
FINANCIAL ASPECTS OF IMPLEMENTATION OF SOCIAL POLICY IN THE REPUBLIC OF BULGARIA DURING THE PERIOD 2000-2015

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Abstract: The article studies the state and development trends in the social policy of the Republic of Bulgaria during the period 2000-2015. The significance of this study has been determined by the fact that in accordance with the Consolidated Fiscal Programme, the costs made by the state in order to keep its social policy and compared to its GDP over the same period, have ranged between the considerable 14.35% and 18.39%. During the analysed period the state was striving for expanding the scope and opportunities for development of the social policy. Despite the changes in the economic conjuncture, the amount of funds that have been spent on social protection has been growing, which is an irrefutable evidence of the stable and sustainable social policy of the Republic of Bulgaria.

Key words: social policy, CFP, expenditures by functions "Social Security and Welfare", "Health Care".

JEL: G28, H55, J18.

Building a sustainable and prosperous state depends on two important factors - economic stability and social unity. The interrelationship between these factors is supported by means of the social policy conducted by the state. In turn, it represents "that part of the government of a particular society, which concerns and affects the social status and life chances of social groups" (Braykova, 1998). Carrying out a social policy adequate for the social and economic needs is a sufficient condition for achieving stability and sustainable growth of every country. The funds for implementation of the social policy in Bulgaria represent one of the most

significant elements of the Consolidated Fiscal Programme. This paper studies the social policy of Bulgaria between 2000 and 2015. The subject of the paper is to analyse the revenues and expenses for implementation of the social policy of the state during the same period. On the basis of a recent empirical analysis the author aims to identify trends and characteristics in the aggregation of revenues and realization of costs by functions "Social security and welfare" and "Health" during the period 2000-2015.

The theory of the social state policy has as its foundation the following: social justice, social equality and social protection. The definition of the term "social justice" is based on the concept of human rights and equality and means "a greater degree of economic egalitarianism achieved through redistribution of income" (Blackford). Social equality represents a definite level, where all individuals within a particular community or social group have equal status regarding their civil rights, freedom of speech, the right to own properties, as well as equal access to social goods and services provided by the state.

According to the Vienna Declaration and Programme of Action¹ of 1993, social equality means equality in healthcare, economic equality (in the field of income) and equality within the social security systems of the states. Social equality is established when there is complete absence of administrative and regulatory barriers imposed between social classes or strata as well as discriminatory practices against the personality of any citizen of a State. The mechanism of a welfare state mitigates the negative social effects of economic disparities and social inequality.

To accurately define the term "social policy", it is necessary to consider categories such as financial and tax systems, as the social policy of each country is directly dependent on its financial and tax system. In terms of the organization of monetary relations, financial systems are traditionally divided into three interrelated subsystems: corporate finance (commercial entities), public finance (public and municipal finance) and finances of households (personal finance) (Babkina, 6/2012). The household sector influences all levels of distribution and redistribution of national income. In the process of primary distribution of the labour product relevant deductions are made and put in the state budget in the form of taxes and social insurances. In the process of redistribution, disadvantaged individuals or people who have reached certain age are financed from the state budget, i.e. pensions, benefits, transfers to the household sector are paid, and also public services are provided. The tax system, in turn, by means of tax payments

¹ The Vienna Declaration and Programme of Action includes principles of human rights, their universality, promotion and protection, which are fundamental for the European Union.

provides a redistribution of the national income and the necessary revenues for the state budget for the realization of expenditure policy, including the social policy of the country (Brusarski, Zahariev & Manliev, 2015).

Core task of any form of state governance is to provide sufficient funds in order to finance the separate components of the social policy. Individuals are dependent on their income to cover living expenses, and the government is dependent on revenues from taxes and deductions to pay its bills (Kotsev et al., 2008). As the demand for government services is constantly increasing, tax collection and social payments should also be improved. Having in mind that tax and social payments are unavoidable and the fact that they constitute an essential element of the tax policy of the country, and respectively provide the means to conduct a social policy which is adequate to the needs of the population, their thorough study is of particular interest.

According to the Constitution, Bulgaria is "democratic, legal and social state" (Constitution of the Republic of Bulgaria, 2016), in which all citizens are equal before the law and "there shall be no restriction of rights or privileges" (Constitution of the Republic of Bulgaria, 2016), which means that the provision of social protection of the population is among the main priorities of the country.

