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BUDGET REVENUES OF BULGARIA AND OF THE EUROPEAN UNION (2000-2011)

A parallel was made between the rate and the structure of budget revenues of EU-27 Member States and Bulgaria. The specific reasons for their differences (tax rates and bases, tax frauds and dynamics of economic growth) are also under consideration. The main relationships of the budget revenues and expenditures, budget balances and the national debts are focused. Some basic conclusions and suggestions are made on this basis.

JEL: H22; H24; H25

Pursuant to the statistics of Eurostat (ESA 95) and IMF there are four groups of taxes and social security contributions (D). Three of them are main groups. Firstly, the current taxes on income, property and other (D5) are *direct taxes* in general. In 2008 the personal and corporate income taxes in Bulgaria exceeded 98% of D5. In the Czech Republic in 2007 and 2008 the average personal and corporate income taxes were 99.4% of D5, an in the Netherlands in 2007-2010 - over 87% thereof on the average. Secondly, the taxes on production and imports (D2) correspond to the *indirect taxes* in principle. In 2008 in Bulgaria the revenues from VAT, excise duties, customs duties and fees were 96.3% of the total amount of D2. The other are mainly taxes on gambling, land and buildings and on environment pollution. In the Czech Republic for the period 2007-2008 on the average the revenues from VAT and excise duties were about 93.2% of D2. In the Netherlands, however, the revenues from VAT and excise duties were 73.8% thereof (mean for 2007-2010). Thirdly, the *social security (including health) contributions* D61 are included in the last main group.

The group of the so-called *other revenues*, for the purpose of this analysis, is obtained as a difference between the total revenues of the consolidated state budget (CNB) and the sum of the above-mentioned three groups (D5, D2 and D61). It includes mainly non- tax revenues and benefits, as well as the so-called taxes on capital (D91), accrued on irregular and rare intervals (from testaments, donations and other transfers) – mainly for the local government budgets.[1]

General review of the rate and structure of budget revenues

As presented in Chart 1, the mean revenues of EU-27[2] are on a high level which is almost constant: about 44-45% of GDP throughout the period 2000-2011.

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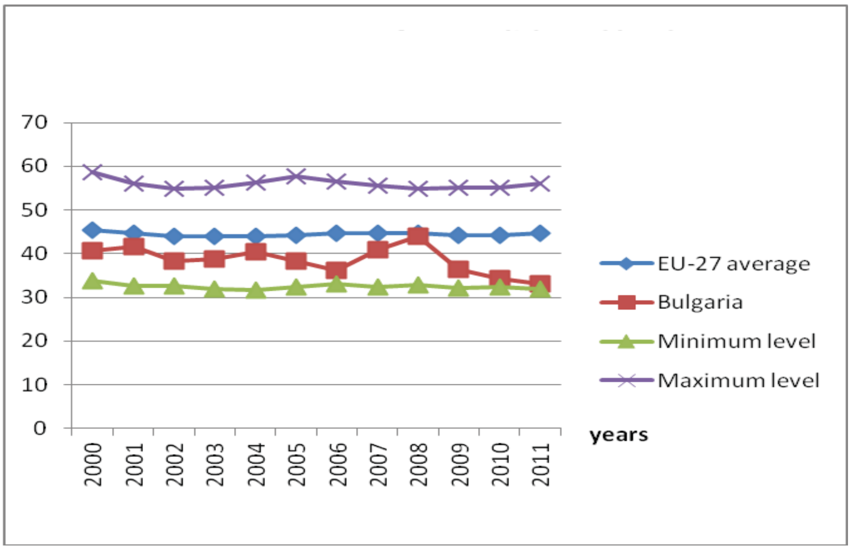
[1] More details are available in: NSI. Main macroeconomic indicators, 2008, p. 52-53 and 143-163; Statistical Yearbook of Netherlands, 2008 and 2010, www.cbc.nl; Statistical Yearbook of Czech Republic, 2010, p. 46-49, 182-187.

[2] The present EC is composed as a result of the accession to the main states (so-called EC-15) of two groups from Eastern and Southern Europe in 2004 (10 states) and 2007 (2 states). Undoubtedly however the aspiration to unification of tax legislations is available in the “new” states prior to their accession. On the other hand, in some cases (excise duties) transition periods were necessary also after their full membership.

These shares correspond to the consolidated characteristics of EU-27 – mainly highly developed states, with advanced tax administration, intended to provide funding for the region with most considerable budget expenditures worldwide. The high expenditures correspond to the extended set of public services in favor of economy and the living standard of states with European values, i.e. more or less social market economies.

Chart 1

EU-27: Revenues of consolidated budgets for 2000-2011 in % from GDP

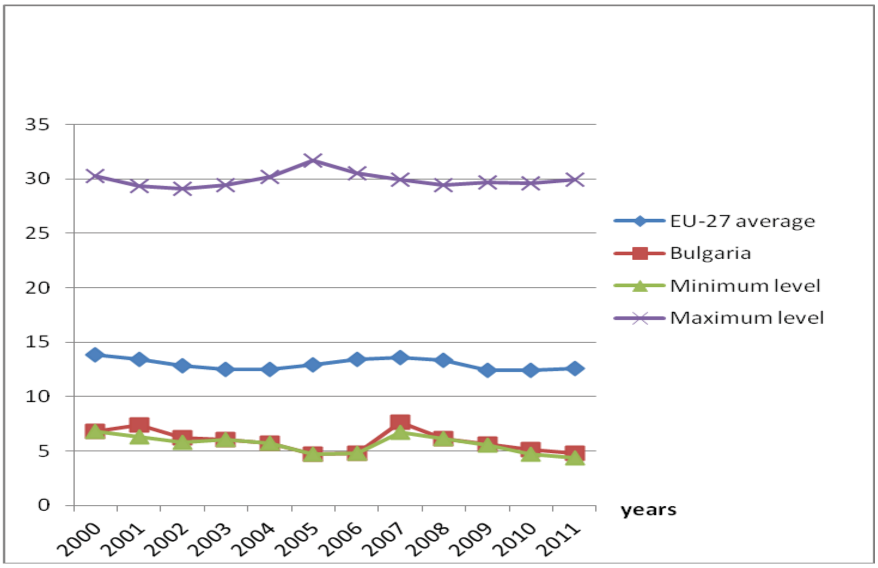


One should not forget, that EU (and the entire Europe) is the region with the eldest population in the world, requiring considerable and increasing pension and health expenditures. The substantial expenditures to stimulate child birth and raising of children are in fact other counteractions to the sustainable demographic characteristics.

This mean level, however, conceals considerable differences in the different states. The difference between the maximum and the minimum level is almost constant: about 1.7 – 1.8 to 1. The states with a minimum share of budget revenues of GDP (32.0 - 33.9%) are from Eastern Europe: Lithuania and Romania- for a period of four years each and Slovakia – for three years. Sweden (for the first two years) and Denmark – for the other years have maximum shares (between 54.8 and 58.7%). For the entire period the revenues in Bulgaria have been below the average level for EU-27. However, in the pre-crisis period (2000-2008) its mean level was 88.8% of EU-27 (with fluctuations between 80.8 - 92%), during the period of crisis 2009-2011 it was averagely 78% with a downward trend each consecutive year: 82.1% (2009), 77.8% (2010) and 74.2% (2011). The specific Eurostat numerical data demonstrate, that there is no other EU-27 member state, that has so sharply cut down its revenues – totally for the three years by 6.9 percentage points or by 17.25%.

Chart 2

EU-27 Revenues from direct taxes for 2000-2011 in % of GDP



The revenues from *direct taxes* cover a relatively considerable and sustainable share in the budgets of the EU member-states: averagely for all the states for the period between 13.8 and 12.4% of GDP. The slight decrease in the years of the crisis is due to the taxable bases of personal and corporate incomes (Chart 2).

