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# ***THE BUDGET BALANCE – TECHNICAL AND FINANCIAL ASPECTS<sup>1</sup>***

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**Abstract:** The paper focuses on issues related to the procedure for determining the different types of budget balance in compliance with the consolidated fiscal programme (CFP) and the national budget, and their economic interpretation. The paper also specifies that the numeric value which states the difference between the value of receipts and the value of outlays depends on the absolute sum of expenditure on interest payments on internal and external loans. The dynamics of the difference between the values of receipts and outlays under the CFP and under the national budget is analysed. We prove that the rate of change in the consolidated cash budget balance does not match the rate of change in the cash balance on the national budget. We also identify the relation between analysed balance variables and the reference values approved by the Maastricht Treaty and set in the Public Finance Act. An analysis is made of the effect which the rate of change in the nominal value of receipts and outlays exercises on the dynamics of analysed cash budget balances. Finally, we arrive at the conclusion that the value and the relative share of the budget balance in the GDP do not pose a threat to public finance stability.

**Key words:** consolidated fiscal program, national budget, budget balance, budget deficit, budget surplus.

**JEL:** H61, H62.

**T**he contemporary features of a budget, as defined by the Public Finance Act, which relate the economic essence of a national budget to the objectives of a government's programme, enable us to approach budgets as the financial foundation of that programme. Justification of

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<sup>1</sup> The authors' contribution to this paper is: Prof. R. Lilova – Introduction, Part One and Part Four; Assistant P. Angelov – Part Two, Part Three and Conclusion.

receipts and outlays in terms of their efficiency and feasibility is a major task whose successful implementation is important to individual ministries, the government, and the public in general. The definition of receipts according to their source of origin and that of outlays according to economic elements and from a functional perspective is closely related to the budget balance whose value and relative share in the GDP of the country have a direct impact upon the stability of public finance and the compliance with the basic budgeting principles. Taking into account the significance which the difference between budget receipts and outlays bears to the overall social and economic development of the country, the **object** of this paper is the elements and the value of the budget balance, while its **subject** has been defined to be the assessment of the underlying reasons and the effects of the specific values of the budget balance. Based on the object and the subject thus defined, we have formulated our **research thesis** as follows: compliance with the budget balance under the consolidated fiscal programme and under the national budget within the margins approved by the Maastricht Treaty and prescribed by the Public Finance Act guarantees the efficiency of a fiscal policy and the stability of public finance.

## I

A budget balance represents the difference between receipts and outlays in compliance with the consolidated fiscal programme (CFP) and the national budget. According to its elements, a budget balance may be defined as:

- **A primary budget balance.** It is calculated as the difference between the sum of all receipts (tax receipts, non-tax receipts, grants and donations) and the value of outlays minus the interests on internal and external loans. Hence, the consolidated primary budget balance is the difference between the sum of all receipts and outlays under the consolidated fiscal programme after deducting the value of consolidated interest payments. The primary balance on the national budget is the difference between all receipts and outlays minus the interest payments on the national debt. A positive value of the primary consolidated or budget balance indicates the size of further expenditure which would be funded in the absence of a government debt. A negative primary balance indicates that the total amount of outlays minus the interest payments on internal and external loans exceeds the amount of budget receipts. We could therefore conclude in the second case that even in the absence of an internal or external debt, the value of government expenditure exceeds the sum of public receipts. When a primary budget balance is negative, all other budget balances are negative values, too.

- **An internal budget balance.** The internal budget balance indicates whether the value of the receipts has been balanced to the amount of the outlays under the consolidated fiscal programme and under the national when there are internal loans on which interest payments are due. Another definition of the internal budget balance is that it represents the difference between the total value of budget receipts and the amount of budget outlays minus the interest payments on the external loans. That type of balance may also be consolidated and budgetary, i.e. calculated in compliance with the indicators set in the consolidated fiscal programme or the national budget. Similar to the internal balance on the national budget, the consolidated internal budget balance may be a positive or a negative value. A positive value indicates that the sum of receipts exceeds the amount of outlays minus the interest payments on external loans. A negative value of the internal consolidated or budgetary balance indicates that the sum of outlays minus the interest payments on external loans exceeds the value of tax and non-tax receipts, grants and donations. When the internal budget balance is negative, the cash consolidated or budget balance will be a negative value, too.