In relation to the adopted by the European Union model for managing the social policy in the Member States the main focus is put on the category "social protection", which covers "all interventions by public or private bodies and organisations aimed at relieving or easing households or individuals from the burden of certain risks or needs, provided that neither included concurrent, reciprocal or individual measures "(Integrated Social Protection Statistics (ESSPROS) - Revenues and expenses in social protection, 2016). Social protection is the most essential component of the state social policy for the population, since its manifestation has a direct impact on individuals and households. In order for the state to conduct a large-scale and effective social policy, there should be the necessary financial resources for that.

Realization of state expenses and spending of funds on the social sector should be coordinated with the policy for collecting and accumulating revenues in the state budget (Vrachovski, Yordanov & al, 2008). The financing of social protection in Bulgaria is done by using two main sources - compulsory and voluntary social security contributions or direct funding from the state budget.

In order to bring clarity to the methods of funding and spending of funds for social protection, the European system of integrated social

protection statistics (ESSPROS)² (Glossary: European system of integrated social protection statistics (ESSPROS)//ISSN 2443-8219, 2016) has introduced the statistical unit "scheme for social protection". Fundamental element of the ESSPROS is the main module (Core system), which contains data for the provided social benefits and compensation, their financing and revenue and expenditure of the units responsible for providing social protection (European System of Integrated Social Protection Statistics, 2016). According to ESSPROS and the specific characteristics of the national social policy in the Republic of Bulgaria eighteen social protection schemes are included (Kolev, 2005).

Fund "Pensions" was launched in 2000. It was established as part of the State Social Security, whose predecessor was "Social Security" fund, founded in accordance with the Law on fund "Social Security" in 1995.

Resources in the Fund are accumulated in the form of:

- social contributions by employers and insured individuals;
- social contributions by self-employed persons;
- government contributions (subsidies);
- transfers from Occupational Pension Funds for pensions estimated till 2010;
- other (own) revenue.

"Pensions not related to work" Fund has existed since the beginning of 2002, when it was separated from the "Pensions Fund" and now includes all pensions which are not related to work activity. Financing of Fund "Pensions not related to work" is done entirely through transfers from the state budget.

In 2000, as a component of the State Social Security and in accordance with the Law on Public insurance, **Fund "Occupational accidents and occupational diseases"** was established; its financing is provided by contributions paid by employers and transfers from the state budget.

Fund "Sickness and Maternity" was founded in 2000 as a successor of the fund "Social Security" and the contributions to the fund accrue from the employer and the insured employee at a ratio regulated by the Social Insurance Code and social security contributions of self-employed persons. In financial terms, the most significant component of the benefits paid from this

² European system of integrated social protection statistics (ESSPROS) is a specific instrument for statistical monitoring of social payments for the purposes of social protection and their financing in member states of the European Union. It consists of three modules - the main module is for pension beneficiaries and net social benefits. The main module includes annual data on revenue and expenditure schemes of social protection and compensations and benefits paid by functions "Disease / Health Care", "Disability", "Old Age", "Family / Children", "Heirs", "Unemployment", "Housing Needs" and "Social Exclusion".

Fund are as follows: compensation for temporary disability (from the fourth day onwards - the first three are borne by the employer) and benefits for raising a child till the age of 2 years.

Fund "Unemployment" was established in 2002 as part of the State Social Security. The Fund was founded with the purpose of mediating the process of accumulation and payment of unemployment benefits in the country. It is financed by means of:

- security contributions by employers and insured individuals at the ratio specified in the Social Security Code.
- transfers from the state budget (European System of Integrated Social Protection Statistics, 2016).

The Teachers' Pension Fund was established in 1997. Its establishment is regulated in Art. 33 of the Law on Fund "Social Security". The financing of the Fund is carried out via contributions paid by the employer (4.3%) and individuals' own revenues.

The establishment of **The Occupational Pension Funds and Universal Pension Funds** is regulated in the texts of the Social Security Code, effective from 01/01/2000. Originally, only 8 companies in the country had a license for management of occupational pension funds. By 2016 they became nine in number³ (Financial Supervision Commission, 2016).

Raising funds for the Funds is done by means of: contributions paid by the employers (12% for the labour category and 7% for the second category of labour) and insured persons; individuals' own revenues and transfers from Pension companies.

