

## **Bulgaria: Report on the Observance of Standards and Codes—Update**

This Update to the Report on the Observance of Standards and Codes for **Bulgaria** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **July 3, 2002**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Bulgaria** or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

BULGARIA

**Update to the Report on the Observance of Standards and Codes**

Prepared by the European I Department on the basis of information  
provided by the Bulgarian authorities

July 3, 2002

**I. INTRODUCTION**

1. This note provides a factual update on developments since the March 2001 update on the *Report on the Observance of Standards and Codes—Bulgaria*. The information in this note is based on a self-assessment by the authorities. The note focuses on progress with respect to data dissemination and fiscal transparency. Progress in monetary and financial standards and codes is reported on in the Financial System Stability Assessment (FSSA), which is to be published in the context of the 2002 Article IV Consultation. For a full description of institutions and practices, the note should be read in conjunction with the original report and March 2001 update.<sup>1</sup>

**II. DATA DISSEMINATION**

2. In 2001–02 Bulgaria continued to use the common GDDS as a framework for the further development and improvement in the quality of statistics. In June 2001, the country carried out the first update of the national meta-data included in the electronic bulletin maintained by the IMF. All existing tables were revised and three new tables with meta-data were developed—concerning the GDP from the National Statistics Institute (NSI), the stock exchange from the Bulgarian National Bank (BNB), and the external debt and its service from the Ministry of Finance (MOF) and the BNB. As of December 2001, the NSI updated again the table with meta-data on domestic producer price indices by including in it a description of the new methodology for their calculation (developed in accordance with the requirements of Eurostat and the IMF) the phased implementation of which started in 1999 and will continue until 2004.

3. In 2001–02 the work on broadening the scope and improving the quality of the information products and services for dissemination of statistical data continued. A major

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<sup>1</sup> The original report was issued to the Executive Board as EBS/00/46. The update, EBS/01/28, Supplement 1 was issued in March 2001. These reports are available on the IMF website as <http://www.imf.org/external/np/rosc/bgr/index.htm>.

focus was put on improving the web sites of the various institutions. The scope of the NSI's web site was considerably expanded by including the normative documents, materials, and results from the March 2001 census, and the stock of houses and buildings, and agricultural cooperatives. The BNB's website was totally updated in 2002. The new design provides not only new information but also improved tools for access and processing of statistical series. The contents of the MOF website was also considerably expanded by including additional information regarding the state budget. The website now includes information on: (i) summary updates of republican budget operations (the republican budget includes the central budget and the budgets of ministries and the National Audit Office) monthly on a cash basis in accordance with the national methodology; (ii) GFS data from 1991 onwards; (iii) statements and reports on the execution of the republican budget and the consolidated general government budget from 1997 onwards; (iv) reports on the Annual Budget Act from 2001 onwards; (v) the 2002 Annual Budget Act; and (vi) government debt, and debt management operations, including the exchange of Brady bonds with Global bonds (see update on fiscal transparency, below).

4. The NSI's practice of holding regular and extraordinary press conferences is also contributing to the broader dissemination of statistical data. In 2001, a total of 34 press conferences were held, including 20 regular press conferences, according to the Schedule of Statistical Surveys, and 14 extraordinary press conferences on current topics. In accordance with the publications plan of the NSI approximately 80 statistical publications, quarterly and monthly bulletins, and brochures were published on paper as well as electronically in 2001. The policy on dissemination of statistical information of the BNB and MOF includes a number of periodical publications and press conferences as well. There is an increased interest towards the statistical information of the NSI, BNB and the MOF on behalf of the electronic media, press, and information agencies from the country and abroad as well as by many Bulgarian and foreign users.

### **III. FISCAL TRANSPARENCY**

5. A number of steps have been taken in the past year to improve the quality and transparency of fiscal data. A new Chart of Accounts for the general government was developed and applied in the execution of the 2001 budget. The MOF in cooperation with other ministries and agencies, and assisted by SIGMA—Organization for Economic Cooperation and Development (OECD) advisors and IMF officials, prepared a unified budgetary Chart of Accounts. Its structure and the principles and rules for classification of assets, liabilities, income and expenditures correspond to the methodology of the new Government Finance Statistics Manual (GFS 2001), the System of National Accounts (SNA 93), and the European System of National Accounts (ESA 95). The new chart of accounts allows the preparation of a consolidated government report on both cash-and accrual basis.

