

BULGARIA

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: UPPER MIDDLE INCOME

LOCAL CURRENCY: BULGARIAN LEV (BGN)

POPULATION AND GEOGRAPHY

Area: 110 372 km²
Population: 7.076 million inhabitants (2017), a decrease of -0.6% per year (2010-2015)
Density: 64 inhabitants / km²
Urban population: 74.7% of national population
Urban population growth: -0.3% (2017 vs 2016)
Capital city: Sofia (18.0% of national population)

ECONOMIC DATA

GDP: 148.2 billion (current PPP international dollars), i.e. 20 948 dollars per inhabitant (2016)
Real GDP growth: 3.8% (2017 vs 2016)
Unemployment rate: 6.2% (2017)
Foreign direct investment, net inflows (FDI): 2 182 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 19.2% of GDP (2017)
HDI: 0.813 (very high), rank 51 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Bulgaria is a parliamentary democracy, governed by the 1991 Constitution. The unicameral Parliament is composed of 240 deputies, directly elected by the population for four-year terms. Members of the Parliament appoint the Prime Minister and Head of Government, who chairs the Council of Ministers. The President, i.e., the Head of State, is also directly elected by universal suffrage for five years.

Bulgaria is a unitary country, with a single-tier of subnational government, composed of municipalities. The principles of self-governance are enshrined in articles 135-146 of the 1991 Constitution. In addition, the Local Self-Government and Local Administration Act, adopted later in 1991, consolidated the guidelines provided by the Constitution, regulated the administrative-territorial structure of Bulgaria and defined the organisation and functions of local self-governments. The period 1994–2005 was characterised by the adoption of a package of laws: in 1995, the Act on Administrative and Territorial Structure of the Republic of Bulgaria; in 1996, the Referendum Act and Municipal Property Act; in 1997 Local Taxes and Fees Act; in 1998 the Municipal Budgets Act (replaced by the 2014 Law on Public Finance) and in 2005 the Municipal Debt Act.

In 2002, the process of decentralisation took a new step with the adoption of a Concept paper on fiscal decentralisation. It was then boosted by the EU accession process, resulting in the adoption in 2006 of the Strategy for Decentralisation: 2006-2015. The strategy was revised in 2010 and monitored by the Council for Decentralisation of State Governance, which was set up in 2006. The main objectives were the decentralisation of services, powers, and resources from higher to lower levels of government. A progress report was published in 2016, within the framework of the new Decentralisation Strategy: 2016-2025. According to the Ministry of Regional Development and Public works, the results of the 2006-2015 phase were unsatisfactory as only 39% of the measures were implemented. The review highlighted, however, the fact that the process of decentralisation slowed considerably because of the impact of the global crisis and the financial policy during that period. The municipalities were the most affected by the public institution crisis.

The new 2016-2025 strategy has four main strategic objectives: the transfer of powers and functions from central to local authority in key sectors; fiscal decentralisation with better assignment of revenues across levels of government to expand municipalities' revenue bases; development of civil control of public institutions; and increasing the role of regional institutions for the implementation of co-ordinated policy for regional development.

The last priority aims at creating conditions for the balanced development of regions by establishing regional institutions and strengthening their capacity through adequate powers, responsibilities and resources. This could lead to the creation of deconcentrated institutions at regional level and possibly pave the way for a second level of self-governance to emerge. Currently, there are six planning regions in Bulgaria but they do not have an administrative structure or their own budget. They act as conduits for regional planning and programming pertaining to EU structural funds. The Regional Development Act, promulgated in 2008 and amended in 2009, introduced regional development councils whose members are appointed by the central government.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	265 municipalities (<i>obshtini</i>)			
	Average municipal size: 26 702 inhabitants			
	265			265

OVERALL DESCRIPTION. Municipalities are the basic administrative territorial unit and only tier of local government. There are 265 municipalities, comprising the administrative centre and its surrounding settlements.