In 1998 the National Assembly of the Republic of Bulgaria enacted the Law on Health Insurance (HIA). According to this Law, **compulsory health insurance** was introduced in the country. Under Art. 6, Para. 1 of the Law on Health Insurance the National Health Insurance Fund (NHIF) was established. It began to function on March 15, 1999 (National Health Insurance Fund, 2016). The means for securing its existence are accumulated via: contributions paid by employers and insured persons, contributions paid by self-employed persons and subsidies from the state budget. The amount of the health insurance contributions for 2016 (National Revenue Agency, Size and distribution of contributions, 2016) shall be 8%, as the distribution of health insurance contributions between the provider and the insured is 60:40 as follows: 3.2 per cent at the expense of the insured person and 4.8 percent at the expense of the provider.

³ PPF "Doverie"; PPF "Saglasie"; PPF "DSK-Rodina"; ZPPF "Aliants Balgariya"; "Ay En Dzhi PPF"; PPF "Badeshte"; PPF "Lukoyl-Garant"; PPF "Pensionnoosiguriteln institut"; PPF "Toplina".

The health insurance contribution of the self-employed persons is entirely at their expense and it also amounted to 8 per cent in 2016.

According to Art. 83 of the Health Insurance Act "**Voluntary Health Insurance activities**" shall be performed by the Insurance Companies (Health Insurance Act, Art. 83. (Amend. SG. 107 of 2002) (1) (amend. SG. 60 of 2012, effective from 07.08.2012), 2017), which were 16⁴ in number by 2016 in Bulgaria.

The healthcare that has been directly funded by the state since 2005 is regulated by the Health Act, and the existence of the scheme is provided by "state budget subsidies and transfers from the budget of the Ministry of Health; grants from the Global Fund and transfers from the National Health Insurance Fund "(European System of Integrated Social Protection Statistics, 2016).

The schemes for **Supporting Families with Children and the Child Protection and Social Assistance** were founded in 2000 and 1998, accordingly with the Law on Child Protection and Social Assistance Act. The scheme for Supporting families with children and child protection was amended in 2002 by the Law on Family Allowances. The financing of both schemes is carried out by subsidies from the state budget.

Social integration of people with disabilities was established in 1995 and its financing is entirely at the expense of subsidies from the state budget.

On December 1st 1990, with a Decree of the Council of Ministers, the National Employment Bureau was established, with the purpose of organizing activities on providing employment to population (Employment Agency, 2016).

Along with the National Bureau, Regional Labour Offices were opened. Later, in 1998, the National Employment Service was founded, changed to Employment Agency in 2002. The financing scheme was done entirely at the expense of subsidies from the state budget until 2011, when it received additional funding from the operational program "Human Resources Development".

The Programme "**Social grants for students**" is regulated by Decree 90/2000 of the Council of Ministers. Its funding is at the expense of subsidies from the state budget.

Via amendments made in the Social Assistance Act in 2003, the Scheme **Social Services Provided by Municipalities** was established. **That**

⁴ Bulgariya „Zdrave“; Dzhenerali „Zastrahovane“; „Doverie“ AD; „Evroins“ Zdravno Osiguruvane; „Mediko 21“; „Dall Bog Zhivot i Zdrave“; „Tokuda“ Zdravnoosiguritelen Fond; Obshtinska zdravnoosiguritelna kasa; ZOK „Fi Helt“; „Bulstrad“ Zhivot; DZI „Zhivot“; „Nadezhda“; Saglasie; Evropeyska Zdravnoosiguritelna kasa; „Unika“ Zhivot; „Viktoriya“.

law regulates the obligations of the municipalities related to social protection. **The financing for their implementation is provided by means of** transfers from the state budget and the municipal budget.

Social benefits and compensations paid by the employer is a scheme that was initiated by using texts from the additional regulations of the Labour Code of 1997. The funds under the scheme are provided by indirect social contributions made by employers.

Expenditure on social security and health insurance (social benefits) are classified by function and type. The function of social compensation or health care refers to the original purpose it has been provided for, regardless of the legislative or institutional regulations (Classification of Social assistance and benefits 2016). The following functions have been distinguished: sickness / health care, disability, old age, heirs, family and children, unemployment, housing needs, social exclusion.

The financing of the social protection functions is carried out by means of insurance contributions allocated in accordance with the current legislation in a ratio between the employer and the employee, and the state budget, or by means of the equivalent-redistributive method.

This method has been fully adopted in Bulgarian insurance practice, and is implemented by means of revenues from aggregated social and health insurance contributions and reallocation of funds through budget transfers⁵.

