Brussels, 24 September 2001

CONF-BG 57/01

Document provided by Bulgaria

NEGOTIATING POSITION
OF THE GOVERNMENT OF THE REPUBLIC OF BULGARIA
ON CHAPTER 29
"FINANCIAL AND BUDGETARY PROVISIONS"

OVERALL POSITION

The Republic of Bulgaria accepts the acquis communautaire under chapter 29 "Financial and Budgetary Provisions" and commits itself to undertake the necessary measures to ensure its effective implementation upon accession.

According to its negotiation strategy the Republic of Bulgaria considers that it will be ready to assume the obligations of EU membership by 1 January 2007 (31 December 2006) at the latest.

The Republic of Bulgaria requests a transitional period concerning the payment of full contributions to the European Union budget. During this period the Republic of Bulgaria expects that its contributions to the European Union budget will be reduced or partially refunded. The duration of the transitional period and the rate of reduction or refunding would be subject to further negotiations in accordance with the outcome of the negotiations on other chapters.

ADOPTION AND IMPLEMENTATION OF THE ACQUIS COMMUNAUTAIRE

National Legislation in the Republic of Bulgaria

EU legislation under Chapter 29 “Financial and Budgetary Provisions” comprises legislative acts relating to the system of the general budget of the European Union, the sources of its financing (the system of the European Communities’ own resources). These regulations and decisions are directly applicable and therefore do not require transposition into national legislation.

The European legislation does not provide explicitly for a model of budgetary system for the Member States. Nevertheless, Candidate Countries are required to have such budgetary organisation that ensures effective management of the funds flowing to and from the European Union. Bulgaria will take the necessary steps to guarantee the sound financial management of Community budget resources.

The Constitution of the Republic of Bulgaria and the Organic Budget Act of the Republic of Bulgaria establish the legislative framework of the budgetary process in Bulgaria. According to the Constitution, the state budget as well as all international financial obligations for Bulgaria are approved and adopted by the National Assembly. The Organic Budget Act, in force as from 1 January 1997, defines the competence of the different national institutional bodies in the budgetary process. It also sets forth the basic rules for preparation, execution, management and reporting of the budget, as well as the main budgetary principles, which are consistent with the internationally applicable principles and comparable to the best budgetary practices within the European Union. These principles include annuality, universality and specificity. The State Budget of the Republic of Bulgaria is authorised and executed for one financial year. Revenues are not earmarked and are used to cover all expenditure.

Other legislative acts that complement this regulatory framework:

- the annual State Budget Acts
- the Accountancy Act (promulgated 10.11.2000, in force from 01.01.2001)
- the Statistics Act (promulgated 25.06.1999, in force from 28.06.1999)
- the National Audit Office Act (promulgated 11.08.1995, in force from 15.08.1995)

- the Public Internal Financial Control Act (promulgated 10.11.2000, in force from 01.01.2001)
- the Public Procurement Act (promulgated 22.06.1999, in force from 05.07.1999)
- the Municipal Budgets Act (promulgated 24.03.1998, in force from 28.03.1998)
- the Customs Act (promulgated 23.01.1998, in force from 01.01.1999)
- the Value Added Tax Act (promulgated 07.10.1993, in force from 01.04.1994)
- the Excise Duties Act (promulgated 15.12.2000, in force from 01.01.2001)
- the annual Acts on the Budgets of the Social Security Fund and the National Health Insurance Fund.

The new Public Internal Financial Control Act and the new draft National Audit Office Act contribute to the harmonisation of financial control systems with European standards and best practices, and enhance transparency in the budget sector.

Harmonisation with EU Member States' budgetary practices

Since 1998 Bulgaria has been implementing a budgetary reform aimed at improving the planning, management and control of budgetary resources. In this way Bulgaria strives to bring its budgetary procedures and practices in line with those, which represent best practices in the European Union. Contemporary methods of sound financial management are being put into place in all areas of the budgetary process: forecasting, execution, payments, accounting and reporting.

A starting point in the budgetary procedure is the preparation of three-year budget forecasts on the basis of an updated three-year macroeconomic framework. The three-year budget forecasts clearly reflect the fiscal strategy, the fiscal policy objectives and the instruments for their achievement. First-level spending units are also required to prepare three-year budget projections based on in-depth analyses and taking into consideration the medium-term budget forecasts, the National Economic Plan and the availability of financial resources.

Notification to the Ministry of Finance of proposals for new state aids is also essential for a more effective utilisation of public funds. The Draft State Aids Act stipulates that a justification for new requests for state aids should be presented together with the draft budgets of the spending units.