Therefore the average share for EU-27 of this group as a percentage of the revenues of CNB dropped from 29.5% for 2000-2008 down to 28.2% for 2009-2011 (Table 1).

The differences of these stares in each state are more considerable than the differences in the total revenues and tend to rise: from about 4.5 to 1 to 6.8 to 1 at the end of the period. Even if eliminating the influence of Denmark (a special case, due to the low social security contributions), the differences between the next state in the classification (Sweden) and the minimum level is between 3.3 to 4.7 times. The minimum level for five years from the period under consideration belongs to Bulgaria (2000, 2004-2006 and 2008), for three - to Romania, for two - to Lithuania and for one - to Slovakia and Poland each. The average Bulgarian level in the period 2000-2008 is 46.7% of the EU-27 level, and for 2009-2011 - just 41.5%.

Table 1

EU-27: structure of budget revenues
(CNB revenues = 100)

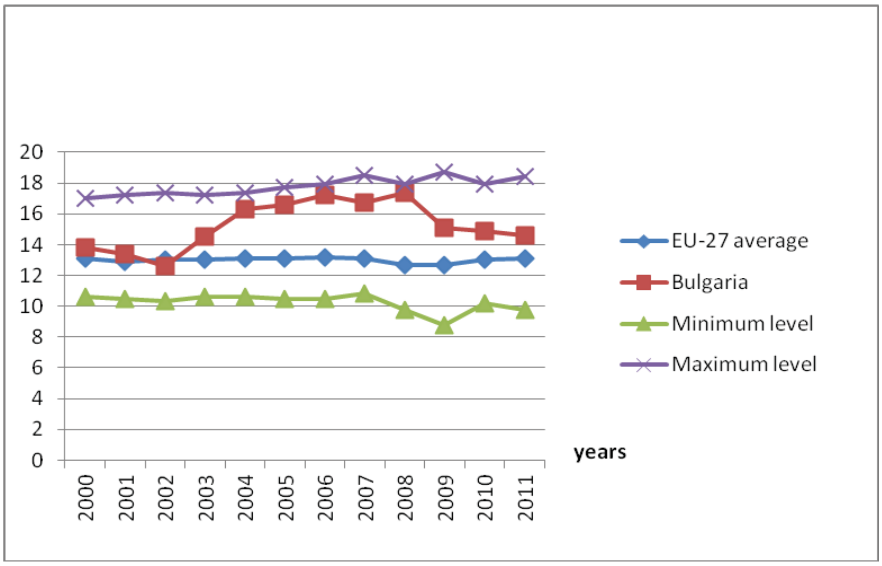
States	Direct taxes		Indirect taxes		Social Security Contributions		Other (non-tax)	
	2000-2008	2009-2011	2000-2008	2009-2011	2000-2008	2009-2011	2000-2008	2009-2011
EU-27 (average)	*29.5*	*28.2*	*29.3*	*29.2*	*30.8*	*31.5*	*10.4*	*11.1*
Belgium	34.0	31.9	25.9	25.9	32.6	34.2	7.5	8.0
Bulgaria	*15.5*	*14.9*	*39.1*	*43.0*	*23.8*	*21.2*	*21.6*	*20.9*
Czech Republic	21.8	18.4	26.7	28.5	39.0	38.6	12.5	14.5
Denmark	53.7	53.9	31.2	30.3	3.8	3.5	11.3	12.3
Germany	26.0	25.5	24.2	25.5	40.3	38.4	9.5	10.6
Estonia	20.9	17.0	34.9	34.4	29.9	31.6	14.3	17.0
Ireland	34.8	31.1	36.2	32.2	17.0	20.3	12.0	16.4
Greece	20.9	20.5	31.3	30.0	32.7	32.5	15.1	17.0
Spain	27.9	26.9	29.5	27.1	33.4	37.3	9.2	8.7
France	23.1	21.3	30.2	30.5	36.2	37.6	10.5	10.6
Italy	31.6	31.4	31.8	30.1	28.3	29.9	8.3	8.6
Cyprus	27.9	28.0	39.2	37.2	18.9	22.3	14.0	12.5
Latvia	23.5	20.7	34.5	31.6	26.4	24.8	15.6	22.9
Lithuania	22.8	15.1	35.1	34.8	26.5	33.1	15.6	17.0
Luxembourg	33.4	33.9	30.5	28.5	27.0	28.7	9.1	8.9
Hungary	22.4	17.0	36.0	34.7	30.0	26.6	11.6	21.7
Malta	29.4	33.7	35.7	34.7	20.1	18.9	14.8	12.7
Netherlands	25.1	25.6	27.1	25.8	32.8	32.6	15.0	16.0
Austria	27.6	26.5	29.5	30.1	33.1	33.9	9.8	9.5
Poland	18.5	18.8	34.3	35.4	32.0	29.9	15.2	15.9
Portugal	22.3	22.0	34.8	31.7	28.6	29.5	14.3	16.8
Romania	18.9	17.5	36.5	35.9	31.7	29.1	12.9	17.5
Slovenia	19.2	18.7	35.4	32.2	33.2	35.1	12.2	14.0
Slovakia	18.6	16.8	32.5	31.5	37.2	38.6	11.7	13.1
Finland	34.2	30.2	25.3	25.5	22.7	23.9	17.8	20.4
Sweden	37.9	36.4	29.8	34.9	20.0	15.8	12.3	12.9
United Kingdom	39.7	38.9	31.4	31.1	19.8	21.0	9.1	9.00

Source. Calculated according to Eurostat data.

The revenues from indirect taxes are more sustainable. On the average for EU-27 they fluctuate from 12.7 to 13.2% of GDP, without any significant differences in both sub-periods (Chart 3).

Chart 3

EU: Revenues from indirect taxes for 2000-2011 in % of GDP



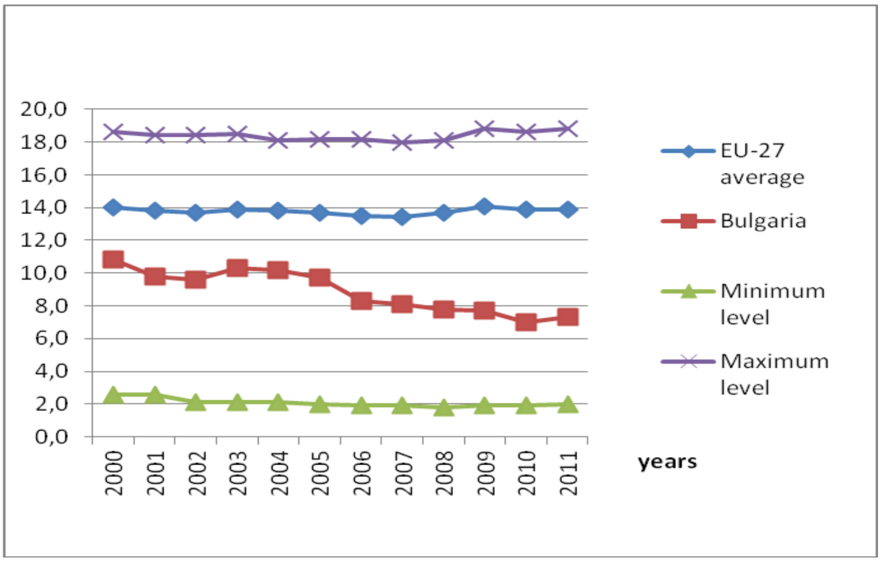
The difference between the maximum and the minimum level was between about 1.6 to 1 in the initial years to about 2.1 to 1 at the end of the period. The Czech Republic and Germany had minimum levels for four years each, Spain – for three years and Slovakia– for one year. The maximum level was reached by Denmark (2000-2006), Cyprus (2007) and Sweden (2008-2011). As shares of revenues of CNB the differences reached about 1.6-1.7 times. As far as Bulgaria is concerned, in the course of the period 2000-2003 the mean level of indirect taxation was 104.4% of the EU-27 level, and in 2002 it was even lower than the level of EU-27 as a whole (96.9%). In the period 2004-2008 the average Bulgarian level was 129.2% of the level of EU-27 (maximum 137% – 2008). During the period of the crisis the level dropped down to 115% on the average, and in the last year it was 111.5%.