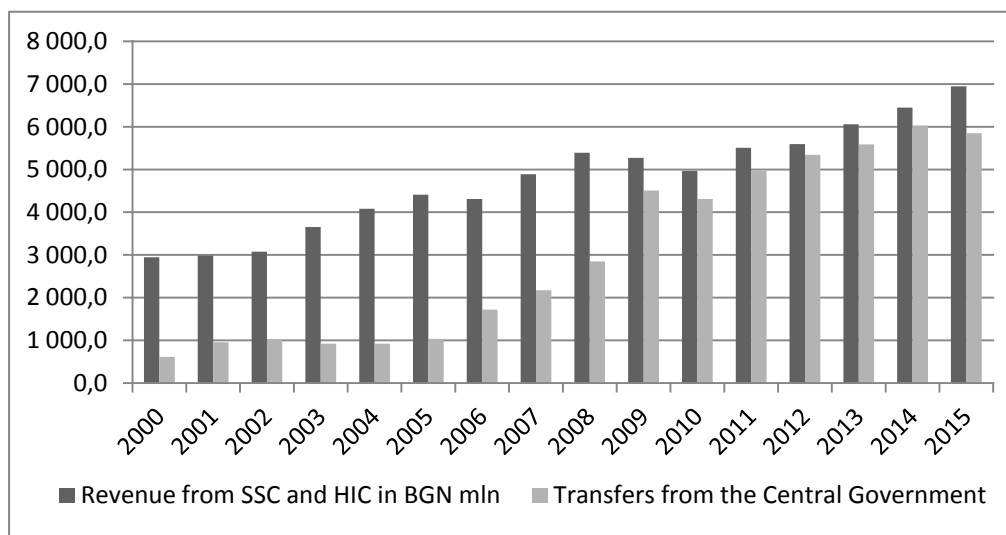
In the formation of the revenues needed for the implementation of the spending policy of the country by functions "Health" and "Social Security and Welfare", social security and health insurance contributions are the most essential element. As the system for financing is based on the equivalent-redistributive method, the other method for obtaining the necessary funds shall be transfers from the government.

During the period 2000 - 2015 revenues from social security and health insurance contributions increased in absolute amount from BGN 2 943.4 mln. to BGN 6 947.1 mln., the tendency shows a gradual increase till 2008, decline in 2009-2010, explained by the contraction of production, and hence rising unemployment and a reduction in social security contributions, then gradual increase again, after 2010, till the end of the surveyed period (see. Figure 1).

⁵ According to Art. 24 of the Social Assistance Act, its financing is carried out through:

1. (Amend. - SG. 15 of 2013, effective from 01/01/2014) The state budget;
2. municipal budgets;
3. national and international programmes;
4. donations from local and foreign persons and legal entities;
5. (Amend. - SG. 51 of 2011) funds from fund "Social Protection";
6. other sources.

Figure 1. Revenue from social security contributions, health insurance contributions and transfers from the central government in Bulgaria in the period 2000 -2015 (Data on the Consolidated Fiscal Program (annual), Social Security, 2016)



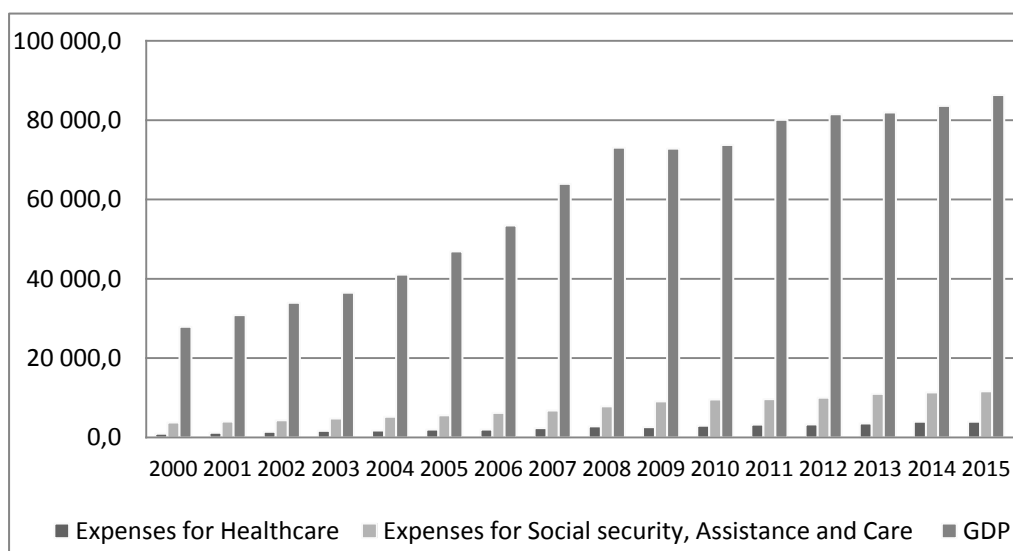
The growth of transfers from the central government during the surveyed period is noticeable, their amount has increased more than 9 times - from BGN 615.7 mln. in 2000 to 5 849.6 mln. in 2015 (Data on the Consolidated Fiscal Program (annual), Social Security, 2016). This trend has been explained by the fact that conducting a social policy set by the governments is not under the authority of the economic conjuncture. Regardless of whether the economy is growing or stagnating, the amount of costs for social security and welfare, as well as for healthcare, remains the same in their proportion to GDP of the state.