Municipalities are governed by municipal councils (*obshtinski savet*), which are deliberative bodies, and mayors who constitute the executive branch. Municipal councillors, whose number varies according to the council size, are elected by direct universal suffrage for a four-year term. They are headed by a chairperson elected from among its members. Mayors (*kmet*) are elected by direct universal suffrage based on a majority system, also for a four-year term.

The 1995 Act on Administrative and Territorial Structure of the Republic of Bulgaria states that municipalities with more than 300 000 inhabitants (i.e. Sofia, Plovdiv and Varna) shall be subdivided into wards (*gradski rayon*). There are currently 24 in Sofia, six in Plovdiv and five in Varna. Other municipalities are

also subdivided into smaller towns and villages (*naselno myasto*), totalling 4 991 at the end of 2017 (hence 19 on average per municipality). Around 2 500 of these settlements are “mayoralities”, i.e. deconcentrated municipal units established by decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants. Smaller settlements have mayor’s representatives appointed by the mayor.

Overall, the average municipal size is quite large compared to the OECD average (9 700 inhabitants) and, especially, to the EU28 average (5 900 inhabitants). While the median size is around 10 300 inhabitants, 19% of municipalities have fewer than 5 000 inhabitants (vs 47% in the EU28). The majority of Bulgarian municipalities have between 5 000 and 20 000 inhabitants (55% vs 27 in the EU28).

According article 9 of the Local Self-Government and Local Administration Act, municipalities may co-operate on a voluntary basis. Amendments in 2006 set out the regulatory framework for inter-municipal co-operation. However, it is not widespread and the 2016-2025 strategy aims at developing inter-municipal co-operation further.

The National Association of Municipalities in the Republic of Bulgaria plays an important role in vertical co-ordination between the central government and municipalities, in particular in negotiating annual standards and grant allocation mechanisms.

Deconcentrated government units comprise 28 districts (*oblast*) at the intermediary level. The districts were created in 1999, as deconcentrated levels of state authority. Districts are in charge of monitoring the legality of municipal council decisions, co-ordinating municipal activities, and co-ordinating with the national level. They are headed by a district governor, appointed by the Council of Ministers. *Oblast* development councils include one representative of the municipal council of each *obshtina* and a delegated representative of the national organisations of employers and employees and are chaired by the governor.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The competences of SNGs are stipulated in the Local Self-Government and Local Administration Act adopted in 1991. Municipal responsibilities are divided into two categories: state-delegated responsibilities (education, social protection and healthcare) and exclusive responsibilities. Municipalities’ own responsibilities cover several areas such as housing and community amenities, economic affairs and transport, environmental protection, utilities, culture, etc.

Municipalities also operate through their local companies. Although it is unclear how many local companies operate in Bulgaria, they are estimated to total around 800. Their financial importance is not well known, either. Municipality-owned enterprises are diverse in their activities – waste collection, engineering, real estate management, waste recycling, maintenance of green areas, sport facility maintenance, etc.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

MUNICIPAL LEVEL	
1. General public services	Municipal administration; Civil registers; Issuance of building permissions; Management of municipal property; Management of municipal companies
2. Public order and safety	
3. Economic affairs/transport	Municipal roads; Urban public transport; Tourism
4. Environmental protection	Environmental protection; Waste management; Sewerage systems
5. Housing and community amenities	Spatial planning; Water supply; Housing
6. Health	Municipal hospitals; Nursery schools (delegated)
7. Recreation, culture & religion	Theatres, Libraries; Local media; Sport; Leisure
8. Education	Pre-school education; Early, primary and secondary education (delegated); Construction and upkeep of buildings; Canteens and extra-curricular activities
9. Social protection	Centres for homeless children; Home-based assistance for the elderly; Residential homes for senior citizens (delegated)