- **A cash budget balance.** It is calculated as a sum of the internal budget balance and the interest payments on external debts (it should be noted that payments on interests are included in the expenditure section of the budget) or as the difference between the value of all receipts under the consolidated fiscal programme and the national budget and the sum of all outlays under the consolidated fiscal programme and the national budget. The cash budget balance is subject to analysis in specialised texts and is stated on a separate line both in the consolidated fiscal programme and in the national budget. Its value is assessed as a factor related to the efficiency of government outlays and the overall stability of public finance. Over the last years, the values of the consolidated cash balance and the cash balance on the national budget have been quite dynamic, i.e. they have assumed both negative and positive values. There has also been a trend towards a decrease in the relative share of that balance in the GDP.

A theoretical analysis of these types of budget balances leads to several major conclusions:

**F i r s t.** The values of the primary, the internal and the cash budget balance are different in the presence of internal or external government indebtedness. The numeric value of each of the three balances will depend on the size of interest payments on internal and external loans.

**S e c o n d.** A negative primary budget balance is a prerequisite for negative values of the internal budget balance and the cash budget balance. At the same time, a positive value of the primary budget balance may lead to no definite conclusions about the values of the other types of budget balances.

**T h i r d.** A negative value of the internal budget balance, calculated as the difference between the value of budget receipts and the sum of budget outlays minus the interest payments on external loans, is a prerequisite for a negative cash budget balance. A positive value of the internal budget balance, however, does not guarantee a positive value of the cash budget balance.

**F o u r t h.** The relative share of the consolidated government debt in the GDP of the country is below the reference value of 60% approved by the Maastricht Treaty and set in the Public Finance Act. According to data provided by the Ministry of Finance, the ratio between government debt and GDP in 2014, 2015 and 2016 was 26.40%, 26.30% and 29.40%<sup>2</sup>, respectively.

**F i f t h.** The absolute sum of interest payments on internal and external debts does not pose a threat to the stability of public finance. What is more, it was a little higher than Bulgaria's contribution to the EU budget. In 2015, for example, according to data provided by the Ministry of Finance (MF), interest payments under the consolidated fiscal programme (CFP) amounted to BGN 698.30 million. In the same year, interest payments under national budget amounted to BGN 654.90 million, while Bulgaria's contribution to the EU budget was BGN 946.40 million. In 2014, the value of these indicators was BGN 579.90 million for interest payments under the CFP; BGN 541.80 million for interest payments under the national budget and BGN 954.90 million for the country's contribution to the EU budget. The ratio between interest payments and GDP varied between 0.70% and 0.90%. We may therefore conclude that interest payments are not a major factor accounting for the negative difference between the sum of budget receipts and the value of budget outlays.

**S i x t h.** According to the Public Finance Act, the annual budget deficit under the consolidated fiscal programme, calculated on a cash basis, may not exceed 2% of the GDP. At the same time, the general government deficit on an annual basis may not exceed 3% of the GDP. Over the last years, governments have been trying to maintain the deficit within the limits stated above, which is supported by the findings of the analysis made further in this paper.

**S e v e n t h.** Considering the fact that outlays for interest payments on internal and external government loans are an element of current government outlays, this paper continues further with an analysis of the cash budget balance under the consolidated fiscal programme and under the national budget.

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<sup>2</sup> The analysis is based on data provided by the Ministry of Finance.

## II

According to the Public Finance Act, the consolidated fiscal programme is ‘a system of aggregate variables about the central budget and the budgets of budgetary organisations, including their accounts for European Union funds and accounts for external funds’ (The Public Finance Act, Article 4). Therefore, the receipts and outlays under the consolidated fiscal programme refer to the funding of all public goods for a specific period, i.e. a year. The difference between receipts under the central budget, the other budgets, the budget accounts for EU funds and the accounts for external funds of budgetary organisations, on the one hand, and the outlays for these units and accounts, on the other hand, constitute the consolidated budget balance whose dynamics is illustrated in Table 1 below.