An essential item of expenditure under the Consolidated Fiscal Programme of the Republic of Bulgaria is represented by costs for functions "Health" and "Social Security and Welfare" or functions that provide social protection in the country. During the period examined in this paper, from 2000 to 2015, their total amount compared to the GDP of Bulgaria for the same period ranged from 14.35% in 2007 to 18.39 percent in 2014. (See. Figure 1). The total amount of expenses by functions "Social Security and Welfare" and "Health", compared to the Gross Domestic Product during the period from 2000 to 2004, remained relatively invariable – varied within the range between 16, 91% and 17, 81%. In 2006, 2007 and 2008 the lowest levels of expenditure in both functions were registered, resp. 15.39%; 14.35%

and 14.65% (See. Figure 1), which could be explained by the economic situation in the country; in this period Bulgarian economy was on the rise.

The amount of expenses for function "Healthcare" during the period was increasing in absolute amount, as well as the country's GDP – from BGN 977.7 mln. in 2000 to BGN 3971.5 mln. in 2015 (See. Figure 2, Figure 3). In proportion to GDP over the period 2000-2015, the amount of expenditure increased significantly from 3.5% in 2000 to 4.77% in 2015. This trend is explicable because of the fact that the costs of the state for the implementation of its policy in the sphere of Health Care and health care services are not dependent on the economic situation in the country.

Figure 2. Expenses for "Social security, Assistance and Care" and "Healthcare" in Bulgaria and GDP for the period 2000-2015, in millions of BGN (Consolidated Fiscal Programme 1998-2015, Expenditure by functions "Health" and "Social security and welfare," 2016)

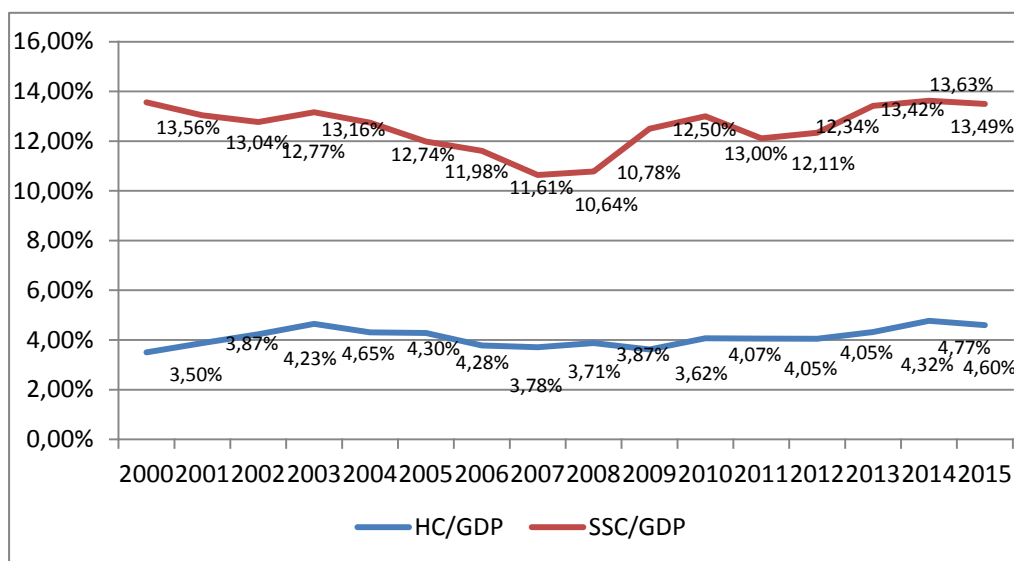


As previously specified, the system for financing the healthcare has been structured on the basis of the equivalent-redistributive method, the funds are provided by the health insurance contributions of working persons and budget transfers. The expenses for function "Healthcare" remain unaffected by the cyclicity in the economy and its phase.

