditure parameters on an annual basis, which is reflected in a deterioration in the budget balance compared to the target set. The impending impossibility to achieve the fiscal objectives set with the projections to the SBA for 2020 urged the preparation and adoption by the Government of draft amending SBA for 2020, which was submitted for consideration and approval to the National Assembly on 30.03.2020. The reasons for this are, on the one hand, the currently forecast deterioration of parameters on the budget revenues and, on the other hand, the need to provide additional expenditure in implementation of the LMASE announced by decision of the National Assembly of 13 March 2020 (promulgated SG issue 28 of 24.3.2020, Amended and Supplemented in SG, issue 34 of

09.04.2020). The draft amended SBA for 2020 was approved at second reading by the National Assembly on 06.04.2020 and entered into force after its promulgation in the State Gazette (promulgated SG, issue 34 of 09.04.2020)

According to the amended SBA for 2020 as a result of the expected changes in revenues (decrease in tax and social security revenues amounting at BGN 2.44 billion) and expenditures (increase by BGN 1.07 billion), a cash deficit under the consolidated fiscal programme amounting to BGN 3.5 billion will be formed. The General Government Sector’s deficit is expected to reach 3.1% of the projected GDP. This is a temporary deviation from the initial budgetary objective of a balanced budget position under the CFP and a measure under the activated general escape clause. The forecast increase in General Government’s expenditure is up to 40.2% of the forecast GDP, representing a significant increase from its level in 2019.

To cover the expected deficit (BGN 3.5 billion) and to provide the additional capital for the Bulgarian Development Bank (BGN 0.7 billion), which in total amounts to BGN 4.2 billion, as well as to ensure sufficient liquid fiscal buffers in case of a more negative than expected scenario, the debt ceiling for the new government debt that may be assumed during the year was raised up to BGN 10 billion compared to the initially set up to BGN 2.2 billion. Accordingly, the allowed maximum amount of government debt at the end of the year was increased from BGN 23.1 billion to BGN 31.5 billion.

As a result of the projected increase of the newly assumed government debt, the interest expenditures under the state budget are also expected to increase by BGN 70 million.

With the 2020 SBA amendment, there is an additional possibility of issuing government guarantees under loan agreements for financing of the Bulgarian Development Bank in the amount of up to BGN 700 million.

At the same time, the update of the SBA provides the possibility for assumption on foreign government debt through loans from international financial institutions, including financing projects and programmes, and activities have been taken to increase the maximum amount of debt that can be taken under the GMTN programme for issuance of bonds on the international markets from EUR 8 billion to EUR 10 billion. This creates prerequisites for securing debt financing, under optimal conditions, maximum flexibility and diversification of domestic and external sources for financing the budget, given the expected government deficits resulting from the declared emergency, respectively covering the immediate expenditures for activities to prevent the COVID-19 spread.

– **Debt levels for 2020**

In terms of changed fiscal targets and worsening external and internal economic environment assumptions, the level of General Government Debt is projected to increase from the level recorded at the end of the previous year, both in nominal value and as a share of GDP, at the end of 2020. In nominal terms, the debt level is planned to reach around BGN 33.5 billion. (from BGN 24.2 billion in 2019) and the value of the ratio "General Government Debt/GDP" to increase respectively to 28.5% (from 20.4% at the end of 2019).

Compared to the assumptions set out in the previous Convergence Programme 2019-2022, a negative change in the debt-to-GDP ratio for 2020 is emerging. Besides the expected growth of the sector's debt in nominal terms, the indicator is negatively affected by GDP decline forecasts of 3% in 2020. Despite the worsened projections of the dynamics of the parameter during the current year, its level remains far below the maximum threshold of the Maastricht convergence criterion of 60% and ensures that government indebtedness remains within sustainable levels.

The Central Government subsector is a major contributor to the change in General Government Debt. The indebtedness of the units included in the subsector whose servicing is their obligation have a relatively low share and a minimal impact on the total debt of the sector. Thus, in 2020 the leading factor for the General government debt dynamics is the government debt management policy.

During the current budget year, first level spending units whose budgets are included in the consolidated fiscal programme and are not part of the state budget may not assume new government debt through financial leasing and the other forms of debt.

For the Local Government subsector debt in 2020 is not expected significant deviations from the level reported at the end of 2019 (about BGN 1.4 billion), with a share of about 1.2% of GDP, respectively 2% of the total consolidated liabilities.

In 2020, the Social Security Funds subsector is not expected to assume new debt obligations and will continue to have a downward impact on the General Government Debt through the accumulation of financial assets in the form of government securities issued by the Central Government subsector.

– **Updated tax and social security revenues forecast**

The updated tax revenue forecast is presented in the context of the emergency situation to manage and overcome the COVID-19 infection. The forecasts of tax revenues are based on a prepared scenario for the development of the macroeconomic indicators. The effects of the legislative emergency measures adopted have been taken into account. It is assumed that the containment of the pandemic and the economic recovery in Bulgaria are taking place simultaneously with the same processes happening internationally. The estimates of the impact on the budget revenues from main taxes have been made taking into account the assumptions on the duration of the restrictive measures and the reduced economic activity set out in the budgetary scenarios. The increased uncertainty among the taxpayers is also an essential factor and can contribute to a decrease or displacement of tax revenues. The impact of the ongoing processes on the external economy remains variable. The assessment of the tax revenues for 2020 is made under the assumption of an emergency situation and a dynamically changing economic environment, with the adoption of a number of assumptions, insofar as it is impossible to make an accurate estimate of the full amount of any potential direct and indirect effects on the budgetary tax revenues.

The total effect in the projections for the taxes and duties revenues for 2020, calculated on the basis of the changed indicators in the baseline scenario used, is negative and is estimated at BGN 2 013.8 million (-8.0%) loss for the budget for 2020, compared to what was set in the SBA for 2020, effective from 01.01.2020. The included loss in revenues from the main indirect taxes (VAT and excise duties) amounts to BGN 1 334.8 million (7.7%).

