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COMMISSION OPINION

on the existence of an excessive deficit in Bulgaria

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THE APPLICATION OF THE STABILITY AND GROWTH PACT IN THE CURRENT CRISIS SITUATION

1. Many EU countries are presently facing general government deficits above the 3% of GDP reference value set in the Treaty. The often strong deterioration in the deficit as well as the debt positions must be seen in the context of the unprecedented global financial crisis and economic downturn in 2008/09. Several factors are at play. First, the economic downturn brings about declining tax revenue and rising social benefit expenditure (e.g. unemployment benefits). Second, recognising that budgetary policies have an important role to play in the current extraordinary economic situation, the Commission called for a fiscal stimulus in its November 2008 European Economic Recovery Plan (EERP), endorsed by the European Council in December. The Plan explicated that the stimulus should be timely, targeted and temporary and differentiated across Member States to reflect their different positions in terms of public finance sustainability and competitiveness and should be reversed when economic conditions improve. Finally, several countries have taken measures to stabilise the financial sector, some of which have impacted on the debt position or constitute a risk of higher deficits and debt in the future, although some of the costs of the government support could be recouped in the future.

2. The Stability and Growth Pact requires the Commission to initiate the excessive deficit procedure (EDP) whenever the deficit of a Member State exceeds the 3% of GDP reference value. The amendments to the Stability and Growth Pact in 2005 aimed at ensuring that in particular the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation, and thereby ensuring long-term sustainability of public finances.

LEGAL BACKGROUND

3. Article 126 of the Treaty on the Functioning of the European Union lays down an excessive deficit procedure (EDP). This procedure is further specified in Council Regulation (EC) No 1467/97 "on speeding up and clarifying the implementation of the excessive deficit procedure"[1], which is part of the Stability and Growth Pact.

4. According to Article 126(2) of the Treaty, the Commission has to monitor compliance with budgetary discipline on the basis of two criteria, namely: (a) whether the ratio of the planned or actual government deficit to gross domestic product (GDP) exceeds the reference value of 3% (unless either the ratio has

[1] OJ L 209, 2.8.1997, p. 6. The report also takes into account the "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council of 10 November 2009, available at http://ec.europa.eu/economy_finance/sgp/legal_texts/index_en.htm.

declined substantially and continuously and reached a level that comes close to the reference value; or, alternatively, the excess over the reference value is only exceptional and temporary and the ratio remains close to the reference value); and (b) whether the ratio of government debt to GDP exceeds the reference value of 60% (unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace).

5. Article 126(3) of the Treaty stipulates that, if a Member State does not fulfil the requirements under one or both of these criteria, the Commission has to prepare a report. This report also has to “take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State”.

6. On the basis of the data notified by the Bulgarian authorities in April 2010[2] and subsequently validated by Eurostat[3] and taking into account the Commission services’ spring 2010 forecast, the Commission adopted a report under Article 126(3) for Bulgaria on 12 May 2010[4].

7. Subsequently, and in accordance with Article 126(4) of the Treaty, the Economic and Financial Committee formulated an opinion on the Commission report on 27 May 2010.

8. Article 126(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. In order to reach a conclusion on whether an excessive deficit exists or may occur, the Commission considers that account should be taken of: (i) the conclusions of its report under Article 126(3) and (ii) the opinion of the Economic and Financial Committee on this report. On the basis of these elements, the Commission has established a number of considerations for Bulgaria.

CONSIDERATIONS CONCERNING BULGARIA

9. According to the data notified by the Bulgarian authorities in April 2010, the general government deficit in Bulgaria reached 3.9% of GDP in 2009, thus exceeding the 3% of GDP reference value. The Commission report under Article 126(3) considered that the deficit was not close to the 3% of GDP reference value but that the excess over the reference value can be qualified as exceptional within the meaning of the Treaty and the Stability and Growth Pact. In particular, it results from a severe economic downturn in the sense of the Treaty and the Stability and Growth Pact, as the global economic and financial crisis hit hard the economy of Bulgaria and the negative annual GDP volume growth reached 5% in 2009. Furthermore, the excess over the reference value could be considered temporary. According to the

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[2] According to Council Regulation (EC) No 479/2009, Member States have to report to the Commission, twice a year, their planned and actual government deficit and debt levels. The most recent notification of Bulgaria can be found at: http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/excessive_deficit/edp_notification_tables.

[3] Eurostat news release No 55/2010 of 22 April 2010.

[4] All EDP-related documents for Bulgaria can be found at the following website: http://ec.europa.eu/economy_finance/sgp/deficit/countries/index_en.htm.

Commission services’ spring 2010 forecast, based on a no-policy change assumption, the general government deficit will fall below the reference value already in 2010 with the stabilization of the economy and as a result of the fiscal consolidation measures announced by the government at the end of March 2010. In a notification submitted on 22 June 2010, the Bulgarian authorities further revised the planned deficit for 2010 to 3.8% of GDP, above and not close to the reference value. The deficit criterion in the Treaty is not fulfilled.

10. The data in the April 2010 EDP notification shows that the general government gross debt remains well below the 60% of GDP reference value and stood at 14.8% of GDP in 2009. The Commission services’ spring 2010 forecast projects the debt ratio to increase over the 2010-2011 period, but to remain below 19% of GDP. In a notification submitted on 22 June 2010, the Bulgarian authorities further revised the planned debt for 2010 to 15.3% of GDP. The debt criterion in the Treaty is fulfilled.

11. In line with the provisions in the Treaty and the Stability and Growth Pact, the Commission also analysed in its report “relevant factors”. According to the Stability and Growth Pact, these can only be taken into account in the steps leading to the decision on the existence of an excessive deficit if the deficit satisfies the double condition of closeness and temporariness. In the case of Bulgaria, the double condition is not met. Considered on their own merit, the relevant factors in the current case on balance seem to be favourable.

12. The opinion of the Economic and Financial Committee in accordance with Article 126(4) of the Treaty is consistent with the assessment in the Commission report under Article 126(3) on the existence of excessive deficit.

CONCLUSION

13. The monitoring of the budgetary situation in Bulgaria and, in particular, the examination of the compliance with the criteria laid down in Article 126(2) has led the Commission to prepare a report in accordance with Article 126(3) of the Treaty. The Commission, having taken into account its report and the opinion of the Economic and Financial Committee, as well as the information contained in the revised EDP notification submitted on 22 June 2010, is of the opinion that an excessive deficit exists in Bulgaria.