

**MINISTRY OF FINANCE
BULGARIA**

**MAKING LINE
MINISTRIES
RESPONSIBLE
FOR BUDGETARY
DISCIPLINE**



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Budva, Montenegro



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EVOLUTION OF REFORMS

- Aggregate fiscal control
- Reasonably accurate budget estimates versus outturns
- Improved budget process
- Parliament votes by policies the expenditures of all ministries and some agencies
- Modernized and streamlined cash management and budget execution through introduction of Treasury Single Account and System for Electronic Payments for the Public Sector
- Implemented new accounting framework in compliance with EU and IFI requirements
- Improved government debt management



Objectives:

- Enhance LM's capacity for policy formulation and translation into the budget
- Greater freedom of LM's to allocate expenditure according to their own policies and objectives
- Increase roles and responsibilities for preparation and presentation of LM's budgets to Parliament and reporting on their implementation
- Increase accountability for policy objectives implementation
- Budget ownership

Expected results:

- Better prioritisation of the budget expenditures consistent with the government's overall policies
- Better quality of public services
- Greater cost-effectiveness of government spending



BUDGET COVERAGE

CONSOLIDATED FISCAL PROGRAMME

STATE BUDGET

CENTRAL GOVERNMENT BUDGET

REPUBLICAN BUDGET (FLSUs)

PRESIDENT'S OFFICE, COUNCIL OF MINISTERS' OFFICE, CONSTITUTIONAL COURT, LINE MINISTRIES & GOVERNMENT AGENCIES, NATIONAL AUDIT OFFICE

JUDICIARY AUTHORITIES BUDGET

NATIONAL ASSEMBLY BUDGET

TRANSFERS

CENTRAL BUDGET

TRANSFERS

LOCAL AUTHORITIES BUDGETS

→ BUDGETS OF MUNICIPALITIES - 264

→ BUDGET OF SOCIAL INSURANCE FUNDS

→ BUDGET OF HEALTH INSURANCE FUND

OTHER AUTONOMOUS BUDGETS

→ BULGARIAN ACADEMY OF SCIENCE
BULGARIAN NATIONAL TV
BULGARIAN NATIONAL RADIO
STATE HIGHER SCHOOLS

EXTRABUDGETARY FUNDS & OTHER BUDGETARY ENTERPRISES:

1. Fund for covering privatization costs
2. Agriculture State Fund
3. Extra-budgetary account of the National Fund
4. Revenues from privatization of municipal enterprises
5. Municipal Fund for covering costs of privatization
6. Special Fund at municipal council for investments
7. Teachers' Pension Fund
8. Enterprise for Management of Environment Protection



ENFORCEMENT OF FISCAL & BUDGETARY DISCIPLINE (I)

Fiscal discipline:

- Strict observance of fiscal rules – combination of:
 - budget balance rule
 - general government expenditure rule (currently not implemented)
 - debt rule

- Fiscal Reserve Account (FRA)
- Privatization receipts deposited in the FRA with withdrawals limited to external debt reduction purposes
- Central government funds centralized in Single Treasury Account at the Central Bank
- Number of spending units reduced significantly and most extra budgetary funds consolidated



ENFORCEMENT OF FISCAL & BUDGETARY DISCIPLINE (II)

Budget discipline:

- Provision of significant margins in the budget to allow tightening of the fiscal stance if needed
- Strict budgetary controls & strict timetable for the budget process
- Improvement of accounting and internal management systems & procedures
- Spending rules applied:
 - Discretionary spending in the first 3 Qs of the year limited to 90% of the budgetary allocations
 - Supplementary budget credits up to 50 % of revenue windfall under certain conditions
 - Centralized reserve guaranteeing fiscal sustainability (alternative to the so-called “90% rule”)
 - Using the entire revenue windfall from long-term tangible assets for additional investment expenditure
 - Limit on LM’s fund for salaries and wages
 - New rule for 2011 Budget (to be approved)



DISCIPLINE IN THE PHASE OF BUDGET PREPARATION

Enforced by MoF:

Rules annually set in the CoM's Decision on Budget Procedure

- The Draft State Budget Act shall be elaborated on the basis of MTFE, TYBF and expenditure ceilings per FLSU's approved by CoM as well as investment projects approved for funding with state and state guaranteed loans
- MTFE and TYBF shall correspond to the commitments set in the Convergence Programme
- Policies shall conformed to the commitments undertaken in the Government's programme, the measures set in the National Reform Programme and the National Strategic Reference Framework, the recommendations to the economic policy containing in the ECOFIN Council conclusions
- In case of non compliance with budget discipline the Minister of Finance shall make proposals for LM's budget parameters as well as limits on the current spending plans

Enforcement & implementation by LM's:

- The management body of the LM shall discuss and approve policy priorities on the basis of analyses and evaluation of execution and current implementation
- ⁷ Internal rules for budget process organization



MAJOR STAGES IN BUDGET PROCEDURE

Stage 0 - (by end of March)

Update of budget documents data

Stage I – (by end of May)

- Elaboration and approval by the CoM of major assumptions and MTFF

Stage II – (by end of July)

- CoM approval of TYBF, expenditure ceilings per FLSU's, excl. municipalities and the updated State Debt Management Strategy

Stage III - (by end of October)

- CoM approval of Draft State Budget Act, incl. FLSU's programme budgets

Experience from last 5 years shows the following decision making stages in the budget procedure implementation:

- Budget Procedure 2008 - Stages (0+I) + Stages (II+III)
- Budget Procedures 2009 & 2010 - Stage I + Stages (II+III)
- Budget Procedure 2011 - Stages (0+I+II) + Stage III



INTERNAL RULES AND PROCEDURES AT LM's & AUDIT FUNCTION

Roles and responsibilities in the budget process of: Council for Coordination of Minister's Policies & Programme Councils

- Members
- Functions
- Organization of work
- Secretary General
- Financial directorates within the FLSU's and SLSU's

Negotiations between MoF and LM's based on LM's budget bids

LM's draft budgets deliberations at Parliamentary Committees

Role and responsibilities of Internal Audit function

Role and responsibilities of the National Audit Office – financial & performance audit



DISCIPLINE IN THE PHASE OF BUDGET IMPLEMENTATION & REPORTING

Enforced by MoF:

- Approval of monthly limits on spending on the basis of LM's annual budget plan
- Approval of adjustments in LM's budgets – rules to be followed set within the OBL
- Preparation of regular financial (monthly, quarterly) & performance (mid-year & end of year) reports

Enforced and implemented by LM's:

- Monthly allocation of expenditure per lower level spending units within MoF limits
- Internal rules on spending
- Internal rules for budget adjustments
- Internal rules for implementing financial management and control provisions



CHALLENGES

- Need to develop tools and capacity for analysis of structural/microeconomic issues and policy evaluation (at MoF and LM's)
- Need to further develop MIS, especially applications for programme budgeting
- Need to improve identification and measurement of performance indicators
- Inadequate accounting systems to identify full costs of outputs and budget programmes



MINISTRY OF FINANCE

THANK YOU!