In the sphere of "Social Security and Welfare" the tendency related to the amount of expenses for implementing the policy differs significantly from that in the sphere of healthcare. In absolute sum, the amount of money the state spent on that function, increased 3.02 times from BGN 3 785.5 mln. in 2000 to 11 654.2 mln. in 2015 (See. Figure 1 and Figure 2).

In proportion to GDP during the surveyed period - 10.64% to 13.63%. During the period from 2000 to 2008 expenditure on "Social Security and Welfare", compared to GDP, decreased from 13.56% to 10.78% (see. Figure 2 and Figure 3).

Figure 3. Expenses for "Social Security, Assistance and Care" and "Healthcare" in % of GDP in Bulgaria during the period 2000 -2015
(Consolidated Fiscal Programme 1998-2015, expenditures by function, "Health" and "Social Welfare, Relief and Care", 2016)



The downward tendency can be explained by the fact that in the period till 2008 the Bulgarian economy was on the rise, expanding its production potential, which in turn was reflected in the reduction of unemployment. According to Eurostat data, in 2008 it was only 4.8% (Eurostat, Unemployment rate, seasonally adjusted, 2017).

The low level of unemployment is among the most important factors affecting the funds spent on social assistance and care in the country. This is because low levels of unemployment mean more people employed that bring more social benefits, as well as less individuals who need financing and social assistance.

In the period from 2009 to 2015 there was a tendency of increasing the expenditure on "Social security and welfare" compared to GDP, from 10.78% in 2009 reaching 13.63% in 2014. The most noticeable is the increase between 2009 and 2010 - from 10.78% to 12.50% (See. Figure 3), which is explained by the fact that in this period the Bulgarian economy was affected

by the negative effects of the global economic crisis - the contraction of production leads to an increase in unemployment and, consequently, the funds needed to provide social support and care, because the increasing number of unemployed people inevitably leads to an increase in the amount of social payments for their support.

The information that has been presented so far concerning the nature of social policy and analysis of revenue and expenditure for the implementation of "Social Security, Assistance and Care" and "Healthcare" in Bulgaria in the period 2000-2015, allow the author to draw the following most significant conclusions:

Implementing an adequate and sustainable social policy, resistant to the ongoing economic processes, is among the priorities of any government. It represents a set of concrete actions and measures that are taken in order to improve the welfare and living standards of society.

Social policy that is adequate to the public needs, on the one hand, and sufficient revenue for its implementation, on the other, is a major and sufficient prerequisite for the realization of that objective.

The resources needed for financing the social policy of the country are provided on the basis of the equivalent-redistributive method – in proportion between the employer, employee and the state budget. During the research period revenues from social security and health insurance contributions gradually increased as opposed to the substantial increase in the budget transfers. This can be explained by the fact that the need for social security and welfare, as well as healthcare, is not dependent on the economic situation in the country, i.e. in the event that there is impossibility for accumulation of the necessary revenues for implementing the social security and health policies of the country, the share of budget transfers will increase.

The social policy conducted in the Republic of Bulgaria is among the most capital-intensive elements of the structure of the Consolidated Fiscal Programme in the country during the period 2000-2015, Resources that are needed to cover the costs of "Social Security and Welfare" and "Healthcare", compared to the country's GDP for the same period, are 16.52% on average. According to recent empirical analysis of the amount of revenue from social security and health insurance contributions during the period of the survey, it can be concluded that there is a tendency of continuous increase of BGN 2943.4 mln. in 2000 to 6947.1 mln. in 2015.

Expenditure on performing the functions "Social Security, Assistance and Care" and "Health" grows with the increase of the GDP of the country. As a percentage of GDP it ranges between 14.35% in 2007 to 18.39% in 2014, thus making it one of the most important items of expense of the Consolidated Fiscal Programme in the country.

The most noticeable is the increase after 2009, which is explained by the fact that the negative manifestations of the effects of the global economic crisis in the Republic of Bulgaria have generated the objective necessity of significantly greater financial resources in order to make the payments on those functions.

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Svishtov, Year LXX, Issue 1 - 2017

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**Too Big to Fail Doctrine and the Financial
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**Human Capital Development – Economic Effects
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- performance Word 2003 (minimum);
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- margins – Top - 2.54 cm; Bottom - 2.54 cm; Left - 3.17 cm; Right - 3.17 cm;

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4. Layout:

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