As shares of the CNB revenues the indirect taxes in Bulgaria are ranked first in EU-27: average 39.1% for 2000-2008 and 43% for 2009-2011. Actually at the beginning and at the end of the period the revenues from indirect taxes as a share of GDP were close to the average ones and could be considered “normal” (Chart 3), and their high share of the revenues from CNB was due to the low budget in general (Chart 1).

The revenues from the social security contributions on the average for EU-27 also had a considerable and comparatively sustainable share (from 13.4 to 14.1% of GDP) throughout the period (Chart 4). As a share of the revenues of CNB they rose and even had more weight than the other groups of revenues: average 30.8% for 2000-2008 and 31.5% for 2009-2011. Denmark had a minimum share of the revenues (1.8- 2.6% of GDP) because of the above-mentioned specific features. It was followed by Ireland, with contributions between 5.6 and 7.5% of GDP. If it is taken into consideration, the range of fluctuations between the maximum and minimum share was similar to the share of the other groups of revenues- between 3.5 to 2.5 to 1. The maximum levels belong to Germany (2000-2003) and France (2005-2011). In 2004 their revenues were equal. As far as Bulgaria is concerned, the revenues level is well below the average for EU-27: for 2000-2008 it was 68.4% as a share of GDP. In the beginning of the period it was 77.1% and gradually stepped down to 56.9% in 2008. For the period 2009-2011 the percentage stepped further down to 52.5% of the average level of EU-27. As a share of the revenues of CNB Bulgaria was close the minimum – 23.8% for 2000-2008 and 21.2% in 2009-2011.

Chart 4

EU-27: Revenues from social security contributions
for 2000-2011 as % from GDP



The so-called other (mainly non-tax) revenues on the average for EU-27 are supplementary and less significant. As a share of CNB they were 10.4% for 2000-2008 and 11.1% for 2009-2011 (Table 1). For Bulgaria, Latvia and Finland this share is approximately twice as high. These revenues are various and numerous and more important for the municipalities and the judiciary. Especially for Bulgaria their share proved to be higher than the share of direct taxes (as a share of GDP-

7% for 2010). A considerable part thereof – 32.6% for 2010 and 30.6% for 2011 – was due to the grants, obtained from EU. These shares: about 2.27 and 1.94% of GDP for 2010 and 2011 years match the expenditures for contributions to the budget of EU- about 0.95 and 1% of GDP. The obtained balance is about 1.32% of GDP for 2010 and 0.9% for 2011.[3] However, as long as the obtained grants depend on numerous and various requirements, it could hardly be a „proof" (benchmark) for the benefits from the EU membership of Bulgaria. The matter of the benefits and losses is much more comprehensive and complicated, and many of its components could not even be measured in terms of quality.

Comparison between tax rates and tax bases

The main nominal tax rates (rates) are an important specific indicator, focused on the potential intentions and opportunities to collect budget revenues from each tax and in general. Actually, there is also a wide range of tax expenditures (tax reliefs) – tax exemption, tax deduction etc., narrowing and undermining the tax bases, but they are relatively less important. There is also a pursuit of their restriction in line with the conservative theories and especially of „the supply-side economics". In fact it is a more discrete way to increase their real tax burden. Within a small-scale work it is possible only for the major tax forms, bringing the main portion of the revenues of CNB.

The main tax rate of the *corporate income tax* (profit tax) varied in the last two decades largely under the influence of the increased mobility of capital on a global scale. In the European Union the average main corporate tax rate of 37.8% for 1993-1996 and 35.1% for 1997-1999 for 2000-2007 gradually stepped down to 24.8%,[4] and as at 2012 for EU-27 it is already 20.6% (Table 2). Consequently, the average tax rate continues to step down, but more slowly. Usually it is accompanied with cutting down the tax exemptions and tax deductions, which reduces the overall effect. It is also interesting, that although EU-27 and Europe are the region with the highest share of budget revenues all over the world, since the year 2000 the mean corporate tax rate has been much lower than the global corporate tax rate (based on 92 states) and the other regions, considered individually. It could be explained mainly with the weaker diversification of the revenues in the other regions according to the main groups of revenues, on the account of the traditionally higher direct taxes. For instance, as at 2007 in Japan VAT is 5%, in Canada – 6%, in Thailand and Singapore – 7%, and in Australia and South Korea – 10%.[5] USA have no federal tax on sales, but only excise duties on federal level. Moreover, in many of the „third world" countries the corporate tax rates are high, but they have a narrow tax basis (mainly revenues of the large foreign and local companies).

[3] Calculated according to the Annual Report of BNB, 2011.
[4] KPMG's Corporate and Indirect Tax Rate Survey, 2007, p. 10.
[5] Ibidem, p. 27-28.

Table 2

EU-27: main nominal tax rates (%)

Countries	Corporate Income Taxes	Personal Income Taxes	VAT
Austria	25.0	21.0-50.0	20.0
Belgium	33.99	25.0-50.0	21.0
Bulgaria	*10.0*	*10.0*	*20.0*
Cyprus	10.0	0-35.0	17.0
Czech Republic	19.0	15x1.475=23.1	20.0
Denmark	25.0	38.0-59.0	25.0
Estonia	21.0	20.0	20.0
Finland	24.5	6.5-29.75	23.0
France	33.3	5.5-41.0	19.6
Germany	30.0-33.0 *	14.0-45.0	19.0**
Greece	20.0	0-45.0	23.0
Hungary	10.0 :; 19.0	16x1.27=20.3	27.0
Ireland	12.5	20.0-41.0	23.0
Italy	27.5	23.0-43.0	21.0
Latvia	15.0	23.0	22.0
Lithuania	15.0	15.0/20.0	21.0
Luxembourg	21.0	0-38.0	15.0
Malta	35.0	15.0-35.0	18.0
Netherlands	20-25	0-52.0	19.0
Poland	19.0	18.0/32.0	23.0
Portugal	12.5/25.0	11.5-46.5	23.0
Romania	16.0	16.0	24.0
Slovakia	19.0	19.0	20.0
Slovenia	18.0	16.0-41.0	20.0
Spain	30.0	24.0-45.0	18.0
Sweden	26.3	0-57.0	25.0
United Kingdom	24.0	0-50.0	20.0
Average for EU-27	*20.6*	*18.6 ****	*21.0*

Remarks: Data as at April 2012.
* Real rate.
** Up to 2006 = 16.0%.
*** Average for the eight states with flat tax.

Source: Key Data on World Taxes, http://www.worldwide-tax.com

The main tax rate in Bulgaria is 10%. As evident from the data from Table 2, it is twice as low than the mean tax rate for EU-27 (20.6%). Only Cyprus has such a tax rate. Besides, Hungary applies the same tax rate, but only for revenues up to 500 mln. Hungarian Forints (about USD 2.3 mln.) for 2011-2012. The tax rate in Bulgaria is much lower than the rates in the neighboring and other former socialist countries (Greece, Romania, Slovakia and Poland). The low tax rate, combined with some tax reliefs, aims to attract more foreign investments. Actually it also includes tax dumping elements. The past period of time, however, is sufficient to conclude, that the low tax rate fails to compensate the other unfavorable factors (the so-called corruption tax, bad infrastructure, under-qualified staff, narrow and unprotected domestic market, unreal fixed exchange rate, etc.). The foreign investments are not in hi-tech processing industries, but mainly in real estates, tourism, banking and insurance and trade chains, plus the energy sector, but with guaranteed profits.