**Table 1. Budget balance under the Consolidated Fiscal Programme of the Republic of Bulgaria (2008–2015)**

<b>Period</b>	<b>Budget balance under the CFP in BGN million</b>	<b>Budget balance under the CFP as a percentage of the GDP</b>	<b>Rate of change in the budget balance under the CFP compared to the previous year<sup>3</sup></b>
<b>2008</b>	1989.90	3.00%	-
<b>2009</b>	-626.10	0.90%	-68.54%
<b>2010</b>	-2822.80	4.00%	350.85%
<b>2011</b>	-1488.50	2.00%	-47.27%
<b>2012</b>	-358.80	0.50%	-75.90%
<b>2013</b>	-1 440.70	1.80%	301.53%
<b>2014</b>	-3 072.90	3.70%	113.29%
<b>2015</b>	-2 485.20	2.90%	-19.13%
<b>Average<sup>4</sup></b>	-1 288.14	2.35%	-141.94%
<b>Stdev<sup>5</sup></b>	1 651.17	1.27%	28.18%

Source: MF.

Our analysis of the data provided in Table 1 indicates that at the beginning of the analysed period, the budget balance amounted to BGN 1,989.90 million, that is, 3% of the GDP, which is in compliance with the fiscal objective of the government. The excess of receipts over outlays resulted in an increase of the fiscal reserve, which might be used to mitigate the effect of adverse external and internal economic events, and indicated that

<sup>3</sup> Calculations of the author.

<sup>4</sup> Calculations of the author.

<sup>5</sup> Calculations of the author.

a solid fiscal position was maintained in a situation of an emerging global economic crisis. In 2009, the budget balance decreased by 68.54% to reach a negative value of BGN 626.10 million, which was 0.90% of the country's GDP. The major reason behind the negative trend in the analysed balance should then be sought in the discrepancy between the planned and the actual values of receipts and outlays. In 2009, the implementation of consolidated receipts amounted to 76.90% of the State Budget of the Republic of Bulgaria Act, and the implementation of consolidated expenditure amounted to 89.20%. Given the crisis, the decrease in the absolute value of both elements which the budget balance depends on was natural, yet another fact we need to consider is that expenditure on the defence and transport sectors increased, while the investment and credit activity in the country became lower due to the global financial crisis. In 2010, the budget balance under the consolidated fiscal programme was a negative value again, amounting to BGN – 2,822.80 million, which was 4.00% of the GDP. Compared to the previous year, that was a difference of 350.85%. The deterioration of the value was due to the increase in the relative share of expenditure on social security and welfare. This was quite logical, considering the fact that the crisis led to increasing unemployment and payment of social benefits, which in turn, was a prerequisite for growing social expenditure and the negative budget balance under the consolidated fiscal programme. In 2011, the absolute value of the budget balance under the consolidated fiscal programme amounted to BGN - 1,488.50 million, or 2.00 % of the GDP. There was a downward trend since the reduction amounted to 47.27% of the value registered in 2010. According to the Report on the Implementation of the Budget of the Republic of Bulgaria for 2011, the major expenditure function which had a negative effect on the budget balance was that of social security and welfare, and the growth of retirement benefits and the number of retired people in the period in particular, as well as the increase in the size of the pension supplement paid in compliance with Article 84 of the Social Security Code. In 2012, the lowest negative value of the budget balance during the analysed period was registered at BGN -358.80 million, which was 0.50% of the GDP of the country. That was a reduction of 75.90% compared to the value recorded in the previous year. That trend may be accounted for by the increased receipts from social security contributions and the higher expenditure on improving employment opportunities to mitigate the negative effects of the crisis. In 2013, the budget balance was a negative value again, amounting to BGN - 1,440.70 million, which was 1.80% of the GDP. Compared to the year 2012, that was a change by 301.53%. The implementation of receipts under the consolidated fiscal programme in 2013 amounted to 95.40% of the receipts set in the State Budget of the Republic of Bulgaria Act, the implementation of