Budget planning and forecasting are being reformed towards policy oriented budgeting. The aim is to achieve efficient allocation of government resources and cost-effective delivery of government services.

Bulgaria uses Medium Term Fiscal Framework (MTFF) as a technical instrument for forecasting and simulation of budgetary tendencies based on macroeconomic indicators. The macroeconomic model is developed on the basis of financial programming. The MTFF ensures full consolidation by taking into account all budgetary and extra-budgetary funds.

Considerable improvement has been made in respect of budget documentation. The draft Annual Budget Act is accompanied by a Report, which represents an important economic policy document. Apart from the description of the macroeconomic policy priorities, the Report also contains an evaluation of fiscal risks and proposes measures for their minimisation. It shows tables of the consolidated fiscal programme, too.

The draft Budget Act approved by the Council of Ministers is submitted for consideration and adoption by the National Assembly. Proposals for amendments and complements to the draft Annual Budget Act may be made by the National Assembly after the first reading of the draft. They are then deliberated at sessions of the Committees at the National Assembly, with the key role played by the Budget and Financial Control Committee and Economic Committee. During the second reading the draft and the supplements are deliberated and adopted by the National Assembly. The adopted Budget Act comprises: the Republican Budget made up of the central budget and the budget of the ministries, agencies, National Audit Office and the Budget of the Judicial System. Following the adoption of the Budget Act and its promulgation in the State Gazette, the Council of Ministers issues a special Decree on budget implementation.

The National Assembly adopts separate acts for the budgets of the National Health Insurance Fund and the National Social Security Fund, according to the Constitution and special laws. The budgets of the municipalities are separate from the central government budget and are adopted on the basis of allocated subsidies in the annual Budget Act and own revenues.

In compliance with the recommendations for action as provided for in the Accession Partnership document, adopted with Decision 1999/857/EC, since 1999 the Bulgarian government has made significant progress in implementing a treasury system. Its main functions provide for advanced budget planning, execution, reporting and control. In a medium-term perspective, the treasury system will be implemented for all budgetary and extra-budgetary funds.

The number of extra-budgetary accounts and funds has been significantly reduced from around 100 to 12 at central level. The rules for forecasting, reporting and control of these accounts and funds are the same as those applicable to the state budget. The tendency of budget consolidation continues.

The establishment of the new financial management information system (FMIS) plays a key role in the implementation of the budgetary reform and the introduction of the treasury system. It allows integration and a high level of computerisation of all accounting operations, thus facilitating analyses, forecasting and management of budgetary resources. The SAP R/3-based FMIS has been developed on the basis of the best practices of EU Member States. The modules of financial accounting, budget and cash flow management have been implemented in the central administrations of the first level spending units. By the end of 2003 additional modules of the SAP R/3 will be implemented to cover the whole process of budgeting and reporting at the central administrations of first level spending units.

A new accounting framework for the budget sector has been established with the new unified chart of accounts for the budget sector. Its implementation started at the beginning of 2001. It allows consolidated reporting on an accrual basis, production of reliable reports and enhanced control on budget execution. The principles and rules for classification of assets, liabilities, revenues and expenditures comply with the IMF Government Financial Statistics (GFS), the UN System of National Accounts (SNA 93) and the European System of National and Regional Accounts (ESA 95). A Manual on the new budgetary chart of accounts has been worked out. Standards and instructions for the application of the chart of accounts have yet to be developed.

Important element of the budgetary reform is the improvement of the bank accounts regime. A single account system (SAS) has been set up. In this way government resources are centralised in a single account and the payment process is rationalised. The single account facilitates the efficient flow of the spending units' budgetary funds through the banking system and enhances control on budgetary spending. By the end of 2001 the single account system will have incorporated all budgetary accounts in Bulgarian levs, except for those of the municipalities. The SAS utilises a system for electronic budgetary payments (SEBRA) based on SDBM ORACLE. This system has been progressively implemented with first level spending units since February 2001.

Information on budget and debt figures is available on the web-site of the Ministry of Finance and in the specialised publications: "Budget", "Government Debt", and "Information Bulletin of the Bulgarian National Bank".

Management of EU funds

The necessary institutional and administrative framework is in place to manage EU assistance under the three EU pre-accession instruments: Phare, ISPA and SAPARD. In this way, all the necessary mechanisms are created which are essential for absorbing aid from the Community funds upon accession.