The forecast for the amount of corporate tax revenue is based on maintaining the basic tax rate of 10%. The revenue from corporate tax is formed by: the annual countervailing contributions on annual tax returns; the advance payments for tax made by taxable persons who generated tax profits in the preceding year; the amounts recovered for overpaid corporate tax on annual tax returns; the contributions to audit acts and the tax contributions for previous years. The reported financial results (taxable profit/loss) of the persons liable under the Corporate Income Tax Act (CITA) have a major impact on the revenues from corporate tax.

The drop in the corporate tax revenues in the scenario used is mainly due to the changes in the values for the macro indicators "Gross Operating Surplus/Mixed Income" and GDP, as well as to expectations of contraction of the economic activity in the country. Compared to what is set out in the SBA for 2020 before the introduction of the measures to limit the spread of COVID-19, in the updated SBA for 2020 the revenues from corporate taxes fall by BGN 327.7 million (11.6%) for 2020 to BGN 2 487.4 million.

The PIT revenue forecast for the period is prepared by maintaining a uniform tax rate of 10% (without a taxable minimum) for all taxpayers' income, with the exception of the business income of sole proprietors, for which the rate is 15%. The amount of personal income tax revenues also includes the proceeds of patent tax in the local budgets.

The amount of revenues from PIT under the SBA for 2020 is influenced by the growth of the average salary, the dynamics of the unemployment rate in the country, the results declared with the annual tax returns (ATR) of individuals, the interest on citizens' bank accounts. The revenue forecast takes into account the effects of the increase in the minimum wage, the changes in the resources for salaries in the budget sector and the changes in the minimum insurance income.

In the new pandemic management hypothesis, the personal income tax revenues for 2020 have been recalculated on the basis of the assumptions of the decreasing annual employment growth and the annual growth of compensation of employees, the rising unemployment rate and the decreasing annual GDP (current prices).

Based on the amended indicators, the expected revenues from PIT (BGN 4 074.6 million) are lower by BGN 283.9 million (6.5%) compared to the initial 2020 plan.

The forecasting of the VAT revenues takes into account both the macroeconomic forecasts and the positive effects of the changes in legislation. The projected VAT revenues are also influenced by the fall in the price of oil resulting from the low demand and the measures taken in this direction by the major producers. The assumptions made in relation to the recalculation of the VAT revenues for 2020 are for a decrease in the price of crude oil for 2020 from USD 57.8 to USD 36.0 on an annual basis.

As a consequence of the measures to deal with the spread of the virus and the expected change in the macroeconomic indicators (decrease in the price of crude oil, decrease in imports and decrease in final consumption), the updated VAT revenue plan for 2020 amounts to BGN 10 640.4 million, which is BGN 1 089.6 million (9.3%) less than the planned upon adopting the SBA for 2020 at the end of the previous year.

During the preparation of the excise revenue forecasts, in addition to the macroeconomic indicators, the positive effect of the measures to improve the control of the trade with excise goods has also been taken into account, having respect to the legislative changes to increase the possibilities for effective State control over excise goods.

In the context of excise duties, the crisis is expected to have a major impact on the consumption of fuels and alcoholic beverages. Based on the amended macroeconomic indicators are expected BGN 245.2 million (4.3%) less revenues from excise duties (BGN 5 450.0 million) compared to the indicators set out in the SBA for 2020, effective as of 01.01.2020.

In the estimates made on the basis of the forecast for changes in the macroeconomic indicators, the revenues from other taxes (other taxes under CITA, the tax on insurance premiums and duties) are lower by BGN 67.4 million (15.2%), compared to the indicators in the SBA for 2020, effective 01.01.2020.

As a result of the projected drop in the employment and an increase in the unemployment, as well as a decrease in the salaries of a large number of employees, a decline of the revenues from social security contributions under the budget of the SSS by BGN 430.0 million to the level of BGN 7 624.7 million is expected, which is 5.3% less than originally planned revenues.

- **Updated forecast of non-tax revenues for 2020**

From 01.01.2019, the phasing-in of the TOLL system started with the introduction of the so-called "e-vignette" for passenger cars, and as of March 2020, the phasing-in of TOLL segments within the TOLL network will be launched, which will also charge the freight vehicles over 3.5 tonnes.

In 2020 the TOLL system covers the Motorways and the Class I roads, and at a later stage it is planned to extend its scope to Class II roads.

In this regard, for the period from 2020-2022, after taking into account the negative impact of the introduced State of Emergency in the country in connection with the measures under COVID-19, the expected growth of the revenue from state charges is projected to amount to BGN 270.0 million, with an initially planned BGN 450 million or a drop of BGN 180 million compared to the 2020 plan, for 2021 – BGN 210 million growth, with the total amount for 2021 remaining unchanged, namely the revenues to amount to BGN 480 million and for 2022 – BGN 15.0 million growth, with which revenues will amount to BGN 495 million.

3.3 Measures taken against the COVID-19

In response to the COVID-19 pandemic, on 13 March the government imposed a State of Emergency in the country, introducing a number of urgent measures and administrative restrictions. The urgent measures are primarily aimed at securing the necessary financial resources to fulfil the assigned functions and responsibilities of the state government bodies in the various systems most actively involved in measures to contain the spread of COVID-19 – healthcare, social, internal order and security. Part of these measures relates to the need to increase the staff expenditure (overtime), secondment and maintenance of employees carrying out or supporting activities to combat the spread of the virus. Measures are also in place to support the businesses and the employment, as well as social measures to protect the most vulnerable groups.

The situation is very dynamic and opportunities are being discussed on a daily basis to introduce additional measures to address emerging problems in individual sectors and to support severely affected groups of society. This means that the measures presented in the programme are only a snapshot of the actions taken in the different lines of action. An analysis after the peak of the spread of the infection and launch of a strategy to phase out the severe restrictions on society and the economy are under way.

3.3.1 Measures to overcome the spread and to treat COVID-19

- **Ensuring preventive and anti-pandemic actions as well as an effective response to the COVID-19 outbreak**

By Act of the Council of Ministers of 08.03.2020, the Government of the Republic of Bulgaria approved additional expenditure under the budget of the Ministry of Health amounting to up to BGN 7 million for the provision of personal protective equipment[14]. In addition, in order to provide disinfectants, medical devices and personal protective equipment for the structures in the Ministry's system, as well as for the purchase and installation of thermal cameras and air and surface disinfection systems for all border crossing points – land and airports, BGN 7.6 million were provided within the budget of the Ministry of Health.