SUBNATIONAL GOVERNMENT FINANCE

Scope of fiscal data: municipalities and municipally-owned hospitals.	SNA 2008	Availability of fiscal data: High	Quality/reliability of fiscal data : High
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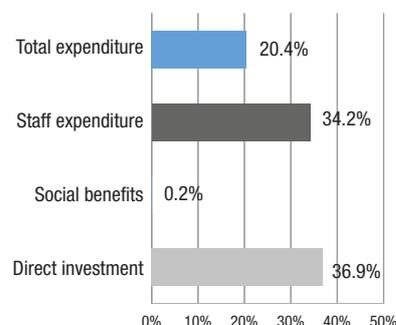
GENERAL INTRODUCTION. Financial provisions are provided by the Constitution (changed in 2007 to grant taxing powers to municipalities), the Local Self-Government Act and the Local Administration Act, the Local Taxes and Fees Act (enacted in 1999 and amended in 2018) and the 2014 Law on Public Finance, which contains the legal basis for preparation of the autonomous budgets of municipalities. According to the legislation, exclusive municipal responsibilities are financed through local taxes, whereas delegated activities are financed by transfers from the national budget. However, each local council may assign additional funding from its own revenue to finance the provision of delegated tasks. Thereby, the level of own revenue is decisive for financing delegated services above the national average, which may create imbalances and disparities between municipalities. Since 2000, a series of reforms have been implemented to provide municipalities with more fiscal autonomy, which remains - however - low. In 2018, expert groups were set up to discuss further amendments to the Local Taxes and Fees Act, in order to enhance municipalities’ own-revenue base. Proposals included the introduction of a municipal personal income tax, increasing local discretion on tax assessments, and the creation of new fees for street lighting and urban congestion.

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SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE	% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)
Total expenditure	1 314	6.8%	100%	
Incl. current expenditure	1 144	5.9%	87.0%	
Staff expenditure	593	3.1%	45.1%	
Intermediate consumption	368	1.9%	28.0%	
Social expenditure	6	0.0%	0.4%	
Subsidies and current transfers	170	0.9%	13.0%	
Financial charges	7	0.0%	0.5%	
Others	0	0.0%	0.0%	
Incl. capital expenditure	170	0.9%	13.0%	
Capital transfers	0	0.0%	0.0%	
Direct investment (or GFCF)	170	0.9%	13.0%	

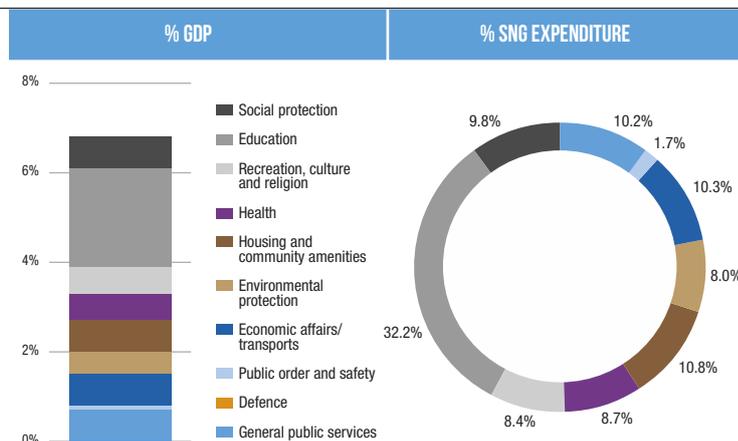


EXPENDITURE. Despite the decentralisation process, the level of SNG expenditure in Bulgaria remains significantly below the EU28 average (15.5% of GDP and 33.4% of public expenditure). Staff expenditure represents a relatively important share of SNG expenditure, well above the EU average (45.1% of SNG expenditure in Bulgaria vs 32.9% in the EU28), resulting from the fact that municipalities are, in charge of, among other things, paying the salaries of teachers, nurses and doctors working in hospitals. Despite this, municipal staff expenditure accounted for 34.2% of public staff expenditure, which is below the EU28 average (50.9%). Overall, current expenditure accounted for 87% of total spending, leaving little space for capital expenditure.