expenditure amounting to 95.10%. A major prerequisite for that increase in the negative budget balance, according to the Report on the Implementation of the State Budget of the Republic of Bulgaria for 2013, was the Social Security and Welfare function, including the expenditure on retirement benefits which was reported under the budgets of the State Social Security Fund and the Teachers' Pension Fund, as well as the expenditure on updating pensions and pension supplements. In 2014, the value of the indicator deteriorated: its absolute value amounted to BGN -3,072.90 million, which was 3.70% of the GDP. The deficit increased by 113.29%. According to the Report on the Implementation of the Budget of the Republic of Bulgaria for 2014, the negative change in the cash budget balance was mainly due to the deteriorated value of the expenditure on health insurance benefits. We should also point out that the ratio between aggregate outlays and GDP was 39.50%, compared to 37.90% in 2013. In 2015, the budget balance amounted to BGN -2,485.20 million, which was 2.90% of the GDP. Compared to 2014, the value decreased by 19.13%. That was due both to the rationalisation of expenditure, transfers and contributions to the EU budget, and the increased collection rate of receipts during the year. Thus implementation of receipts under the State Budget of the Republic of Bulgaria Act amounted to 101.70%, which was a change by 109.40% compared to the year 2014.

The average value of the budget balance under the consolidated fiscal programme for the period from 2008 to 2015 amounted to BGN -1,288.14 million, the value of the standard deviation being BGN 1,651.17 million. The average value was 2.35% of the GDP of the country, the standard deviation being 1.27%. The average rate of change in the budget balance under the consolidated fiscal programme compared to the previous year amounted to -141.94%, the standard deviation being 28.18%.

Our analysis of the budget balance under the consolidated fiscal programme leads to the following conclusions:

**F i r s t.** During the period from 2008 to 2015, the budget balance under the consolidated fiscal programme was negative, except for the year 2008. The highest budget deficit was registered in 2014, while the lowest one was registered in 2012;

**S e c o n d.** In the period from 2009 to 2014, the implementation of receipts in the consolidated fiscal programme under the State Budget of the Republic of Bulgaria Act was below 100%, the lowest implementation of receipts of 95.40% being recorded in 2013. In 2015, the implementation of receipts was 101.7%;

**T h i r d.** In the period from 2009 to 2014, the implementation of outlays in the consolidated fiscal programme under the State Budget of the Republic of Bulgaria Act was below 100%, the lowest value of outlays

implementation (95.10%) being reported in 2013. In 2015, the implementation of outlays in the consolidated fiscal programme was 100.5%.

F o u r t h. The reference value of the consolidated budget deficit of 2.00% was exceeded by the values reported in 2010, 2014 and 2015.

### III

The national budget is a major item in the structure of the consolidated fiscal programme. The dynamics of the balance calculated as the difference between the receipts and the outlays in the national budget is illustrated in Table 2.

*Table 2. Budget balance on the national budget of the Republic of Bulgaria (2008–2015)*

	<b>Budget balance on the national budget in BGN million</b>	<b>Budget balance on the national budget as a percentage of the GDP</b>	<b>Rate of change of the budget balance on the national budget compared to the previous year.<sup>6</sup></b>
<b>2008</b>	1641.20	2.25%	-
<b>2009</b>	-945.10	1.29%	-42.41%
<b>2010</b>	-1596.60	2.16%	68.93%
<b>2011</b>	-1809.70	2.26%	13.35%
<b>2012</b>	-937.30	1.15%	-48.21%
<b>2013</b>	-1 117.10	1.36%	19.18%
<b>2014</b>	-2 568.10	3.10%	129.89%
<b>2015</b>	-2024.40	2.30%	-21.17%
<b>Average<sup>7</sup></b>	-1 169.64	0.56%	-209.05%
<b>Stdev<sup>8</sup></b>	1 269.77	2.14%	8.56%

Source: MF.