Procedures have been undertaken for the purchase and provision of medical equipment, modern laboratory equipment and diagnostics units for the needs of medical facilities. The necessary funds of BGN 40.4 million will be provided under OP "Regions in Growth 2014-2020".

Referring to the need to allow for additional funding for preventive activities aimed at preventing and limiting the spread and control of diseases caused by COVID-19, the government has adopted an increase in the limit for preventive activities from 15 per cent to 30 per cent of the Reserve for disaster prevention, management and resolution.

- **Support to medical and non-medical personnel**

To support the medical and non-medical personnel who meet the first challenges of the global pandemic crisis, a measure has been approved to pay additional remunerations of up to BGN 1 000 to all employed medical personnel (doctors, hospital attendants, nurses and lab assistants) directly involved in the implementation of activities in the process of hospital treatment of hospitalised patients with proven COVID-19, and medical and non-medical personnel in the Emergency Medical Centres and the Regional Health Inspectorates directly involved in activities to prevent the spread of COVID-19. The necessary funds of BGN 60 million will be provided by OP "Human Resources Development 2014-2020".

- **Measures to control the compliance with the mandatory isolation of patients, infectious agents, contact persons and persons who have entered the territory from other countries**

Additional BGN 10.7 million expenditures are foreseen in connection with measures to control the compliance with the mandatory isolation of patients, infectious agents, contact persons and persons who have entered the territory from other countries. The regional health inspectorates shall keep an up-to-date list of all quarantined persons on the territory of the area concerned, the starting and ending date of the quarantine, providing information by e-mail or telephone to the general practitioners on the quarantined persons from their patient list for the purpose of actively monitoring and issuing a hospital list, as appropriate, and to the owner, manager or persons authorised by them to manage the place of accommodation in which the quarantined person is to reside. In addition, the Regional Health Inspectorates shall inform the mayors of the municipalities in the area concerned, as well as the directors of the regional directorates of the Ministry of Interior for quarantined persons at home on the

[14] In total about 1 000 000 pcs. /pack. (masks, protective goggles, protective clothing, leggings, gloves) and consumables and diagnostics units - in total about 20 000 pcs

territory of the area concerned in order to monitor the implementation of the measures ordered.

- **The following estimated expenditures are included in the assessment of the budgetary effects of the implementation of the LMASE:**
  - overtime hours by the police and fire safety and population protection authorities (art. 8, para. 2 of the LMASE), which is expected to increase by 10 times over the current reporting hours. The estimated amount of the additional necessary expenditures for 3 months, amounts to BGN 161, 373, of which BGN 92, 742 for remunerations and BGN 68, 631 for social security contributions, the estimates being made on the basis of the expected maximum possible hours of overtime, using all available resources from employees. Within this resource the payment of other additional remuneration to policemen directly involved in the implementation of anti-pandemic measures and restrictions on the territory of the country can also be provided.
  - participation of military personnel from the armed forces in the implementation of anti-pandemic measures and restrictions on the territory of the country, at a separate region or at a border crossing point (Art. 9 of LMASE), under the conditions and in the order laid down by an act of the Council of Ministers (to date no such act has been adopted).

Examples of measures are: 1. Restricting movement, blocking and isolating settlements; 2. Performance of transportation tasks; 3. Fulfilling disinfection tasks.

The estimated amount of additional expenditures required for 3 months, amounts to **BGN 168 098.4 thousand** for 1 330 soldiers, provided that the task is performed outside the permanent stationing points.

- **Social measures for vulnerable groups**

The Ministry of Labour and Social Policy, within the agreed expenditure under the 2020 budget, plans to finance by up to BGN 5.2 million the provision of a hot lunch for the low-income persons and the elderly in up to 172 municipalities, for emergency social support for the period from March 2020 to April 2020 for up to 44 thousand people from the most vulnerable social groups who are currently not consumers of the services offered under the Public Soup-kitchens Project, as well as social support through the purchase and delivery of hand sanitizers to up to 7 000 people over the age of 65 who are unable to serve themselves according to a list of the Social Assistance Agency.

Measure “Expert decisions of territorial expert medical commission (TEMC) and national expert medical commission (NEMC) for the determination of permanently reduced capacity of work/type and degree of disability, in which invalidity period expires during the implementation of this law, shall continue until the State of Emergency is lifted and two months after its cancellation". The measure was introduced by the LMASE.

Measure “Automatic recalculation of pensions of working pensioners”. The measure was introduced by the LMASE. 258 000 pensioners are affected. The additional funds needed are amounting to BGN 36.9 million for 2020 (April – December). Pursuant to §7 of the TFP of the LMASE, personal pensions related to the employment activities of persons who have acquired the needed length of service after 31 December 2018 but have not submitted an application under Art. 102, para. 3 of the SSC in 2019 and/or an application under Art. 102, para. 1 and 3 of the SSC in the period from 1 January 2020 to 13 March 2020 shall be recalculated ex officio as of 1 April 2020 with their acquired pensionable service completed after retirement or after the last recalculation of the pension. In this context and in order not to accumulate citizens in the receptions the orders will be generated automatically.

3.3.2 Business and employment measures

– **Measure 60/40**

The most significant instrument to support maintaining employment, employee incomes, to alleviate the business expenditures in the crisis situation and to make it easier for businesses to return to normal state after the end of the State of Emergency, is the introduction of the so-called “60/40” measure. The aim is to preserve jobs, with the state covering 60 per cent of individual insurance income and, consequently, the related social security contributions due by employers in enterprises whose business has suffered the most from the emergency measures put in place to contain the spread of the COVID-19.

The measure was introduced by the LMASE, announced by a decision of the National Assembly of March 13, 2020 and is set out in the adopted Decree laying down the terms and conditions for the payment of compensation to employers in order to preserve the employment of employees upon termination of employment due to the State of Emergency announced by a decision of the National Assembly of 13.03.2020.