DIRECT INVESTMENT. In 2016, SNG investment accounted for 0.9% of GDP and 36.9% of total public investment, two ratios below the EU average (1.4% of GDP and 50.9% in 2016) and which have been decreasing in recent years. In 2013, SNG investment amounted to 2.0% of GDP and almost 52% of public investment. The drop resulted from the global crisis; however, in addition, Bulgaria, like other EU countries benefiting substantially from cohesion funds for their investment, suffered from a “cliff effect” that saw SNG investment decline after the 2015 deadline for payments under the last EU programming period. In 2016, 45% of local investments were dedicated to housing and community amenities, including water supply and sewerage systems; 13% were dedicated to economic affairs, including transport and municipal roads; and 12% went to the education sector (building and maintenance of school infrastructure).

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

Education is by far the biggest area of SNG expenditure, well above the EU28 average (18.4%). Local expenditure on education accounts for almost 64% of total public expenditure in this category. It is followed by housing and community amenities, economics affairs and transport and general public services, which all account for the same weight in SNG spending. The general public services sector has expanded slightly in recent years, due to the latest public management reforms. SNGs accounted for more than 85% of public expenditure in the environmental protection sector.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERNMENT REVENUE (SAME REVENUE CATEGORY)	% SNG REVENUE
Total revenue	1 327	6.9%	19.6%	
Tax revenue	179	0.9%	4.4%	13.5%
Grants and subsidies	940	4.9%		70.8%
Tariffs and fees	177	0.9%		13.4%
Property income	30	0.2%		2.3%
Other revenues	0	0.0%		0.0%

OVERALL DESCRIPTION. In 2016, SNG revenue accounted for a relative small share of GDP and public revenue. Despite recent reforms aimed at increasing tax revenues, the share of grants and subsidies in SNG revenue remains very high, well above the EU28 average (44.1%). As a consequence, the share of tax revenues is significantly below the EU28 average (41.1%) while other revenues (tariffs and fees and property income) accounted for a relatively large share of revenue (15.7% vs 12.8% in the EU28).

TAX REVENUE. In 2003, important tax reform shifted the focus from tax sharing arrangements (based on shared personal income tax) to a system based on own-source taxes. The tax reform was further developed in 2006 with the decentralisation of tax collection and the establishment of local tax administration. In 2007, municipalities were devolved the power to set the rates of local taxes independently (within legal limits). However, they cannot set the local tax base, or provide additional (or remove the existing) legal breaks for certain taxpayers. Municipal tax revenues are currently composed exclusively of own-source taxes, encompassing the property tax, the tax on property transactions, the vehicle tax, which form the bulk of tax revenue (78% of total local tax revenue and 10.5% of local revenue) as well as other smaller taxes such as the inheritance tax, the patent tax and the tax on tourism.

The property tax itself represented 35% of subnational tax revenue in 2016 and 4.7% of local revenue. It is paid by property owners and levied on buildings and land. Since a reform went into effect in 2005, the tax is now based on the assessed value of the property. In 2016, this tax amounted to 0.3% of GDP, i.e., well below the OECD average (1.1%). The inheritance tax accounted for 29% of local tax revenue and the vehicle tax 14%. The recent amendment of the Local Taxes and Fees Act in 2018 modified the vehicle tax, which is now based on two components: property and environmental impact. Each municipality is entitled to determine, within legal limits, the variable property component and the ecological component.

GRANTS AND SUBSIDIES. The 2003 reform that eliminated PIT sharing was accompanied by a change in the inter-governmental system. The share of block and conditional grants were increased. Municipalities first receive a general grant aimed at financing state-delegated responsibilities. It accounts for approximately 75% of total grants. The grant is composed of a portion of PIT revenues and a subsidy calculated according to the amount of expenditure and to the national average of revenue capacity. This grant is conditional and is therefore allocated to education (70% of the subsidy), social assistance (10%), culture and healthcare. Municipalities also receive a general equalisation grant (around 10% of all transfers). It is unconditional and local governments have full autonomy in how they spend it. The general equalisation grant aims to ensure a minimum level of local service provision by each municipality. It is based on two criteria (defined in the annual Budget law, they may vary from year to year): revenue potential – it benefits municipalities whose per capita own-revenues fall below 90% of the national average; and expenditure needs, combined with surface area. Municipalities with per capita expenditures of less than 100% of the national average are entitled to 100% of the difference. Municipalities, whose expenditures are higher than the national average, receive 50% of the difference.