An analysis of the data presented in the table above indicates that in 2008, the budget balance on the national budget was positive and the reported budget surplus amounted to BGN 1,641.20 million, or 2.25 % of the GDP of the country. In 2009, a budget deficit was recorded, the value of the budget balance amounting to BGN -945.10 million, which was 1.29 % of the GDP. The result of the downward trend was a reduction by 42.41%. The sharp

<sup>6</sup> Calculations of the author.

<sup>7</sup> Calculations of the author.

<sup>8</sup> Calculations of the author.



decrease was mainly due to lower receipts from the VAT on imports and the delayed collection of direct tax receipts. In spite of the lump-sum payment which Bulgaria received to improve budget cash flows in compliance with Article 32 of the Treaty concerning the accession of the Republic of Bulgaria to the EU<sup>9</sup>, the receipts available proved insufficient to cover government expenditure. In 2010, the deficit increased by 68.93%, the value of the variable reaching BGN -1,596.60 million, which was 2.16% of the GDP. The implementation of receipts under the National Budget of the Republic of Bulgaria Act was 100.50%, yet the implementation of receipts compared to the year 2009 was 92.10%. In 2011, the deficit grew further to reach a value of BGN -1809.70 million, or 2.26% of the GDP of the country. That was an increase by 13.35% compared to the year 2010 and was primarily due to an increase in budget transfers, i.e. transfers to the other budgets increased by 107.40% in comparison to planned transfers. In the following year, there was a reduction of deficit by 48.12%. The deficit amounted to BGN -937.30 million, which was 1.15% of the GDP. The trend was due to the well-balanced fiscal and expenditure policy which was conducted during the year. In 2013, there was a budget deficit again, its value amounting to BGN -1 117.10 million (1.36% of the GDP). That was an increase by 19.18%, compared to the value of the variable in 2012 and was due to the lower collection rate of taxes during the year (the implementation being 98.60% of the values set in the National Budget of the Republic of Bulgaria Act), as well as overspending in terms of transfers from the national budget and the contribution to the EU budget. There was a dramatic increase in the value of the deficit in 2014 to BGN -2 568.10 million, which was the highest value recorded over the entire period. That was also the year in which the highest rate of change in comparison to the previous year was recorded, its value reaching 129.89%. The implementation of receipts in 2014 compared to the National Budget of the Republic of Bulgaria Act National Budget of the Republic of Bulgaria Act 5689 was 97.20%, and the implementation of expenditure was 97.10%. Furthermore, compared to 2013, the implementation of national budget receipts was 97.70%, and that of expenditure was 105.10%. At the same time transfers to other budgets increased by more than 10 % compared to the planned values and the contribution to the EU budget increased by more than 5.00%. During the last year of the analysed period, 2015, the registered deficit amounted to BGN -2,024.40 million, which was 2.30% of the GDP. Compared to the previous year, that was a reduction by 21.17%, which was mainly due to increased tax receipts (the implementation

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<sup>9</sup> Report on the Implementation of the State Budget of the Republic of Bulgaria in 2009, p. 108, <http://www.minfin.bg/document/5933:3>

being 106.90% compared to the year 2014), as well as receipts from state and court fees and reduced expenditure on interest payments (the implementation of interest payments amounted to 77.40 % of the values set in the National Budget of the Republic of Bulgaria Act, yet, compared to the year 2014, those payments increased by 20.90%). The average value of the balance on the national budget was BGN -1, 169.64 million, which was 0.56% of the average GDP of the country over the period. The average rate of change in comparison to the previous year was 209.05%. The standard deviation of the analytical value of the budget balance under the national budget was BGN 1,269.77 million. The deviation in the values of the budget balance as a percentage of the GDP under the national budget from the average value was 2.14%, and that of the rate of change compared to the previous year was 8.56%.