The range of companies that can benefit from the measure is as extensive as possible, covering a large number of sectors and branches with discontinued operations of enterprises, part of enterprises or individual employees. The companies must meet the condition that the drop in sales compared to the same period of the previous year is at least 20 per cent. In order to make it as easy as possible for employers and workers and to obtain the funds in a timely manner, the necessary documents shall be processed within shortened time limits. The necessary resource will be provided by the Unemployment Fund under the SSS budget, and for that reason the expenditures under the budget of the SSS were increased by BGN 1 billion (0.9% of GDP forecast) with the amended SBA for 2020. The measure will apply for the whole or a part of period of the State of Emergency until its lifting, which is initially foreseen to be no more than three months.

In addition, in connection with the forecast underperformance of revenue from social security contributions within the budget of the SSS (with BGN 0.430 billion), a change in the amount of the budgetary relations of the state budget with the budget of the SSS was also required, increasing the latter by BGN 1.43 billion, including BGN 1 billion for additional expenditures and BGN 0.43 billion to compensate for the expected underperformance of revenue under the budget of the SSS.

– **Capital increase of the Bulgarian Development Bank**

The government increases the capital of the Bulgarian Development Bank (BDB) by BGN 700 million to issue portfolio guarantees to banks, allowing them to provide more flexible conditions for business loans for a certain period under certain conditions and individual assessment on a case-by-case basis. With BGN 500 million of these, the BDB will be able to provide guarantees to other commercial banks in order to provide liquidity for SMEs to overcome the negative economic consequences of the spread of COVID-19. The instrument is open to all sectors, it applies to the entire territory of Bulgaria and is expected to benefit mainly the sectors most affected by the crisis – trade, services, including transport, tourism, hotels and restaurants, logistics, exports and others. The remaining BGN 200 million of the increased capital of the BDB will be able to serve as a guarantee to commercial banks for granting consumer interest-free loans to persons deprived from the opportunity to work during the crisis. The maximum amount of loan that each eligible person is entitled to borrow is up to BGN 4 500 within three months, by concluding three separate loan agreements with the same commercial bank, each of BGN 1 500 or by concluding a single contract in which the amount is disbursed in tranches, and the period and repayment scheme will be eased as much as possible.

- **Tax policy measures**

The Tax policy measures in response to the situation with the outbreak of the COVID-19 pandemic are part of the business and employment support measures that the Government introduced in the LMASE, declared by the National Assembly Decision of 13 March 2020. Such measures shall include:

- The deadline for filing an ATR for 2019 under the CITA, as well as for the payment of corporate tax, tax on expenditure, tax on revenues of budgetary enterprises, tax on revenues from ancillary and auxiliary activities within the meaning of the Gambling Act, as well as the tax on the activity of ships was extended (from 31 March to 30 June 2020);
- A change is introduced in the deadline for declaring the amount of advance payments for corporate tax for 2020, which under CITA are declared by the taxable persons with the annual tax return for 2019 – the new deadline is April 15 (old one – March 31). The period for the payment of the advance tax shall not be altered;
- For natural persons carrying out economic activity within the meaning of the Commerce Act, as well as for farmers who have chosen to form taxable income from a tax profit determined in accordance with the CITA, the deadline is extended (from 30 April to 30 June 2020) for:
  - Submission of an ATR under the Personal Income Tax Act for 2019 and payment of the tax due;
  - Payment of tax due on expenditure for 2019.

For these persons, the deadline for benefiting from a discount of 5% of the tax to be paid on the ATR for 2019, when the tax is paid by 31 May 2020, has also been extended (from 31 March to 31 May 2020);

- In connection with the above-mentioned measure for filing an ATR within an extended period, the deadline for submitting a declaration form No. 6 "Data on contributions payable and tax under Art. 42 of the Personal Income Tax Act" was also extended until 30 June 2020. The measure was introduced by a change in Ordinance № H-13 of 2019 on the content, deadlines, manner and procedure of submission and storage of data by employers, insurers for their insured persons, as well as self-insured persons;
- The deadline for using the discount of 5 percent for payment within the specified period of the entire annual amount of real estate tax or vehicle tax established in the Local Taxes and Fees Act was extended (from 30 April to 30 June 2020);

- The deadline for publishing annual financial statements under the Accountancy Act has been extended:
  - for businesses and non-profit legal entities that disclose their reports in the Commercial Register and persons who publish annual financial statements in an economic publication or Internet, the deadline is extended from 30 June to 30 September;
  - for enterprises that did not operate in 2019 and declare this fact by a declaration, the deadline is extended from 31 March to 30 June;
- Protection is provided for debtors from taking new enforcement actions under the Tax and Social Security Procedure Code (TSSPC) for public obligations during the declared State of Emergency;
- Given the possibility of imposing precautionary measures under the TSIPC and maintaining the effect of the imposed precautionary measures and enforcement actions taken by 24.03.2020, the threshold of income of debtors not subject to coercive enforcement in Art. 213 of the TSSPC was updated, which is linked to the amount of the minimum wage for the country (previously – up to BGN 250 per month).

The measures adopted in the tax laws aim to support businesses and citizens during the unprecedented State of Emergency by not only postponing their reporting obligations under tax law, but also paying taxes (while maintaining the conditions of use of allowances), to ensure liquidity support amounting to around BGN 390 million The changes made regarding the failure to adopt new enforcement actions under the TSSPC for public obligations during the declared State of Emergency and to update the income threshold above which enforcement actions can be taken under the TSSPC are aimed again at providing higher disposable income for debtors.

- **Measures taken by the BNB and the FSC**

In the State of Emergency related to the COVID-19 pandemic, within its mandate in March 2020 the BNB implemented a package of measures to limit the negative effects resulting from the pandemic on the banking system and the economic activity. By decision of the BNB Governing Council № 87 of 12 March 2020, measures were taken to limit the adverse impact on financial stability of the spread of COVID-19 vis-à-vis the credit institutions authorised to operate in the Republic of Bulgaria. In this context, the BNB took action to strengthen the capital position of banks and to protect them from concentration of placements to foreign jurisdictions and institutions with a potential for credit quality deterioration as measured by their credit rating. The limitation of exposure concentrations shall be effected by imposing individual and aggregate limits to counterparties – e.g. central governments and credit institutions in relation to the total assets of the credit institutions. The exposure limits shall be based on the average amount of banks' assets over the last four quarters and shall be differentiated based on the credit rating of the counterparty concerned. Strengthening the capital position of credit institutions is also achieved with the decision of the BNB Governing Council concerning the non-distribution of dividends by banks from both the profit achieved in 2019 and the financial result accumulated in the past. In order to preserve the resilience of the banking system and enhance its flexibility, it was also decided to cancel the countercyclical capital buffer rate increases foreseen for 2020 and 2021.