The personal income tax is actually of top importance in the group of direct taxes. Its average share is about three times higher than the profit tax rates. Out of 27 EU Member States, 21 apply progressive taxation of personal incomes, including all the EC-17 Member States, as well as some states from Eastern Europe: Poland has two rates of 18% and 32 % and Slovenia – from 16 to 41%. Until 2011 in Hungary the personal income tax also had two rates (for 2010 - 17% and 32%, before – 18 and 36%, and before 2006 – up to 38%). The future 28th member-state – Croatia also has a progressive income tax (from 12 to 40%). In the EU-15 Member-States the top (maximum) tax rates reach and exceed 50% in six of them (maximum – Denmark – 59%). In the other seven member-states they are between 41 and 46.5%, and in the remaining four – between 29.75% (Finland) and 38% (Luxembourg). As far as the eight members-states are concerned, applying one rate tax of the “flat” tax type, the average and non-weighted rate is 18.6%, and for the seven member-states without Bulgaria – over 19.8%, i.e. almost twice as high as the Bulgarian tax rate.

It should be pointed out, that the other EU Member States, applying tax of the “flat” type, strictly speaking, it is progressive – the tax burden (the percentage of the levied income) rises along with the rising income. It is achieved by means of the available main tax relief (tax-free amount) for each taxpayer. For instance, for the Hungarian “flat” tax (16x1.27=20.3%) the applied tax credit is up to 18% of the income from salaries, under the condition, that the annual income is up to 1 mln. Hungarian Forints (about 6100 Euro) per year. In addition tax credit of 62 500 Forints is applied for families with one or two children and 206 250 Forints for families with three or more children.[6] Big tax reliefs are granted to the taxpayers in the Czech Republic: personal – for unemployed partner and for employed pensioners –24 840 Cz. Koruna per year and per child – 106 804 Cz. Koruna per year.[7] In Slovakia the basic tax relief for the taxpayer is 80 832 Slovak Koruna per year, plus the same amount for unemployed wife and 4800 Koruna credit per

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[6] Hungary Tax Deductions.

[7] *Dalsgaard, T*. Tax and Welfare Reforms in Czech Republic. IMF WP/ 08/52, p. 50.

child[8]. Although being more modest, basic and targeted tax reliefs are available in the other EU Members for personal income tax of the “flat” type. Of course, the progressive degree of the tax is less in these countries, compared to the countries, applying the progressive scale. The aim here is not to make precise comparisons (the data indicated are quite aggregate and partial). However, they are sufficient enough, to assert, that active redistribution and regulation of the incomes of the individuals and the families are effected through their considerable share in the budget revenues, in line with a more or less progressive structure, through the personal income taxes in EU. In this respect the Bulgarian “model” of personal income taxation (without basic tax relief and targeted tax reliefs for children) appears an exception, in the negative sense, because the principle of vertical tax equity is violated.

It should also be pointed out, that in most of the EU Member States the tax base of the personal income tax is much broader. For instance, almost everywhere the incomes from pensions are taxed (Hungary is an exception). The incomes from interest rates (different between 15 to 35%) and dividends are also taxed. The rules for taxation of capital gains are much more strict.[9] The wide tax base is specific also for the three Baltic States.[10] It results in a much higher mass of the taxable income. The low relative share of the entire group of direct taxes in Bulgaria is due to the insignificant revenues from personal income tax. In most countries the revenues from the personal income tax are 2-4 times higher than the revenues from the corporate taxes, but in Bulgaria their ratio for 2010-2011 is about 1.5 to 1.

On the contrary the basic nominal rates of corporate taxes, the rate of the main indirect tax – *the value added tax* (VAT) – tends to increase. The mean VAT rate for EU-27 increased from 19.5% in 2007 to 21% as at the end of April 2012 (Table 2). Also the mean rate of the main VAT in 2007 was higher than the rate in the other regions. On the average for OECD this rate was 17.7%, in the Asia-Pacific region it was 10.8%, and for Latin America – 14.2%. For 2007-2012 eleven out of EU-27 maintained the basic VAT tax rate, including Germany (where however it was increased in 2007 from 16 to 19%), France, Netherlands, Slovenia, Sweden, Denmark, Austria, Belgium, Luxembourg, Malta and Bulgaria. Except for Bulgaria, the other countries from this group are mainly highly developed, having a high level of financial discipline and tax compliance. From the former socialist countries (except for Bulgaria) only Slovenia is included here – the country having the highest economic development from Eastern Europe (for 2010 – 85% of the average GDP per capita pursuant to PPS in EU-27 GDP, according to Eurostat).

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[8] *Moore, D*. Slovakia’s Tax and Welfare Reforms - IMF WP /05/133, p. 31.

[9] *Zee, H*. Personal Income Tax Reform: Concepts, Issues, and Comparative Country Developments. IMF WP/05/87, p. 17-33, 54.

[10] *Stepanyan, V*. Reforming Tax Systems: Experience of the Baltics, Russia and Other Countries of the Former Soviet Union. IMF WP/03/173, p. 16-17.

The other 16 countries have increased the base nominal VAT rates in order to acquire additional revenues. Among them are countries, needing urgent loans from IMF, the World Bank and the Central European Banks, laying down conditions for tax reforms for obtaining loans. The highest increase was in Hungary – from 20% to 27% (+ 7 percentage points), Romania – from 19 to 24% (+ 5 p. p.), Greece – from 19 to 23% and Latvia – from 18 to 22% (+ 4 p.p.), Lithuania – from 18 to 21% (+ 3 p.p.), United Kingdom – from 17.5 to 20% (+ 2,5 p.p.), Spain – from 16 to 18%, Portugal – from 21 to 23%, Ireland – from 21 to 23%, Estonia – from 18 to 20% and Cyprus – from 15 to 17% (all of them with + 2 p.p.). Slovakia, Poland, Italy, Finland and Czech Republic have increased their basic VAT rates with 1 p.p.

In addition, many countries, especially in Eastern Europe, limited the use of zero and relief rates, aligning them to the base rates. The Czech Republic increased the relief rate from 5 to 9% (2008), Slovakia in 2002 had rates of 23 and 10%, in 2003 - 20 and 14%, and since 2004 introduced a single base rate – 19%. Hungary, where the base tax rate was 25% (since 1988), in 2006 reduced it to 20%, but since 1 July 2009 increased it again to 25%. The reduced 15% rate is now 18% (for basic foods), and there is a 5% rate – for books, newspapers and medicines. A reduced rate (10% as at 2007) is also applied in Slovakia –mainly for medicines and pharmaceutical products. Slovenia (base rate 20%) applies a nominal rate of 8.5% for foods, water, medicines and medical equipment, passenger transport, books and newspapers. As at 2007 all the EU-27 members-states have reduced rates – usually 2–3 rates. Bulgaria has 9% (prior 7%), increased and equalized rate for all tourist packages. However nothing remained from the reduced tax rates, being valuable from social point of view and allowed pursuant to the Sixth EC Directive (similarly to the ones mentioned in the other member states). They were eliminated mainly in 1999, as well as in 2000 (medicines) and 2007 (school books). Eventually the second tax release, zero or alleviated taxation would be of benefit mainly for the businessmen.

The tax theory is definite, that it is inefficient and probably of no tax equity to achieve a “progressiveness” (vertical tax equity) by means of tax relief at VAT and the other taxes on the sales. Such a relief has not been addressed precisely enough. Therefore the “distribution is effected better by means of the income taxation and by precisely targeted transfers to the households, to be helped”.[11] The reasons to keep some tax reliefs are mainly socio-political, and to a less degree – technical (difficult taxation). In this case it is important, that redistribution elements are available in VAT as well, despite of being more restricted.

In Bulgaria the main reason for the high receivables from VAT is in the high share of the end consumption. The fixed exchange rate, in line with the customs and non-tariff size reductions in a period of unconsolidated market institutions and decapitalization and technological backwardness resulted in a considerable negative balance (exports minus imports) of goods and services. In the period

[11] *Tait, A. A*. VAT - International Practice and Problems. IMF, Washington D.C., 1988, p. 59.