As a result of our analysis of the budget balance on the national budget we may conclude that:

**F i r s t.** In the period from 2008 to 2015, the balance on the national budget was negative, except for the year 2008. The highest budget deficit was reported in 2014, and the lowest – in 2012;

**S e c o n d.** The reference value for the deficit on the state budget (on a cash basis) being 3.00%, the value of that variable was 3.10% only in 2014.

**T h i r d.** The ratios between the consolidated budget balance and the GDP and between the budget balance and the GDP were different, i.e. the relative share of the analysed balances in the GDP was different. The absolute sums of the consolidated budget balance and the cash balance on the national budget also differed. What is more, the financial year of 2016 ended with a deficit on the national budget, and the consolidated budget balance was positive for the first time after the year 2008.

**F o u r t h.** The rate of change of the budget balance did not match the rate of change of the consolidated budget balance, which supports the fact that the consolidated budget balance is also affected by the difference between the receipts and the outlays on the other budgets included in the consolidated fiscal programme.

#### **IV**

Our research of the dynamics of the consolidated cash balance and the budget balance leads us to the conclusion that during the period from 2008 to 2015, the actual implementation of receipts and outlays under the consolidated fiscal programme and under the national budget was not in compliance with the values prescribed in the State Budget of the Republic of Bulgaria Act. When the values reported for those two variables are below or

over the standard values set, thus indicating a budget deficit or surplus, inaccurate conclusions may be made whether the fiscal rules prescribed in the Public Finance Act have been complied with. Planning a consolidated cash budget deficit for the year 2016, provided that in 2015 the implementation of receipts under the State Budget of the Republic of Bulgaria Act exceeded 100%, contradicts financial logics. It is therefore necessary to raise the importance of both annual and mid-term budget planning as an instrument ensuring that realistic values will be determined for budgetary balances. The implementation of receipts and outlays under the consolidated fiscal programme and under the national budget for the current year would thus logically provide the basis for determining their values in the State Budget of the Republic of Bulgaria Act for the following year.

### **Conclusion**

The budget balance is essential to the stability of public finance and the overall social and economic development of the country. Compliance with the major budget principles is a prerequisite for maintaining the difference between budget receipts and outlays within the limits set by the Public Finance Act. Over the period we have analysed (i.e. from 2008 to 2015), the rates of change of the consolidated cash budget balance were in discrepancy with those of the cash balance under the national budget, which was due to the fact that the consolidated balance was also affected by the difference between receipts and outlays under the other budgets included in the consolidated fiscal programme. Our analysis of the dynamics of cash budget balances indicates that their value and relative share in the GDP largely depend on the efficiency of the fiscal policy and on the rational expending of accumulated public resources. Hence, an accurate planning of budget receipts and their rational allocation are a prerequisite for ensuring predictability and stability of public finance.

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# Requirements to be met when depositing articles for Narodnostopanski arhiv journal

**1. Number of article pages:** from 12 to 25 standard pages

**2. Deposit of journal articles:** one printout (on paper) and one in electronic form as attached file on E-mail: NSArhiv@uni-svishtov.bg

**3. Technical characteristics:**

- performance Word 2003 (minimum);
- size of page – A4, 29-31 lines and 60-65 characters on each line;
- line spacing 1,5 lines (At least 22 pt);
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- margins – Top - 2.54 cm; Bottom - 2.54 cm; Left - 3.17 cm; Right - 3.17 cm;

- page numbering – bottom right;

- footer text – size 10 pt;

- graphs and figures – Word 2003 or Power Point.

**4. Layout:**

- title of article, name of author, academic position and academic degree – font Times New Roman, 14 pt, with capital letters Bold – centered;

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- JEL classification of publications on economic topics (<http://ideas.repec.org/j/index.html>);

- main body (main text);

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**5. Rules for footnote:** When citing sources, authors should observe the requirements of **APA Style** at <http://www.apastyle.org/> or at <http://owl.english.purdue.edu/owl/resource/560/01/> or at <http://www.calstatela.edu/library/guides/3apa.pdf>.

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