The BNB also implements additional measures for the smooth functioning of the monetary regime and the related infrastructure, including for the cash flow, the payment systems and the activities of the BNB as a fiscal agent of the government.

The BNB has also activated a tool kit for dynamic monitoring of the liquidity position of the banks through an hourly liquidity statement in order to timely identify adverse developments or abrupt changes in available liquid funds.

As an additional measure related to reducing the effects on economic activity of the spread of COVID-19, on 3 April 2020 the BNB Governing Council decided that it shall comply with the Guidelines voted at the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). As a consequence, a dialogue was initiated with the banking industry, in order to establish a procedure for deferral and settlement of liabilities payable by households and companies to banks and their subsidiaries. On April 10, the BNB Governing Council approved the draft Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries - financial institutions in connection with the State of Emergency introduced by the National Assembly on 13.03.2020, presented by the Association of Banks in Bulgaria. After its approval, the document constitutes a private moratorium within the meaning of the Guidelines of the European Banking Authority on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02). The approved private moratorium allows for changes in the repayment schedule of principal and/or interest on liabilities without changing any key parameters of the loan contract, such as interest already agreed. Liabilities may be deferred for a period of up to 6 months, expiring on 31 December 2020. The deferred liabilities must have been serviced regularly or not more than 90 days past due by 1 March 2020.

The Financial Supervisory Commission (FSC) shall proactively monitor the activities of the supervised entities, both in terms of their financial situation and their operational functioning. Information is requested on risk management, emergency action plans and measures taken and planned in relation to the pandemic. The FSC, as a participant in the European System of Financial Supervisors (ESFS), is actively involved in the activities of the European Regulatory Authorities and is involved in the adoption of a number of measures aimed at creating a single European practice for market participants and equal protection for the users of financial services.

3.3.3 **Other socio-administrative measures:**

- in the field of tourism, a package of measures is being prepared to prevent the insolvency of firms in the sector, including the issue of two-year vouchers to replace cancelled trips or holidays;
- the salaries (after paying taxes and insurance contributions) of MPs, members of the Council of Ministers, heads of state and executive agencies and members of their political cabinets for the period of the State of Emergency will be provided to the benefit of the health system;
- for the period of the emergency, the state subsidy under the Political Parties Act is not accrued and is not due, therefore political parties will not receive subsidies from the state during this period;

- by an Order the Minister of Health banned visits to entertainment and gambling halls, discotheques, bars, restaurants, fast food establishments, drinking establishments, coffee shops and large shopping centres, with the exception of bank and insurance offices, grocery stores and pharmacies in them. All kinds of mass events were suspended. The planned consultations and operations and the prophylactic examinations and immunisations were prohibited until 20 April.
- giving the unemployed the right to work in agriculture without losing their unemployment allowance;
- prohibit the export of medical equipment, supplies and medicines until sufficient quantities have been accumulated for the needs of the country;
- empowering employers to introduce, even without the consent of workers, work from home or to grant the workers, even without their consent, half of their paid annual leave;
- until the State of Emergency is lifted, no attachment of bank accounts of natural persons and medical institutions, attachments of salaries and pensions, protective measures on medical equipment, as well as the execution of inventories of movable property and immovable property owned by natural persons shall be imposed;
- until the State of Emergency is lifted, the consequences of late payment of obligations of private entities, including interest and penalties for late payment, as well as the non-monetary consequences such as early chargeability, cancellation of a contract and seizure of property, do not apply

- **Education measures**

The classes in schools, universities and other training institutions and organisations, as well as visits to day nurseries and kindergartens, shall be suspended for the period of the State of Emergency.

In response to this situation and to the policy pursued to strengthen the skills, including digital skills, and to enhance the quality and inclusiveness of education and training, in terms of education, the efforts shall aim at enabling e-learning.

Currently, about 89% of pupils are involved in e-learning, with free e-platform work accounts sent to all schools. The children with learning difficulties, as well as the 11% who are not covered in e-learning, will have additional classes during the summer months. In the absence of technical means, mediators provide materials at home.

The necessary technical means have been provided to pedagogical specialists and new Wi-Fi zones have been created in places with a concentration of children without internet access.

A National Electronic Library of Teachers has been created in which there is an opportunity to publish and share copyright educational, didactic and methodological materials for working in an electronic environment.

Table 2. **Discretionary measures adopted/announced in response to the spread of COVID-19, 2020**

Measure Title	Description	ESA code (revenue/ expenditure component)	Origin of funds	Acceptance status/Regulatory basis	Budgetary impact – annual, BGN million*	Budgetary impact, % of GDP – change from previous year
1	2	3	4	5	6	7
I. MEASURES TO OVERCOME THE SPREAD AND TO TREAT COVID-19						
Urgent expenditure on prevention of the spread of COVID-19	**Provide the necessary financial resources to carry out the assigned functions and responsibilities, with priority being given to the "front-line" workers in the fight against the spread of the virus – health workers in the internal order and security and defence sector.**	**D.1/P.2/P.51,expenditure**	**At the expense of restructuring the State budget expenditure**	**LMASE, announced by Decision of the National Assembly of 13 March 2020.**	**500.00**	**0.43%**
Of which: *Overtime by Police and Fire Safety and Population Protection Authorities*	*Increase in the personnel/overtime expenditure*	D.1, expenditure		*art. 8, para. 2 of the LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*161.37*	*0.14%*
Involvement of armed forces personnel in the implementation of the anti-pandemic measures	*Increase in the subsistence/secondment expenditure*	D.1/P.2, expenditure		*art. 9 and 11 of LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*168.10*	*0.14%*
Personnel from RHI and RHIF seconded for the temporary implementation of state health control activities	*Increase in the personnel and subsistence/secondment expenditures*	D.1, expenditure		*art. 18 and 19 of LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*0.50*	*0.00%*
Measures to control the compliance with the mandatory isolation of patients, vectors, contact persons and persons who have entered the territory from other countries	*Increase in personnel expenditure and subsistence*	D.1/P.2, expenditure		*§ 22 of the LMASE on the Health Act*	*11.50*	*0.01%*
Following a report by the State Agency "Reserve and Wartime Stocks" and an assessment by the Council of Ministers to provide	*Increase in the resources to supplement the state reserve*	P.2, expenditure		*art. 17 of LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*4.00*	*0.00%*