2004-2009 the average annual receivables from VAT were approximately 10.5% of GDP (about 27% of revenues), the peak of 11.2% of GDP was in 2006, when they were 29.1% of the CNB-revenues. Thus the negative foreign economic balance had a positive "side" effect – additional revenues from VAT. In 2010 and 2011 the trend of changes was in the opposite direction – the imports and the exports were relatively in equilibrium, but the revenues were reduced to the "normal" 8.9% of GDP for 2010 and 8.8% for 2011. It should be acknowledged, that due to the weakness of direct taxation, the countries in the South East Europe should compensate it to a certain extent with a higher share of the indirect taxes of GDP.

The Excise duties are the second important indirect tax (following VAT) within the EU. The EU excise duty system requires from the member-states compulsory minimum rates for oil fuels, cigarettes and other tobacco articles and five groups of alcohol drinks (concentrates, semi-products and beer) in order to provide a loyal competition. In addition there are "environmentally-friendly" excise duties on coal, coke and electrical energy – low at present, but rising.

The difficulties for Bulgaria, and partially for the other newly acceded countries from Eastern Europe, are due to the big nominal difference in incomes. Compared to EC-15 for Bulgaria it is about 9 to 10 times. Mainly due to this reason, for instance, in 2008 excise duty on the cigarettes in Netherlands had 0.4% of GDP, and in Bulgaria – 2.5%, i.e. 6.2 times more. Similarly, the excise duty on oil fuels in the Netherlands is 1.3% of GDP, while in Bulgaria – 2.9%, i.e. 2.2 times more.[12] In order to align gradually with the EU requirements Bulgaria adopted a government program to increase excise duties for 2005-2013.[13] The European Parliament however voted new increase in the excise duty for the cigarettes (up to EUR 90 or at least EUR 75 Euro per 1 thousand pieces for 2014). It means at least BGN 2.93 per box, and to reach the minimum levels for the cigarettes is a "story without end" for Bulgaria. Currently the government declared, that no new increase in excise duty for tobacco articles is foreseen up to 2015.

The sharp increase in the cigarettes' prices often resulted in decrease in the sales volumes (i.e. of the tax base), overstocking, intense smuggling and lower receivables in the budget. Thus in 2009 the receivables from excise duty were 82.6% of the initial plan, and in 2010 – 70.2%. The same refers to the other main excise duty – on petrol fuels. The high prices of crude oil prices, combined with the high excise duty, made such an "Orthodox" on the free market like the Bulgarian financial minister to suggest the level of their excise duty not to be equal for EU-27, but to be generated on the basis of GDP rate or the purchasing power.[14]

Although being less, such difficulties in reaching the minimum levels of excise duties are encountered also by other "new" EU members (Czech Republic,

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[12] Calculated pursuant to data from the News Bulletin of the Ministry of Finance and the Statistic Yearbook of Netherlands 2008 and www.cbc.nl *(in Bulgarian)*.

[13] Economic Review, 2006, N 4, p. 58-59 *(in Bulgarian)*.

[14] Novinar Newspaper, 9 June 2012 *(in Bulgarian)*.

Slovakia etc.). For instance, Slovakia, when joining the EU in 2004 increased the fuel prices by 25%, of the beer – by 66.7% and of the cigarettes – by 47.4%. Here as well a transition period until 2007[15] was foreseen to reach the minimum level for the cigarettes.

The available single minimum rates of the basic excise duties is a major reason for the high share of excise duties (and in general of the indirect taxes) in Bulgaria compared to the average for EU-27 and especially for EC-15. Thus in 2001 the excise duties in Bulgaria were 3.7% of GDP and 9.3% of the revenues of CNB. And for instance, excise duties on petrochemicals were only 19 to 38% of the European ones. As at 2008 the excise duties in Bulgaria reached their maximum – 5.9% of GDP and 14.9% of the revenues. For 2010-2011 they were 5.1% of GDP (14.9% of the revenues). For comparison, in the Netherlands for 2000-2010 the excise duties were on the average about 2% of GDP and 4% of CNB-revenues. The ratio: revenues from VAT to revenues from excise duties for 2007-2010 was on the average about 4 to 1. In Bulgaria this ratio for 2008-2011 was 1.74 to 1. The mean place of this indicator, as well as to shares, is occupied by countries like the Czech Republic and Slovakia. In the Czech Republic during 2007-2008 the excise duties were approximately 3.7% of GDP (9.6% of the revenues), and the ratio revenues from VAT (about 6.7% of GDP) to revenues from excise duties was 1.8 to 1. Similarly, in Slovakia (2004) the excise duties were 3.3% of GDP, and the ratio: revenues from VAT to revenues from excise duties was 2.27 to 1.

Regarding “progressiveness”, i.e. the vertical tax equity, it is considered (as proven by the Bulgarian statistics as well), that the excise duties on the cigarettes and alcohol are regressive. Together, they are about 50% of the receivables from the Bulgarian excise duties. On the contrary, the excise duty on petro products in general is progressive, similarly to the excise duty on cars. In Bulgaria the latter however was finally repealed in 2010, despite of the expected revenues of BGN 30 mln. per month thereof. Alan Tait[16] is of the opinion, that in the developing countries (on their level are the poorer countries from Eastern Europe), if “progressiveness” is searched in the indirect taxes, it is better to be achieved with some more goods levied with excise duty instead of differentiating VAT. It results in higher economic and administrative efficiency. The excise duty is a single (single-stage) tax, levied most often in a smaller number of large manufacturers, while the introduction of exceptions to the VAT mechanism causes complications and discrepancy between the nominal and the actual tax burden. Unfortunately, the Bulgarian practice is developing in the opposite direction: narrowing the tax base for excise duties and pressure for differentiation of VAT.

It is difficult to compare the standard rates of the *social security (incl. health) contributions* due to their considerable differences. In some countries the tax base is the weekly gross income, and in other – the monthly or annual income, and in

[15] *Moore, D*. Op. cit., p. 32.
[16] *Tait, A. A*. Op. cit., p. 45.

some cases – the so called modified taxable income. Some countries apply proportional rates, and other – regressive (rarely progressive) scales. There are also upper, and sometimes lower limits of taxable bases. Occasionally, however, there is a fixed maximum amount of the social security contributions (often for each of the different social security risks), as well as fixed amounts of the liability. The interrelations with the voluntary capital contributions are also complicated.

Table 3

Base nominal rates of the social security contributions in some EU member states (as at 2009 in %)

Countries	Employee	Employer	Total
Austria	(15.06-18.06)X 1.166=17.6- 21.06	21.63X1.166=25.22	42.82-46.28
Belgium	13.07	34.47	47.54
Bulgaria	*12.9*	*17.7*	*30.6*
Czech Republic	4.5+6.5	34.0	45.0
Denmark	8.0	..	8.0
Finland	5.83+1.47	23.0	30.3
France	13.7-0.85	41.6-23.35	55.3-24.2
Germany	20.23/11.35	19.56/11.35	39.79-22.7
Greece	16.0	28.06	44.06
Hungary (2011)	17.5	28.5	46.0
Ireland	4.0/5.0+ 0-4.0	8.5/10.75	12.5-19.75
Italy	9.49/10.49	32.08	41.57-42.57
Luxembourg	10.95+1.40	14.10+6.54/7.64	32.99-34.09
Netherlands	31.15	7.73/11.88+6.9	45.78-49.93
Poland	7.61/2.45+9.0	18.43/4.17	35.04-15.62
Portugal	11.0	23.75	34.75
Slovakia	8.0+1.4+4.0	13.75+1.65+10.0+0.8	39.6
Spain	6.35	29.95	36.3
Sweden	7.0	31.42	38.42
United Kingdom	11.0+1.0	12.8	24.8

Pursuant to OECD Tax Database (www.oecd.org/ctp/taxdatabase).

