

### BASIC SOCIO-ECONOMIC INDICATORS

Income group - UPPER MIDDLE INCOME Local currency - LEV

#### POPULATION AND GEOGRAPHY

AREA: **111 000** km<sup>2</sup>

POPULATION: **7.168** million inhabitants (2014), a decrease of -0.59% per year (2010-14)

DENSITY: **65** inhabitants/km<sup>2</sup>

URBAN POPULATION: **73.6%** of national population

CAPITAL CITY: **Sofia** (17.0% of national population)

Sources: OECD, Eurostat, World Bank, UNDP, ILO

#### ECONOMIC DATA

GDP: **124.3** billion (current PPP international dollars) i.e. 17 342 dollars per inhabitant (2014)

REAL GDP GROWTH: **1.6%** (2014 vs 2013)

UNEMPLOYMENT RATE: **11.6%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **1 971.2** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **21%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.782**(high), rank **59**

### TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>265</b> MUNICIPALITIES (OBSHTINI) AVERAGE MUNICIPAL SIZE: <b>27 160</b> INHABITANTS	-	-	<b>265</b>

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Bulgaria has only one SNG level, that of municipalities, re-established after several decades of a centralised socialist system in order to re-establish local democracy. The Constitution of 1992 recognises the principle of local self-government. Municipalities are sub-divided into smaller towns and villages, totalling 5 267 in 2015. Of these settlements, there are around 2 500 mayoralities (deconcentrated municipal units established by decision of the municipal council, governed by elected mayors and comprising at least 350 inhabitants). There are 25 such units on average per municipality. The three main Bulgarian cities are sub-divided into districts or raions (24 in Sofia, 6 in Plovdiv and 5 in Varna). There is also a central government territorial administration composed of 28 regions (*oblasts*), with governors appointed by the Council of Ministers.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** The competences of SNGs are stipulated in the Local Self-Government and Local Administration Act adopted in 1991. Although Bulgaria remains a relatively centralised country, a significant process of decentralisation began in the early 2000s, boosted by the EU accession in 2004 which led to the adoption of the Strategy for Decentralisation in 2006, revised in 2010. Municipal responsibilities are divided into two categories:

- State-delegated competencies which include education (primary and secondary), social protection and health care.
- Municipal own responsibilities include housing and community amenities, economic affairs, environmental protection, water supply and sewerage, waste, urban public transport, roads, culture, tourism and leisure.

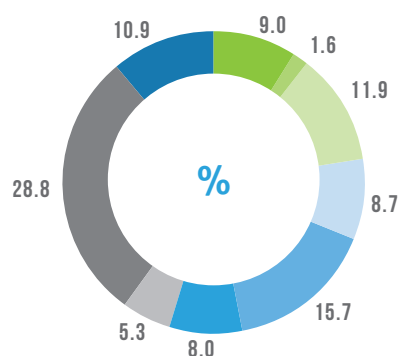
### SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	7.9%	21.0%	100%
CURRENT EXPENDITURE	5.9%	-	74.1%
STAFF EXPENDITURE	3.1%	32.8%	39.2%
INVESTMENT	2.0%	51.9%	25.3%

Despite the decentralisation process over the last years, growth of SNG expenditure in GDP and public expenditure since 2000 has been fairly minimal (respectively 7.6% and 18.6% in 2000). The share of SNGs in public investment represents almost 52%, still below the OECD and EU averages but significantly higher than in 2000 when it was considered to be a low priority and did not benefit yet from EU structural and cohesion funds (17% in 2000).

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Nearly one-third of local expenditure is concentrated in the education sector (payment of salaries, construction and maintenance of infrastructure), followed by housing and community amenities (e.g. urban heating and lighting, drinking water etc.), economic affairs and transport and then health and social protection. Delegated responsibilities amount to about half of municipal expenditure.

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	8.3%	22.3%	100%
TAX REVENUE	0.8%	4.1%	10.1%
GRANTS AND SUBSIDIES	6.8%	-	81.5%
OTHER REVENUES	0.7%	-	8.4%

Several Acts were adopted in the 2000s to regulate the municipal fiscal framework (structure of municipal revenue, taxing powers, borrowing, etc.) progressively providing municipalities with more fiscal autonomy.

**TAX REVENUE.** An important tax reform took place in 2003 abrogating tax sharing arrangements. Municipal tax revenues are now own-source taxes only, including property tax, the tax on property transactions, vehicle tax, inheritance tax, patent tax and tax on tourism. The first three taxes account for 95% of total local tax revenue, in particular the property tax on land and building which represented 38% of local tax revenue and 0.3% of GDP in 2013. Tax collection has been decentralised since 2006. Since 2008, municipalities have the power to set local tax rates within certain limits, stipulated by law.

**GRANTS AND SUBSIDIES.** A new system of intergovernmental transfers was introduced in 2003. There are three major grants for municipalities:

- the general grant for state-delegated responsibilities (around 75% of all transfers) aims at financing current state-delegated expenditure (see above). Its amount is determined on the basis of standards and physical indicators. Despite its name, it is a specific-purpose grant;
- the general equalising grant (around 10%) to ensure a "minimum level" of local service provision by each municipality. It is unconditional and may finance capital and current expenditure;
- earmarked grants for capital expenditure (around 6%). Amounts redistributed are based upon criteria including population size, number of cities/towns, size of the municipal territory and length of roads.

Current grants represented around 81% of total grants in 2013. The National Association of Municipalities in the Republic of Bulgaria plays an important role in negotiating standards and grant allocation mechanisms and annual levels.

**OTHER REVENUES.** User charges represent a major source of own-sources revenue for municipalities. These fees include fees for waste collection and treatment (the most important), kindergartens, social care homes, municipal social services, markets and marketplaces, administrative services, etc. Since 2003, municipalities have full discretion over tariffs and fees for municipal services. Sale and management of municipal property, fines, penalty charges also represent a significant source of revenue.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	3.0 %	12.2%

Municipal debt in Bulgaria has steadily increased since the global financial crisis. Financial debt represents 38% of total outstanding debt, the remaining part being made up of "commercial debt" (other accounts payable). A Public Finances Act came into force in 2014 strengthening fiscal rules. It requires municipalities to have a balanced budget and stipulates that a municipality's annual debt payment must be lower than 15% of the annual average sum of own revenues and of the block equalising grant for the last 3 years.

A joint- study of:



**Sources:** Eurostat (Government Finance Statistics) • National Institute of Bulgaria (2015), Statistical yearbook 2015 of Bulgaria • European Committee of the Regions (2014), Division of Powers Between the European Union, Member States, Candidate and some Potential Candidate Countries, and Local and Regional Authorities: Fiscal Decentralisation or Federalism • P. Nenkova (2014), Fiscal Decentralization and Local Finance Reforms in Bulgaria: A Review of Ten Years' Experience, Mediterranean Journal of Social Sciences Vol 23 • National Association of Municipalities in The Republic of Bulgaria (2013), Local Self-Government in Bulgaria • Ministry of finance of Bulgaria (2013), presentation at a conference in Brussels on Domestic arrangements for coordination across general government sub-sectors • Dexia (2008), Subnational governments in the EU: organisation, responsibilities and finance.