1	2	3	4	5	6	7
additional reserves of commodities and essential products						
Expansion of the opportunities for cash assistance, including for unemployment, Recalculation of pensions	*Increase in the resources for assistance and pensions under the budget of the SSS*	*D.62, expenditure*		*§ 5, item 2 of LMASE, announced by a Decision of the National Assembly of 13 March 2020; § 7 of LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*36.90*	*0.03%*
Free provision of food and sanitary products for the disadvantaged persons	*Providing a warm lunch for the low-income earners and the elderly in up to 172 municipalities for emergency social support for the period from March 2020 to April 2020 for up to 44 thousand people from the most vulnerable social groups. Social support – purchase and delivery of hand sanitizers to up to 7,000 persons over the age of 65 unable to serve themselves.*	*D.62, expenditure*		*Within the MLSP budget*	*5.20*	*0.00%*
Extension of the period of validity of the expert decisions of the TEMC and NEMC, which expire during the emergency	*The Expert decisions of TEMC and NEMC for the determination of permanently reduced capacity of work/type and degree of disability, in which invalidity expires during the period of validity of this law, shall continue until the State of Emergency is lifted and two months after its cancellation*	*D.62, expenditure*		*§ 20 of LMASE, announced by a Decision of the National Assembly of 13 March 2020.*	*6.00*	*0.01%*
Other costs related to measures under the LMASE		D.1/P.2/P.51g, expenditure			*106.43*	*0.09%*
Prophylactic and anti-epidemiological measures	Additional funds transferred to the budget of the Ministry of Health for the municipalities: Expenditure for materials – purchase of disinfectants, masks, gloves, thermometers, barriers for payment of taxes and fees and submission of service applications; Expenditure for external services – for disinfection of bins; Expenditure for disinfection of social homes – for elderly people.	P.2, expenditure	At the expense of restructuring the State budget expenditure	CMD № 40 of 2020	7.00	0.01%
Purchase of thermal cameras and sanitary equipment for border crossing points	Purchase and installation of thermal cameras and air and surfaces disinfection systems at all border crossing points – land and airport	P.51g, expenditure	At the expense of restructuring the State budget expenditure	Restructuring within the MH budget	7.60	0.01%

1	2	3	4	5	6	7
Distance learning of pupils as well as support for personal development through the means of information and communication technologies. – National ICT Programme under the MES's budget	Providing technical tools to pedagogical specialists and new Wi-Fi areas	P.2/P.51g, expenditure	At the expense of restructuring the State budget expenditure	Art. 20. (1) of the LMASE	2.20	0.00%
II. BUSINESS AND EMPLOYMENT MEASURES						
Capital increase of the Bulgarian Development Bank	Increasing the capital of the Bulgarian Development Bank (BDB) by BGN 700 million, creating an additional possibility for issuing guarantees under loan agreements – BGN 500 million for guarantees to the other commercial banks in their provision of loans to support businesses experiencing liquidity and lending difficulties and BGN 200 million as a guarantee to commercial banks for granting consumer interest-free loans to people deprived of the opportunity to work during the crisis.	F.5, financing	Additional Funding	Council of Ministers Decision 215/27.03.2020 on increasing the state's shareholding in the capital of the Bulgarian Development Bank	700.00	0.60%
Of which *Interest-free loans to help people deprived of the opportunity to work due to COVID-19*	*Purpose: Support to pandemic-affected natural persons who are:* *- Employed on unpaid leave* *- Self-insured persons who have ceased their activity and have at least a 20% drop in income.* *- No fees, no commissions, no loan penalties. Loans up to BGN 4,500 – Interest-free, with a grace period of 24 months and a repayment period of up to 5 years. Possibility to apply to 12 commercial banks.*	*F.5, financing*		*Council of Ministers Decision 257/14.04.2020*	*200.00*	*0.17%*
Unsecured loans to SMEs to provide liquidity	*loans to SMEs provided by commercial banks to provide liquidity to address the negative effects of COVID-19. Operated by the Bulgarian Development Bank through the commercial banks.* *- Maximum amount: up to BGN 300,000* *- Grace period (principal and interest): up to 36 months* *- Without collateral* *- Eligible all sectors and covers the entire territory of Bulgaria* *- Deadline for application: until 23.12.2020* *The expected loan portfolio to be obtained under this instrument may reach BGN 2 billion.*	*F.5, financing*			*500.00*	*0.43%*

1	2	3	4	5	6	7
Supporting the economy and preserving jobs in the country – the so-called "60/40" measure	The State of the payment will cover 60 per cent of individual insurance income for January and the related social security contributions due by the employer for undertakings whose business has suffered the most from the emergency measures put in place to control the spread of the coronavirus infection.	D.62, expenditure	Additional expenditure	Adopted, ASA of the LMASE, announced by a Decision of the National Assembly of March 13, 2020.	1,000.00	0.85%
Reduction of rental contributions or exempt from payment in whole or in part	Until the lifting of the State of Emergency by a Decision of the Council of Ministers, ministers, governors and managers of other agencies that have rented out state-owned properties, or municipal councils that have rented out municipal property, have the possibility to adopt decisions, respectively, order the reduction of rental contributions or exemption from payment in whole or in part the natural and legal persons – tenants or users who have limited or ceased their activities as a result of the measures and restrictions imposed during the State of Emergency.	P.131, revenue		ASA of the LMASE announced by a Decision of the National Assembly of March 13, 2020	-30.00	-0.03%
Measures imposed on physical constraints and measures leading to the limitation or suspension of the use of the services during the period of the State of Emergency	Reduction of revenues from tourism tax, real estate tax, market usage charges, technical services and kindergartens	D2, revenue		Order of the Minister of Health on the measures imposed for on physical constraints and measures leading to the limitation or suspension of the use of the services during the period of the State of Emergency	-70.00	-0.06%