This framework comprises:

- A National Fund (a central treasury entity with the Ministry of Finance) and implementing agencies in the line ministries (by virtue of the Memorandum of Understanding for the Establishment of the National Fund, and the Memorandum of Understanding for the Utilisation of the National Fund for ISPA Purposes). EU funds are transferred to the National Fund accounts in the servicing bank, with a separate account for each sector (transport and environment for ISPA) and for the Multi-annual Financing Agreement (SAPARD), and separate sub-accounts for each project (Phare) and Financing Memorandum (ISPA). The accounts execution is reported by the unified budget classification. The accounts management and the transfer of funds from the National Fund to the implementing agencies fully comply with the rules of the single account system applied to budget resources. The accounts are operated on a double signature system.
- SAPARD Agency accredited by the EU Commission as a payment and implementing agency.
- Project Implementation Units at the line ministries.

The implementation of the projects and the management of EU funds are subject to internal and external financial control. The Public Internal Financial Control Agency carries out the internal financial control, and the National Audit Office is responsible for external audit.

In addition to the above the approval of requests for funds from the implementing agencies are laid down in the National Fund Procedures Manuals which clearly set out the levels of internal control within the staff of the National Fund.

The necessary resources for co-financing projects under EU programs shall be provided with priority by the government budget, on the basis of the National Development Plan. In the programming stage the funds required for co-financing are included in the MTFF, thus ensuring regularity in the financing of multi-annual EU projects. From the year 2001 these resources are shown on a separate line. It is envisaged also that private capital will be attracted in the future for financing such projects.

Own Resources

The Republic of Bulgaria accepts the rules, methodology and procedures for financing the general budget of the European Union through the current system of own resources. Bulgaria declares that by the date of accession it will be in a position to perform the obligations of a contributor to the general budget, in terms of establishment, collection, transfer and reporting of own resources to the EU budget. The Public Internal Financial Control Agency is responsible for control on the administrations in charge of collecting own resources. The aim of their control is to ensure that own resources are collected in a timely and efficient manner.

Traditional Own Resources (customs duties, agricultural levies and levies on the production of sugar)

The Customs Agency is the institution, which will be responsible for collecting, recording, reporting and control of the traditional own resources of the EU budget.

The Republic of Bulgaria declares that upon accession it will be prepared to calculate, collect and make available the customs duties and levies constituting the Communities' traditional own resources in full compliance with the acquis.

The Customs Act and its Implementing Regulation are based on the EU Customs Code and the Rules on its implementation. The customs legislation of the Republic of Bulgaria is fully aligned with the acquis. No derogations and transitional periods will be requested under chapter 25 "Customs Union".

The Republic of Bulgaria will apply the Common Customs Tariff as of the date of accession.

The Republic of Bulgaria is in the process of upgrading its infrastructure for exercising control on the collection of customs duties.

A system for customs debt registration has been set up. It records information on the registered customs duties, the customs debt outstanding and the payments made. A customs debt module of the Bulgarian Integrated Customs Information System is being implemented. It utilises standardised codes for identification of budget revenues under different types of liabilities, methods of payment and indebted entities.

The Republic of Bulgaria does not currently apply sugar levies according to the relevant EU requirements. However, in its NPAA, chapter 7 “Agriculture”, Bulgaria has stated that new ordinances will be adopted in 2003 and 2005 to introduce the principles of sugar regulations applied in the EU. By the date of accession sugar levies as required by the acquis will be imposed in Bulgaria and the necessary administrative capacity for their administration will be in place.

As of the date of accession the Republic of Bulgaria will have accounts for established traditional own resources (“A” and “B” accounts) in compliance with the provisions of Regulation No. 1150/2000.

The Republic of Bulgaria shall have adequate archiving procedures for retaining the documents concerning the establishment and making available of TOR and for retrieving them for later verifications. The statements and reports required by the European Commission shall be submitted to it on a timely regular basis.

Value Added Tax

The Republic of Bulgaria will comply with the requirements for calculation of the VAT tax base under the provisions of the 6th Directive 77/388/EEC and Regulation 1553/89 as well as with the rules for making available the VAT-based resource in compliance with Regulation 1150/2000.

VAT was introduced in Bulgaria in 1994. The new Value Added Tax Act (adopted in 1998 and in force as from January 1st, 1999) reflects the main requirements of the 6th Directive (77/388/SEC). The Bulgarian VAT legislation will be gradually aligned with the acquis before the date of accession in compliance with the commitments made under Chapter 10 (“Taxation”). The Republic of Bulgaria requests a constant derogation from the provision in Article 24 of the 6th Directive (77/388/SEC) on the threshold of registration for VAT. The Republic of Bulgaria requests that it is allowed to set the threshold for registration on its territoty at BGL 50 000 (EURO 25 000) which will be reached not later than 01.01.2007. The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 with respect to the provision in Article 12 (3)a of the 6th Directive (77/388/SEC) on levying prostheses and technical devices for the handicapped with VAT.