For Bulgaria - from the national legislation 2012 for third category labor.

The social security systems also do not cover the same volume of social security risks, and are not linked with the social security contributions to the same degree. For instance, in Denmark the social security system is financed almost entirely via the income taxes. The only exceptions are the so-called ATP and the health contributions. ATP is an additional state pension system. The employer pays DKK 2160 (2010) per year, and the employee - DKK 1080 (i.e. one third of the total amount). The health insurance contributions are collected from the employees and from the self-employed persons. They are due on the gross salaries and respectively from the business income at a tax rate of 8%.[17] The Czech Republic is the opposite case. There the social security contributions under the conditions of low unemployment and a comparatively good age structure cause the revenues from contributions to exceed the targeted expenditures, and the surplus to be used for joint budget expenditures. Therefore the Czech Republic carries out a policy of moderate gradual decreasing the social security contributions and increasing the indirect and personal income taxation, considered as structural improvement of the tax system, raising its efficiency. In view of the above, the aggregate social security contributions in the Czech Republic in 2007 were 48.5%, in 2008 – 47.5%,[18] and since 2009 – 45% (Table 3).

There are certain specific features of the pension systems of some countries, for instance, United Kingdom and Ireland. The Beverage System foresees minimum state pensions, based on citizenship and social risk (without compulsory years of service and contributions), supplemented by contributions on the principle of capital.

For all the cases mentioned above (although being not the only possible ones), however the aggregated data on the basic nominal tax rates of 20 EU Member States (Table 3) highlight the relationship “rates of social security contributions – revenues” and the place of Bulgaria therein. Eight of the presented countries have aggregate social security contributions over 40% (most frequently about 45%), and other five – about 35% and more. On this background Bulgaria is distinguished with a relatively low aggregate contribution of about 30.6%. In fact in the last few years Bulgaria covered just half of the expenditures of the respective social security institutions. The main reason thereto is the reduction in the social security contributions. Just for 2001-2009 the contribution to the Pension Fund (for the III category employees) dropped from 32% down to 18%, for 2010 - being even 16%, and for 2011-2012 – 17.8%. Moreover some of the money (5% rate) for the persons born after 1.Jan.1960 is allocated for the so-called II (compulsory) Capital Tier. In the other countries it is usually financed completely on the account of the employers. In combination with the economic crisis and the follow-up depression (2009-2012), resulting in much lower employment and tax agreement (respectively high degree of evasion), the Bulgarian social security systems are actually almost in a state of collapse. Only the ultimate restrictions in expenditures, in line with the high supplementary state support, facilitate the balance of revenues and expenditures, even with great difficulties.

As already mentioned in the analysis, the tax rates, and to a certain extent –the tax bases as well, are quite different in each country. Only in the sphere of indirect taxes and especially – of excise duties (single minimum levels) and customs tariffs (general tariff) have been aligned more considerably. However there are problems as well, especially for the newly acceded countries from Eastern Europe. In this sense, the opposition to the imposed more strict supranational requirements by the so-called

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[17] Social Security Taxes – Denmark OECD Tax Database, www.oecd.org/ctp/taxdatabase

[18] *Dalsgaard, T*. Op. cit., p. 43-46.

Fiscal Discipline Pact is hardly a coincidence. It is rather realistic to require more strict and mote consequent compliance with the well-known Maastricht criteria on ceilings of budget deficit and the national debt. In addition to the banking changes, including the European Stabilization Mechanism, it will probably be sufficient to overcome the Euro crisis in the medium run. There are still contradictions between the national sovereignty in the budget policy and the necessity of close budget and financial coherence under the available single currency for 17 out of the 27 EU member-states. In its turn it delays the adoption of the Euro by the other member states from Eastern Europe and is again the reason for “Two-Speed Europe”.

Especially for Bulgaria the much lower tax rates of the personal and corporate income taxes, and especially of the social security contributions, are the main reason for the low tax collections. The more narrow tax bases – mainly for the personal income tax contribute partially thereto.

In the broadest sense, when being relatively low, the tax rates and the tax bases could be considered a legally allowed tax avoidance.

Tax frauds. Dynamic economic growth and budget collections

Unlike the lawful tax avoidance, the tax frauds mean tax evasion with illegal means. There are different estimates of tax frauds. All of them are related to the estimate of the informal economy, as far as the failure to pay taxes is the most important characteristic feature.

On the estimate of the European Commission, in Bulgaria it is now 31.9% of GDP, against 18% average for EU-27. The estimate consists of about 2/3 undeclared incomes and 1/3 – hidden turnover by companies. Close to this level are Romania and Croatia.[19] According to a study of the National Center “Business to the Rules” in Romania and Bulgaria the informal economy exceeds 30% of GDP, and in Greece and Italy – about 30%, in EU on the average it is about 15-17%. In Germany, Denmark and Austria it is estimated at 10-12%.[20] Pursuant to the Bulgarian Industrial Association the losses for the budget in 2009 were about BGN 11 bln.[21] It is about 16.1% of GDP and hypothetically would increase the real revenues of CNB by about 43.9%. Consequently, if half of them were collected the revenues would have reached 44.7% of GDP, i.e. the mean level of EU-27.

Similarly, the Director of the Greek Fiscal Control Service and IMF estimate, that the unpaid taxes in Greece reach 12-15% of GDP (EUR 40-45 bln per year), and if ½ of them were collected, Greece wouldn't have any fiscal problems.[22]

[19] Trud Newspaper, 8 June 2012 *(in Bulgarian)*.
[20] Novinar Newspaper, 20 June 2012 *(in Bulgarian)*.
[21] Novinar Newspaper, 11 December 2009 *(in Bulgarian)*.
[22] Novinar Newspaper, 16 June 2012 *(in Bulgarian)*.

According to the Center for the Study of Democracy and the Friedrich Ebert Foundation, nevertheless 6 out of each 10 Bulgarian levs from the informal economy come “to light”[23].

Actually the considerable reduction of tax frauds is a problem, despite the enormous efforts, the various technical equipment invested by the tax administration and the obligation imposed on the companies to invest own funds, highly needed in the crisis situation. Currently the online link between the VAT registration devices with the tax authorities are urgently expected. The efforts of course should be continuous, but only laics might believe, that almost all the incomes, missing in the budget, could be brought “into light” and it would not only fill the budget, but will enable cutting the tax rates. It is fact, that all that has not happened during the three years of the crisis and would hardly happen in the near future.

The problems here are not technical, nor in the different estimates about the informal economy. The Bulgarian smoker, for instance, could be difficult to convince to pay the same price for the cigarettes like the West European, as the nominal income is 9-10 times lower. The Bulgarian citizens should be either required to pay health contributions on their real incomes, if they could acquire medical aid free of charge (emergency cases, on social, political or ethnical reasons, absence from Bulgaria, etc), and only in extreme cases – against minimum charges. It is easy to understand the willingness of many employees (especially younger and less educated people) to prefer obtaining half of their salaries “under the counter”, without taxes and social security contributions, to deceive the social security systems jointly with their employers. The current needs are much more vital, than the hope, that if they have paid contributions for 40 and more years under the more arbitrarily changing and aggravating rules, they would receive a deserved pension.

The semi-criminal nature of the transition period, the rapid impoverishment of the population, the unfair distribution of the tax burdens and the vanishing savings, as a whole, do not strengthen the tax moral and do not increase the level of tax compliance.[24] On the contrary, they are added to the so-called Latin Tax Moral of South Europe, increasing the number of the poor people. The establishment of a tax moral is a long-term process, requiring efforts both on the part of the government authorities and of the society. The destructive economic, demographic and value changes do not obviously contribute thereto. In conclusion, as confirmed in practice, one should not rely on the rapid decrease in tax frauds, by hastily reducing tax rates in advance, on the grounds of hypothetic calculations.