Table 2. **Accepted/announced guarantees in response to the COVID-19 outbreak**

List of measures	**Description**	**Adoption status**	**Maximum amount of contingent liabilities (% of GDP)**	
Supporting the economy	Provision is made for possibility of issuing government guarantees under loan agreements of BDB amounting to up to BGN 700 million, subject to the state aid legislation	Regulated in Art. 70a of the amended State Budget Act of the Republic of Bulgaria for 2020 with the amendment of the Law (promulgated, SG issue 34 of 09.04.2020)		0.6
			Total	0.6%

3.3.4 **Contribution of the Structural Funds to measures to combat the pandemic**

Following the authorisation by the European Commission part of the funds under operational programmes will also be directed towards combating the spread of the coronavirus and eradicating its effects. The potential resources, programmes and measures to be mobilised to respond directly to the deepening crisis have been identified in conjunction with the managing authorities under the individual operational programmes. On the basis of the information on the internal allocation of the resource per programme and the additional budget needed to finance specific measures, transfers of funds from and to certain operational programmes have been identified allowing the funding of activities necessary in view of the situation.

A financial package of over BGN 870 million has been established to finance measures of a socio-economic nature to support people and enterprises directly affected by the crisis. The sources are the internal resources from non-negotiated and saved funds from ongoing operations, as well as funds reallocated through the transfer of funds to Operational Programmes "Human Resources Development", "Innovation and Competitiveness" and "Regions in Growth". The transfer of funds between the operational programmes and their targeting to specific measures to minimise the negative consequences of the spread of the pandemic of COVD-19 was initiated by a Council of Ministers Decision № 256 of 14.04.2020, and the programmes themselves are due to be amended.

Depending on their focus, some of the measures are already being implemented, namely: "Protection of the population from threats to public health" amounting to BGN 60 million and "Patronage Care for the elderly and the disabled and the persons in quarantine" amounting to BGN 45 million, financed with funds from OP "Human Resources Development" as well as "Combating COVID-19" amounting to BGN 40.4 million, financed with funds from OP "Regions in Growth". Other measures such as the preparation of targeted financial instruments to support SMEs, tourism and other crisis-hit economic actors are under development.

Regulation (EU) № 2020/460 of the European Parliament and of the Council amending Regulations (EU) № 1301/2013, (EU) № 1303/2013 and (EU) № 508/2014 in regard of the specific measures to mobilise investments in the Member States' health systems and other sectors of their economies to counter COVID-19 (Coronavirus Response Investment Initiative – CRII) entered into force on 1 April 2020. The changes to the General Provisions Regulation and the European Regional Development Fund Regulation give the Member States the necessary flexibility to transfer funds within a given programme, removing the need for approval by the European Commission of programme changes up to a certain limit from their budget. In addition, a support shall be allowed to provide working capital for small and medium-sized enterprises to respond effectively to the threat to public health, as well as opportunities for investment in products and services to strengthen the capacity of the public health institutions. The corresponding expenditure on the basis of the amended provisions shall be eligible as from 1 February 2020.

On 2 April 2020 the EC presented a second package of measures and proposals to amend and supplement the applicable funding Regulations of the Cohesion Policy 2014-2020 through the European Structural and Investment Funds (ESIF) to help the Member States combat COVID-19 (CRII+), aiming at providing additional flexibility for the Member States to respond to this unprecedented crisis by strengthening the possibility to mobilise all unused support from the Funds.

Table 3. **Mobilized financial resource from the Operational Programmes 2014-2020 to support measures against the pandemic**

Contributions from the European structural and investment funds for supporting the measures minimizing the negative effects from the pandemic spread of COVID-19, including:	**Total recourses – BGN 873.5 million**	**Adoption status**
1) Protection of the population from threats to public health (BGN 60 million) OP "Human Resources Development" 2014-2020 The measure's direct beneficiary – the Ministry of Health	Priority axis 1: Improving the access to employment and work place quality; remuneration, secondment and materials expenditure "Support to health care professionals in the face of a threat to public health from COVID-19"	Adopted
2) Patronage care for the elderly and disabled and quarantined persons (BGN 45 million) OP "Human Resources Development" 2014-2020		Adopted
3) Short-term employment schemes under thematic objectives 8 and 9 (BGN 254.8 million) OP "Human Resources Development" 2014-2020	The measure will be financed with a resource from the programme that is expected not to be implemented by the beneficiaries or by operations that will not be launched in 2020 (BGN 121 million) and transfer of resources from OP "Good Governance" (BGN 105 million) and OP "Science and Education for smart growth" (BGN 28.8 million)	Pending
4) Providing working capital (liquidity support) to SMEs as a temporary response to the public health crisis – through a grant scheme OP "Innovation and Competitiveness" (BGN 273.3 million)		Pending
5) Provision of working capital (liquidity support) to SMEs as a temporary measure in response to the public health crisis – through a financial instrument OP "Innovation and Competitiveness" (BGN 200 million)		Pending
6) Provision of funds for the purchase of medical supplies and equipment for medical institutions that are on the first line in the combat against COVID-19 (BGN 40.4 million) The measure's direct beneficiary – the Ministry of Health OP "Regions in Growth"	The support will be directed towards ensuring: – Apparatus for invasive respiratory ventilation (317 pcs.), beds, specialized portable kit, specialized equipment for laboratories; – Consumables (140,000 pcs.) and tests (177,000 pcs.) for primary and confirmatory diagnostics for hospitals and laboratories/national centre for communicable and parasitic diseases; – Personal protective equipment and clothing for hospitals, regional inspectorates, transfusion haematology establishments and emergency centres.	Adopted