Finally, a small share of transfers is made up of earmarked grants for capital expenditure, mainly for rebuilding roads and streets. Bulgarian municipalities have also received nearly EUR 4 billion in grants from the European Union to improve their environmental, social and technical infrastructure (municipalities receive up to 60% of the EU funds allocated to Bulgaria).

OTHER REVENUES. Since 2003, SNGs have been given full discretion over local fees. They can set these rates and fees by municipal order. As a result, user charges represent a significant source of own-sources revenue for municipalities (13.4% vs 11.6% in the EU28). Local fees include household waste disposal, retail and wholesale markets, fairs, kindergartens, specialised social services institutions, technical/administrative services, dog ownership, and the use of sidewalks, squares, and roadways, etc. The Local Taxes and Fees Act was amended in 2008, providing for changes related to the determination of garbage collection fees. Although these changes were postponed to 2022. Sale and management of municipal property, fines, penalties, dividends from municipal enterprises and revenues from concession contracts also represent a significant source of revenue. Revenues from assets represent 2.3% of SNG revenues, which is above the EU28 average (1.2%).

■ SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	471	2.4%	6.4%	100%
Financial debt*	235	1.2%	4.0%	50.0%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2014 Public Finance Act strengthened fiscal rules. It requires municipalities to have balanced budgets. The law strengthened the medium-term budgetary framework (MTBF) and enforced fiscal discipline. It also introduced a new fiscal rule determining that the average growth of local expenditure must not exceed the average growth rate of local expenditure as reported over the previous four years.

DEBT. According the Municipal Debt Act adopted of 2005, municipalities can tap into the credit and capital markets by issuing bonds. There are however some prudential rules: long-term borrowing is authorised only for investment projects (“golden rule”), refinancing of existing debt, ensuring payments required for municipal guarantees, and for municipal public-private partnerships projects. The 2014 Public Finance Acts clarified the legal requirements regarding municipal debt and municipal guarantees. Municipalities’ annual debt payments must be lower than 15% of the annual average sum of own revenues and of the block equalising grant for the last three years. SNGs can take out loans from the “Fund for Local Authorities and Governments in Bulgaria -FLAG”, which provides long-term and short-term funding to Bulgarian municipalities (or groups of municipalities) to implement projects funded by EU programmes. Local authorities may also borrow through interest-free loans from the central budget and financial leasing. Municipal debt has steadily increased with the global crisis but it has started to decrease since, reaching 2.4% of GDP and 6.4% of public debt in 2016, a level well below the EU average (14.3% of GDP and 14.4% of public debt in 2016). Financial debt (“Maastricht debt”) represented 50% of the outstanding debt in 2016, the remaining part being made up of “other accounts payable” i.e. commercial debt, arrears, etc., which is particularly high. The breakdown of outstanding financial debt was as follows: 89% loans and 11% bonds.



Lead responsible: OECD
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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // National Statistical Institute of Bulgaria.

Fiscal data: Eurostat // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // OECD (2018) Key Data on Local and Regional Governments in the European Union.

Other sources of information: Kalcheva D., Nenkova P. (2018) Bulgarian municipalities’ capacity to invest and factors affecting local government capital spending for the period 2003-2017 // NALAS (2018) Fiscal decentralisation in South-East Europe, Seventh Edition // Desislava Nikolova (2017) Privatization in Bulgaria: State Ownership Is Dead, Long Live State Ownership! // Ministry of Regional Development and Public works (2016) Decentralisation Strategy 2016 – 2025 // Troeva, V. (2016) Regionalism in Bulgaria. The Assembly of European Regions // Kalcheva, D. (2016) Debt Financing and Bulgarian Municipalities // European Committee of Regions (2016) Division of Powers // Nenkova, P. (2014) Fiscal Decentralization and Local Finance Reforms in Bulgaria: A review of then years’ experience // Hawkesworth, I., Emery, R., & Saenger, K. (2009) Budgeting in Bulgaria.