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[23] Novinar Newspaper, 30 January 2012 *(in Bulgarian)*.

[24] Tax compliance – the degree of reaction of the taxpayers to their lawful obligation to declare their income for the calculation of their taxes and to pay them intime. See. International Taxation Dictionary (English-Bulgarian). Sofia: Svetulka – 44 Publishing House, 1995, p. 310 *(in Bulgarian)*.

In a small open economy, the economic growth depends considerably on the market forces, and mainly on the status of the foreign markets. But it does not mean, that the domestic economic policy can not have a certain autonomy. Definitely, the more rapid economic growth has a positive impact on the budget revenues and budget equilibrium. It broadens the most general taxation base – GDP and especially the potential bases of all the taxes and revenues. Therefore at times of rapid real growth the government debts usually drop down, while at times of economic collapse and recession it is vice versa. Very important is the impact of growth dynamics on employment and incomes (respectively – on the changes in the unemployment benefits, the poverty benefits, etc on the expense side of the budget).

For instance, according to the Bulgarian statistics in 1988 there were 4468 thousand official employees, or 49.8% of the population. In the pre-crisis year 2008 they were over 3.8 mln. people, while in the third quarter of 2011 – about 3 mln. people, being merely 40.8% of the total population. An increase in the number of officially employed up to 3.7 mln. persons for example would have a positive influence on the budget revenues and budget equilibrium. Thus the purchasing power[25] of budget revenues of EU for 2011 (basis year 2008 = 100) is about 98.9%, and the budget expenditures – about 103.3%.[26] Of course this is on the account of the increased budget deficits. The case for Bulgaria is different. For the same period of time the purchasing power of budget revenues (in 2008 = 100) dropped considerably down to 88.7%, and of the budget expenditures to 97.7%. The factors here are the drastic decrease in the share of the revenues from GDP, the sharper economic collapse and the transition from budget surplus to budget deficit.

Budget revenues and Expenditures, Deficits and National Debt

As a rule the budget revenues in the medium run should match the budget expenditures. In case of preliminary seizure of the future revenues (via budget deficits) an interest is paid – the price of the credit, being a parasite expense, as far as it reduces the non-interest expenditures.

In response to the crisis, which began in Western Europe already in 2008, in 2009-2011 EU-27 increased their budget expenditures on the average up to about 50% of GDP, mainly on the account of the budget deficits, and the budget deficits for the first time since 2003 (when they used to be approximately 3.2% of GDP), exceeded 3%: 6.9% – 2009, 6.5% – 2010 and 4.5% – 2011 (Chart 5).

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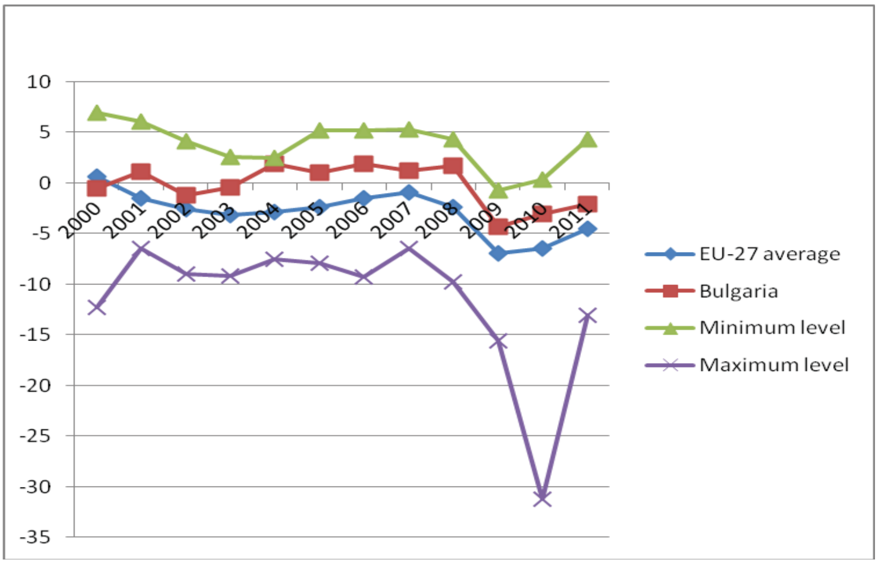
[25] The purchasing power of the budget revenues (respectively expenditures) – is a product of the budget expenditures index as a share of GDP and the index of the real amount of GDP in per cent.

[26] Here and below – according to data from the Annual Reports of the Bulgarian National Bank and Eurostat.

Chart 5

EU-27: deficits/excess of CNB in % of GDP



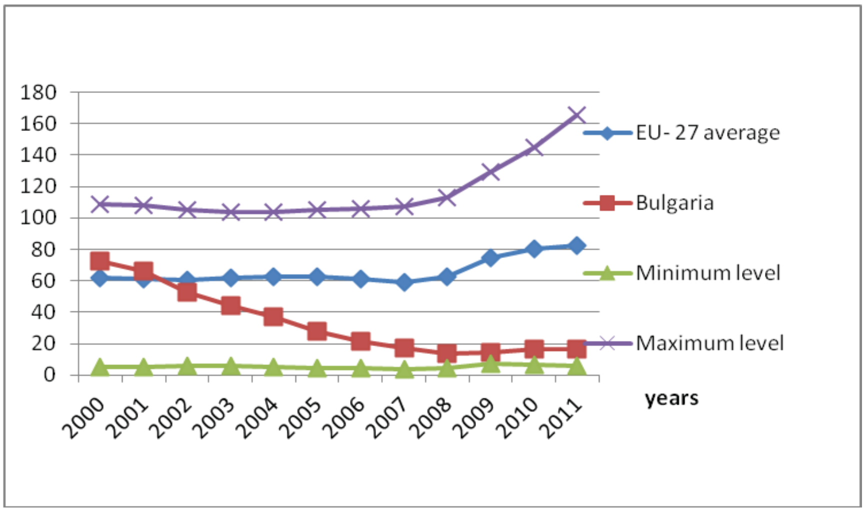
Generally speaking, the policy of most of the EU governments was to keep the social benefits (incomes) and the related maintaining and expanding the domestic demand and investments, not restrictions aiming to achieve a budget equilibrium. In general this policy is anti-cyclic of pro-Keynesian type. However it resulted in excess accumulation of government debt, both due to heritage from previous periods, and because a lot of funds were devoted to rehabilitate banking systems.

In 2009-2011 the budget expenditures of Bulgaria (share of GDP) were the lowest in EU-27: 2009 –40.7%, 2012 – 37.4% and 2011 – 35.2%. Thus the Bulgarian budget and financial policy differs considerably, especially in this period, from the policy of most of EU-27. The priority is to keep the budget equilibrium, to a certain extent for its own sake, on the account of the nominal freezing (actual reduction) of the budget salaries and pensions, the consecutive „bleeding" of the public sector (dividend = 80%), insufficient financing of the entire budget sphere and even delayed pay-back of money to private companies. Nevertheless, it did not result in a balanced budget, nor in the promised initial reduction of some tax rates (with social security contributions, VAT etc.). In addition to the reduction in the fiscal reserve, new loans had to be issued, including foreign loans, to pay back the principal of an old debt. This policy however suppresses the growth and employment, reduces incomes and investments. Generally it also aggravates the demographic indicators, and also leads to increased crime.

The data from Chart 6 show, that as at the end of 2011 the mean gross national debt of EU-27 has reached 82.5% of GDP (compared to the Maastricht criterion of 60%).