ANNEX A

Table 1a: Macroeconomic prospects

	ESA 2010 code	2019	2019	2020	2021	2022	2023
		Level (MBGN)	Rate of change	Rate of change	Rate of change	Rate of change	Rate of change
Real GDP (at previous year prices)	B1*g	113 393	3.4	-3.0	n.a.	n.a.	n.a.
Nominal GDP	B1*g	118 669	8.2	-1.1	n.a.	n.a.	n.a.
Components of real GDP							
Private consumption expenditure	P.3	69 288	5.8	-2.0	n.a.	n.a.	n.a.
Government consumption expenditure	P.3	19 043	5.5	7.7	n.a.	n.a.	n.a.
Gross fixed capital formation	P.51	21 075	2.2	-2.5	n.a.	n.a.	n.a.
Change in inventories and net acquisition of valuables (% of GDP)	P.52+ P.53	1 428	1.2	1.2	n.a.	n.a.	n.a.
Export of goods and services	P.6	73 645	1.9	-16.3	n.a.	n.a.	n.a.
Import of goods and services	P.7	71 086	2.4	-12.9	n.a.	n.a.	n.a.
Contributions to real GDP growth (In p.p.)							
Final domestic demand		-	4.8	-0.3	n.a.	n.a.	n.a.
Change in inventories and net acquisition of valuables	P.52+P.53	-	-1.2	0.0	n.a.	n.a.	n.a.
External balance of goods and services	B.11	-	-0.3	-2.6	n.a.	n.a.	n.a.

Table 1b: Price developments

	ESA 2010 code	2019	2019	2020	2021	2022	2023
		Level	Rate of Change[15]	Rate of Change	Rate of Change	Rate of Change	Rate of Change
GDP deflator		100	4.7	1.9	n.a.	n.a.	n.a.
Private consumption deflator		100	2.0	0.4	n.a.	n.a.	n.a.
HICP[16]		100	2.5	0.1	n.a.	n.a.	n.a.
Public consumption deflator		100	9.3	6.2	n.a.	n.a.	n.a.
Investments deflator		100	2.8	1.4	n.a.	n.a.	n.a.
Export price deflator (goods and services)		100	2.4	-6.4	n.a.	n.a.	n.a.
Import price deflator (goods and services)		100	0.4	-6.9	n.a.	n.a.	n.a.

[15] Percentage change as compared to the previous year.

[16] Optional for Stability Programmes.

Table 2a: General Government budgetary prospects

	ECC 2010	2019	2019	2020	2021	2022	2023
		Level	% of GDP	% of GDP	% of GDP	% of GDP	% of GDP
Net lending (EDP B.9) by subsector							
1. General government	S.13	2 469.7	2.1	-3.1	n.a.	n.a.	n.a.
2. Central government	S.1311	2 349.5	2.0	-3.2	n.a.	n.a.	n.a.
3. State government	S.1312				n.a.	n.a.	n.a.
4. Local government	S.1313	-145.6	-0.1	0.0	n.a.	n.a.	n.a.
5. Social security funds	S.1314	265.8	0.2	0.1	n.a.	n.a.	n.a.
6. Total revenue	TR	45 553.8	38.4	37.1	n.a.	n.a.	n.a.
7. Total expenditure	TE	43 084.1	36.3	40.2	n.a.	n.a.	n.a.
8. Net lending / borrowing	EDP B.9	2 469.7	2.1	-3.1	n.a.	n.a.	n.a.
9. Interest expenditure	EDP D.41	665.8	0.6	0.6	n.a.	n.a.	n.a.
10. Primary balance		3 135.5	2.6	-2.5	n.a.	n.a.	n.a.
11. One-off and other temporary measures		0.0			n.a.	n.a.	n.a.
12. Total taxes (12=12a+12b+12c)		25 640.5	21.6	21.6	n.a.	n.a.	n.a.
12a. Taxes on production and import	D.2	18 300.8	15.4	15.3	n.a.	n.a.	n.a.
12b. Current taxes on income, wealth, etc.	D.5	7 026.6	5.9	6.0	n.a.	n.a.	n.a.
12c. Capital taxes	D.91	313.1	0.3	0.3	n.a.	n.a.	n.a.
13. Social contributions	D.61	10 613.0	8.9	9.3	n.a.	n.a.	n.a.
14. Property income	D.4	682.8	0.6	0.6	n.a.	n.a.	n.a.
15. Other		8 617.5	7.3	5.6	n.a.	n.a.	n.a.
16=6. Total revenue	TR	45 553.8	38.4	37.1	n.a.	n.a.	n.a.
Tax burden (D.2+D.5+D.61+D.91-D.995)		36 253.5	30.6	30.9	n.a.	n.a.	n.a.
17. Compensation of employees + intermediate consumption	D.1+P.2	17 444.8	14.7	16.0	n.a.	n.a.	n.a.
17a. Compensation of employees	D.1	12 165.3	10.3	11.1	n.a.	n.a.	n.a.
17b. Intermediate consumption	P.2	5 279.5	4.4	4.9	n.a.	n.a.	n.a.
18. Total social transfers (18=18a+18b)		15 999.8	13.5	15.2	n.a.	n.a.	n.a.
of which Unemployment benefits	D.621, D.624	424.5	0.4	0.4	n.a.	n.a.	n.a.
18a. Social transfers in kind	D.6311. D.63121. D.63131	3 271.5	2.8	2.8	n.a.	n.a.	n.a.
18b. Social transfers other than in kind	D.62	12 728.3	10.7	12.5	n.a.	n.a.	n.a.
19=9. Interest expenditure	EDP D.41	665.8	0.6	0.6	n.a.	n.a.	n.a.
20. Subsidies	D.3	2 839.3	2.4	2.1	n.a.	n.a.	n.a.
21. Gross fixed capital formation	P.51	3 758.8	3.2	4.3	n.a.	n.a.	n.a.
22. Capital transfers	D.9	1 370.0	1.2	0.6	n.a.	n.a.	n.a.
23. Other		975.6	0.8	1.3	n.a.	n.a.	n.a.
24=7. Total expenditure	TE1	43 084.1	36.3	40.2	n.a.	n.a.	n.a.
Government consumption (nominal)	P.3	20 821.3	17.5	20.3	n.a.	n.a.	n.a.