6. The accounts of the budgetary units for 2001 have been closed in compliance with the new Chart of Accounts on accrual basis. The authorities (except the central budget) have been applying the new accrual-based GFS standard from the beginning of 2002. The central budget will apply the new Chart of Accounts during a transitional period with a view of

introducing accrual accounting in the period 2003–06. In accordance with Article 33, Section 3 of the Accounting Law, the Ministry of Finance shall consolidate the annual trial balances of all budget entities. This data consolidation process on an accrual basis is a new responsibility of the Ministry of Finance and consolidated data on accrual basis for the whole public sector will be available for the first time.

7. A manual for application of the new Chart of Accounts for the budget sector was prepared. This manual aims at acquainting users with the basic concepts, principles and approaches used in the new Chart of Accounts, and identifying those accounting rules which are new compared to previous practices of accounting in the budget sector.

8. A number of important measures have been put in place to enhance financial management and control. The Regulation on the Implementation of the Public Internal Financial Control Act (S.J. 44/2001) and the Regulation on the Structure of the Public Internal Financial Control Agency (S.J. 16/2001) contain provisions on the detailed procedures for the exercising of financial control as well as provisions on the structure, organization and activities of the Public Internal Financial Control Agency.

9. The new National Audit Office Act adopted by Parliament in December 2001 defines the way in which the external audit is to be conducted by the National Audit Office. The National Audit Office controls the financial activities of the spending units of budget appropriations under the central government and municipal budgets and of the spending of funds under European Union programs, including the management by the respective authorities, and the establishment and functioning of the financial management and control systems. The National Audit Office is a body which is appointed and discharged by the National Assembly and is independent of the executive authorities.

10. The setting up of a new Financial Management Information System (FIMS) is a major element of the budgetary reform. The system contributes to improved planning, execution, reporting and control of the consolidated government budget in line with modern practices applied in EU Member States. It allows the integration and computerization of all budgetary accounting transactions, thus facilitating the analysis, forecasting, management and control of the budgetary resources.

11. During phase 1, the standard software SAP/R3 has been adapted to Bulgarian requirements for the purpose of incorporating the basic functions of budget execution in the first level spending units (FLSU), and in some pilot second level spending units (SLSU). These functions include accounting, budget management, and cash management. Since January 2001 the authorities have started introducing into the system the initial budgets of the FLSU and of the central administrations and releasing the budgets of the central administration through the system. The following is being done: migration of data, building of links with other systems, transposition in the system of the initial balances on the General Ledger accounts and the accounts for customers and suppliers of the central administrations, defining and testing of the periodical reports and other reports of budgetary organizations produced by the system.

12. The provisions of the Annual Budget Act 2002 made phase 1 of the FMIS operational. A time schedule has been set for its full implementation in the FLSU (Letter of the Ministry of Finance, number: 91-00-0133 of 22.02.2002). In February and March 2002 FMIS was made fully operational in two FLSU.

13. Actions have also been taken to improve the transparency and effectiveness of the budget process. The Government Program "People are the wealth of Bulgaria" (2002-2005) defines key political priorities including those in the area of fiscal policy. This document serves as an important input into the medium-term budget preparation.

14. Budget documents are now more transparent and useful. The reports to the National Assembly on the budgets for 2002 and 2003 are improved by inclusion of more detailed description of the macroeconomic framework, analysis of risks related to revenue and expenditure assessments, and the government's expenditure program, priorities and objectives.

15. Finally, there has been a reduction in the number of the extrabudgetary accounts and funds since the beginning of 1999. This process is in accordance with the EU requirements and improves the transparency in the public finances. The number of remaining extrabudgetary funds and accounts for 2002 has been reduced from 13 (2001) to 4 (2002) on central government level and from 8 to 4 at municipal level and 1 at social security fund level.