Chart 6

EU-27: Gross National Debt in % of GDP



This criterion was exceeded by 14 states: 1) Belgium – 98% (1995 – 130.2%, reduced consecutively down to 84.1% in 2007, and later rising gradually); 2) Germany – 81.2 % (83 % –2010); 3) Ireland –108.2%; 4) Greece – 165.3% (103.4% – 2000); 5) Spain – 68.5%; 6) France – 85.8%; 7) Italy – 120.1% (in 1995 – 120.9%); 8) Cyprus – 71.6%; 9) Hungary – 80.6%; 10) Malta – 72%; 11) Netherlands – 65.2%; 12) Austria – 72.2%; 13) Portugal – 107.8%; 14) United Kingdom – 85.7%. In fact, Austria, Netherlands and partially Belgium are "reliable", due to their strong economies, whereas the first two have a slight excess. In contrast five member-states are already in a debt crisis: Greece, Portugal, Spain, Ireland and Cyprus, and Italy is "on the verge". Actually all the four largest EU economies – Germany, France, Italy and United Kingdom (being outside the Eurozone) have considerably exceeded the debt over 60% of GDP. It is noteworthy, that along with the wealthy states from the "Old" Europe, like Luxembourg, Denmark, Sweden and Finland, as well as some states with a degree of development close to the medium (the Czech Republic, Slovenia and Slovakia), many of the poorest and comparatively poor states have low debt (with GDP on purchasing power per capita 74% and less than the average for EU-27). Some of them are: Bulgaria (16.3% of GDP gross debt), and only Estonia has a lower debt (6%), Romania, Lithuania, Latvia and Poland. All of them maintain gross national debt up to 56% of GDP. Consequently, in addition to objective circumstances, related to the financial and economic crisis, the continuing depression and the heritage, it is also a matter of financial discipline. It is sufficient to say, that via the EU Solidarity Fund comparatively poor members of the Eurozone shall have to finance richer states than them, like Spain, Greece and Cyprus. It indicates a "Two-Speed Europe", rather than Europe, ready to achieve tighter supra-national budget coordination and supervision. In this respect the negative attitude not only of Bulgaria, but also of the Czech Republic, United Kingdom and other states is logical and justified.

In the period 2014-2017 the main EU member-states intend to achieve balanced budgets, and a lot of others – deficits within the permitted 3%. Meanwhile there are attempts to combine restrictions with a liveliness policy. As far as Bulgaria is concerned, it has a low national debt, comparatively stable banks and it is not a member of the Eurozone. The economic growth, employment and incomes, are however, the "weaknesses" of the Bulgarian economy.

General conclusions

1. For the period 2000-2011 the average budget revenues of EU-27 remained on a comparatively constant high level. There are however considerable differences among the states.

2. The rate of budget revenues of Bulgaria (in % of GDP) throughout the period is on a level much below the average, and during the period of the crisis (2009- 2011) dropped down additionally, approaching tightly the minimum for the EU level. However it does not match the nature of budget expenditures, being largely inelastic (only the expenditures for pensions cover about 25% thereof).

3. The average budget revenues structure of EU-27 is comparatively diversified and divided functionally in groups of revenues. The direct taxes (such as the personal income tax), the indirect taxes and the social security contributions have relatively equal shares. The active redistribution is effected by means of the personal income tax. The indirect taxes raise revenues without impeding the capital formation. They are payable by the entire population (not only by the actively employed population). The social security contributions, despite some differences, provide targeted income for the respective social risks. However there are considerable differences among the states, especially regarding the different social security contributions.

4. Many countries from Eastern Europe introduced personal income tax of the "flat" type. All of them however (except Bulgaria) maintained more or less the progressive nature of the tax. Moreover almost all the newly-acceded states encounter certain problems in view of the necessity to reach the minimum levels of the basic excise duties.

5. Bulgaria has a structure of revenues with a low share of direct taxes, mainly due to the personal income tax. It has a low rate, relatively narrow tax base and is proportional, as far as there is no basic tax relief, as well as targeted relief for children. Thus the tax does not play an active redistribution role. The corporate income tax also has a minimum rate for EU-27. However it does not result in attracting foreign investments. The weakness in the structure of the Bulgarian CNB is the system of the social security contributions. The main reason thereto is the reduction of the tax rates, regardless of the need of compliance of the targeted revenues and expenditures. This questions the fund nature of the main social risks. In contrast, the share of the indirect

taxes is much higher, especially during the period 2003-2008 due to the large share of the final consumption of GDP and the insignificant tax relief. The high excise duties also contribute to the high share of the indirect taxes. However they cause big tax frauds due to their inconsistence with the low nominal incomes. During the years of the crisis 2009-2011 the receivables from indirect taxes dropped down close to the average level of EU-27 as a share of GDP. Their high share in the revenues is due to the larger decrease in the other two main groups of revenues.

6. In 2009-2011 most of EU-27 member-states increased their budget expenditures on the account of the budget deficits. The accumulation of considerable national debt however recently imposed an orientation to budget equilibrium or deficits within the Maastricht criterion, reconfirmed by the Fiscal Stability Pact – up to 3% of GDP. Meanwhile 5 out of the 17 member-states of the Eurozone have become unable to finance their expenditures. It is necessary to have a more-coordinated fiscal policy and more strict fiscal discipline, without which the existence of the single currency is impossible.

7. On the background of the prevailing policy of increasing budget deficits, in 2009-2011 Bulgaria has set unrealistic tasks: to achieve a completely balanced budget plus a slight reduction of some tax rates. Despite the drastic measures for economies, a certain deficit was required plus maintaining the tax rates as a whole (without the excise duties, while their increase continued in order to achieve the minimum single rates for EU-27).

8. Bulgaria has insignificant national debt, is not a member of the Eurozone and in the next few years there are no great expectations to become a member. The banking system is relatively stable, requiring no „injections" for the banks, neither from the international financial institutions, nor from the national budget. Its real problems are: the poverty, low employment, insufficient financing of the complete budget sphere and the necessity to stimulate economic growth. Therefore keeping the budget deficit within 3% of GDP in the next few years seems to be more proper, than reaching a budget equilibrium for its own sake. In this respect any additional restrictions, such as maximum redistribution via the budget of more than 37%, or an amendment of the Constitution, to enable the amendment of the direct taxes (including social security contributions) only by qualified majority of the Parliament, are for their own sake and harmful. They further restrict the sphere of free solutions. On the contrary, in the medium run Bulgaria should strive to achieve the average share of budget revenues (44-45% of GDP) for EU-27.

9. Both the current situation in EU-27, as well as the interest of Bulgaria suggest to preserve the national sovereignty in decision-making in the sphere of taxes in their current scope. It leads to "Two-Speed Europe", but it seems to be less worse than a supra-national jurisdiction, as an expression to aspiration to an "European Super Power".

10. The low nominal tax rates (rates) are the main reason for a much lower share of the Bulgarian budget revenues than the medium EU level. The tax bases should be extended, and higher dynamics of the economic growth, entailing the

higher employment. Regarding the sharp reduction of the tax frauds, the reality shows, that it is impossible in such short terms. Actually the same refers to „reforming" all the aspects of budget expenditures, without aggravating the degree of satisfying the public needs with the corresponding services.

11. The big difference in the nominal level of incomes, as well as the fixed exchange rate of BGN to Euro, result in serious deformations in the Bulgarian tax system and deprive the government of the country of flexibility. Especially the Currency Board Agreement increases the cycle nature of the foreign impacts. In the medium run we should strive for the new price levels in Bulgaria to catch up, if possible, the levels of EU-27, to enable the nominal incomes to be in compliance with the achieved labor productivity (average 44% from the mean in EU-27 for 2011). The opportunity to replace the fixed exchange rate with crawling peg exchange rate (if preconditions are created thereto) should also be taken into consideration.

12. A more dynamic and more sustainable development of the country could not rely only on foreign investments and European Funds. A more significant role of the state is also required. It could be achieved both with direct budget investments (including partnership with foreign capital for major projects in the processing industry), as well as through stimulating the consolidation of the national capital in order to change the structure and the technological level of the Bulgarian industries.

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