The Republic of Bulgaria has in place information systems for administering, collection, accounting, reporting and control of VAT. Thus, Bulgaria can ensure the necessary information on a decentralised and consolidated basis on the tax base for VAT calculation for the preceding year and forecasts for VAT tax base for the next calendar year. Bulgaria is ready to assist the EU bodies with the control over the VAT tax base. A Central Liaison Office (CLO) at General Tax Directorate will be established to ensure exchange of VAT-related information for the intra-community transactions. In co-operation with the European Commission the CLO will be linked to the European system for exchange of information VIES.

In Bulgaria, the administration of VAT revenues is carried out by the General Tax Directorate at the Ministry of Finance.

The National Statistical Institute is capable of collecting the necessary data for defining the weighted average rate for the purposes of defining the VAT harmonised base. It will provide the European Commission with the necessary information from the national accounts regarding the control exercised on calculating the VAT tax base.

Gross National Product (GNP)

Bulgaria's national accounts are developed according to the methodological requirements of the European System of Accounts (ESA 95). Full harmonisation in this area will be achieved as of the date of accession (see: Negotiation Position on Chapter 12 "Statistics").

The National Statistical Institute (NSI) is responsible for calculating the GNP at market prices, as well as for improving the exhaustiveness of GDP as a major component of the GNP. It also has the responsibility to ensure quality, consistency with standards, and data legitimacy in compliance with the acquis – ESA 95/Regulation 96/2223, Directive 89/130, Decision 94/168. The NSI will submit to the European Commission a description of the basic data, classifications and methods currently used to compile national accounts and to make the transition from GDP to GNP (GNI).

The documentation prepared with regard to GNP calculation will be kept in compliance with the requirements of EU legislation and will build the basis for an update of the European Commission's assessment of Bulgaria's national accounts.

ADMINISTRATIVE CAPACITY

All necessary administrative structures for the implementation of EU legislation on budgetary and financial issues are in place. These are the following institutions: the Budget and Treasury Directorate at the Ministry of Finance, the General Tax Directorate, the Tax Policy Directorate, the Customs Agency, the Agency for Economic Analyses and Forecasts, the National Statistical Institute and the Ministry of Agriculture and Forests. The Treasury will play a major role in the financial relations with the EU budget where special accounts for the EU own resources will be opened.

A special division named ‘European Integration in the Budget Sector’ has been set up in the Budget and Treasury Directorate. This division will be responsible for co-ordinating and monitoring the activities related to the performance of Bulgaria’s obligations for contribution to the EU own resources. The division of European Integration in the Budget Sector will be the contact point for the European Commission services concerning the contributions due by the Republic of Bulgaria.

JUSTIFICATION OF THE REQUEST FOR A TRANSITIONAL PERIOD

The Republic of Bulgaria expects that in the first years of its membership in the European Union its financial contributions to the EU general budget pursuant to the acquis under chapter 29 “Financial and Budgetary Provisions” will exceed the revenues from the EU budget. This anticipation is based on the fact that from the date of accession Bulgaria will have to assume automatically the obligation to pay the full amount of due contributions to the EU budget, whereas at the same time the funds coming from the European Union will be absorbed at a lower rate.

As a result of this Bulgaria’s net budgetary position will be deteriorated, even with due consideration given to the impact of the pre-accession aid on the easing of Bulgaria’s budgetary position upon accession. Currently, Bulgaria is implementing radical reforms aimed at establishing a functioning market economy and a capacity to implement the acquis (requirements under the Copenhagen criteria), which involve considerable budgetary expenditures.

In order to avoid a deterioration of its net budgetary position in the first years of EU membership, Bulgaria makes a request for a transitional period under chapter 29 “Financial and Budgetary Provisions” concerning the payment of full contributions to the EU general budget. During this period Bulgaria requests that these contributions increase progressively until they reach their full amount. This will be a compensation for the EU funds which will not have been drawn in the first years of membership due to technical and legal reasons, and to which Bulgaria will be entitled as a new member state, according to the provisions of the EU legislation and the Accession Treaty.

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The Bulgarian Government proposes that negotiations on this chapter be provisionally closed on the basis of the existing acquis communautaire.

The Republic of Bulgaria recognises the possibility of opening supplementary negotiations before the end of the Intergovernmental Conference should new elements of the acquis make it necessary.