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Some Developments in the Tax Debate in Bulgaria

Taking into account the international experiences and the economic research showing a strong relation between the low taxes and the fast economic growth, the *Institute for Market Economics* proposed its draft government budget for 2004. The alternative budget includes 11.3% reduction of the government expenditures (compared to 2003) and lower tax rates:

- 10% flat income tax rate (12-29% at the moment)
- 10% corporate tax rate (19.5% at the moment)
- 10% contribution in personal retirement account and 6.7% health and other social security contributions (42.7% at the moment)

The IME proposal received wide publicity and media coverage (see the list after the article). It was supported by different people and some organizations and economists developed their own proposals for tax cuts.

On November 22, 2003 George Petrov, Professor of Economics in the *Sofia Economic University* and member of the Board of Governors of the *Bulgarian National Bank*, published an article, entitled “*The Lost Opportunities in the 2004 Budget*”, in the newspaper *Trud*¹. In the article he insists that “the low taxes will stimulate investment, employment, incomes and demand” and will decrease the gray economy. According to Prof. Petrov the tax rates can be cut without risk for the budget if the tax cut is accompanied with liberalization of the economy, reform and rationalization of the budget sector, limitation of the bureaucracy, starting the program budgeting, etc. The tax rates for 2005, which are proposed in the article, are 15% income and corporate

taxes, 18% value-added tax, 20-25% social security contributions, slower increase of the excise taxes. Prof. George Petrov mentions the IME proposal, which, according to him, “is of special interest”.

Table 1: Tax Cuts Proposals

	Corporate Tax	Income Tax	Social Security Contributions
IME	10%	10%	16.7%
Prof. George Petrov	15%	15%	20-25%
Vladimir Karolev	0%	15%	n.a.
BCCI	15%	15%	n.a.
BSP	0%*	n.a.	n.a.
2004 Government budget	19.5%	12-29%	42.70%

* for the reinvested profit

On November 23, 2003 the economist Vladimir Karolev, member of the economic team of the ruling party, in an interview for the daily newspaper *Sega*, proposed elimination of the corporate tax and 15% income tax. He suggests that the decrease of the budget revenues can be compensated by increase of the value-added tax and some of excise taxes². According to him that will stimulate a high rate of reinvestment of the profit on behalf of the entrepreneurs and in this way new jobs will be created and a sustainable economic growth will be achieved.

On November 18, 2003 on the initiative of the *Bulgarian Socialist Party* a round table conference was organized on the problems in the 2004 budget. On the conference the *Bulgarian Chamber of Commerce and Industry (BCCI)* presented its proposal for 15% corporate tax rate. *BCCI* also proposed introduction of a flat proportional income tax of 15%, paid at the

¹ *Trud* is the daily newspaper with the biggest circulation in Bulgaria.

² The excise taxes must be increased, because the *European Union* has minimal levels of excise taxes, which should be reached by all countries, which want to join the union.

source of the income. At the conference the *Bulgarian Socialist Party* proposed elimination of the taxation of the reinvested profit.

List of Media Coverage of the IME Tax and Budget Proposal

Economists Want Tax Revolution, *Trud*³, Tuesday, November 11, 2003

IME Suggested an Alternative Budget Considering One of the Lowest Taxes in Europe, *Dnevnik*⁴, Tuesday, November 11, 2003, page 1

IME Proposed Corporate Tax Cut to 10 percent (IME presented an alternative government budget for 2004), *Dnevnik*⁵, Tuesday, November 11, 2003, page 11

Alternative Calculations (Twofold tax decrease and restriction of government expenditures proposed IME for the 2004 budget; the government refrains to comment on the call to cut expenditures), *Tema magazine*⁶, 46, 2003

The Revenues Do Not Go Down If Taxes are Lower, interview with George Angelov, *Tema magazine*⁷, 46, 2003

Ten Percent Flat Tax for Individual and Corporate Income Suggested by IME, *Pari*⁸, Tuesday, November 11, 2003, page 1 and 2

Is the Tax Reform Possible at the Eve of the EU Accession, *Pari+*⁹, November 17, 2003

2.2 Million Pay Taxes in Bulgaria, *Standart*, Tuesday, November 11, 2003

Experts Suggest 10% Income Tax for Everyone (A team of economists sends to Milen Veltchev¹⁰ an alternative budget), *Novinar*, Tuesday, November 11, 2003

IME is Ready with an Alternative 2004 Budget, *Monitor*, Tuesday, November 11, 2003, page 4

People Who Produce are Only 2,2 Million (Every working person pays 2800 leva for state social welfare programs per annum), *Monitor*, Tuesday, November 11, 2003, page 16

Budget Expenditures Must Finance Specific Programs, *Monitor*, Tuesday, November 11, 2003, page 16

The Average Salary Could Increase to 300 if the Taxes are Lowered, *Monitor*, Tuesday, November 11, 2003, page 16

Experts Call for Taxes of 10% (More than 50% is the burden on the business, calculated at the IME. For compensation in the alternative budget it is proposed a cut of the subsidies and the maintenance of the administration), *Sega*, Tuesday, November 11, 2003

Experts Against Veltchev¹¹: the Treasury Swallows 2800 leva from everyone who is working (By 25% will increase the salaries at 10% income tax and 16% social security tax), *24 chasa*¹², Tuesday, November 11, 2003

2,2 Million Wait for the Taxes to Come Down (This is absolutely possible is the opinion of IME), *24 chasa*, January 14, 2004

Lost Opportunities by 2004 Government Budget, by Prof. George Petrov¹³, *Trud*, Saturday, November 22, 2003

Developments of the Tax Debate, *Dnevnik*, December 1, 2003

Some TV and radio coverage

Bulgarian National TV (BNT), News editions, November 10, 2003

Bulgarian National TV (BNT), interview, November 5, 2003

Bulgarian Balkan TV (BBT), Exclusive Morning Interview, November 11, 2003

Nova TV, News editions, November 10, 2003

Nova TV, Talk show, November 23, 2003

Europe TV, News editions, November 10, 2003

Europe TV, Talk show, November 11, 2003

Eurocom TV, News editions, November 10, 2003

MSat TV, Talk show, December 2003

³ Trud is the newspaper with the largest circulation.

⁴ Dnevnik is the major business daily in the country

⁵ Dnevnik is the major business daily in the country

⁶ Tema is the major policy weekly

⁷ Tema is the major policy weekly

⁸ Pari is the oldest specialized business daily

⁹ Pari+ is a weekly supplement of Pari daily

¹⁰ Milen Veltchev is minister of finance

¹¹ Milen Veltchev is minister of finance

¹² 24 chasa is the second largest newspaper

¹³ Prof. George Petrov is member of the Board of Governors of the Bulgarian National Bank and university lecturer

Bulgarian National Radio, interview and news editions, November 10, 2003

Darik Radio, interview and news editions, November 10, 2003

Radio Free Europe, interview and news editions, November 10, 2003

Radio Free Europe, Talk show, November 11, 2003

Radio Free Europe, interview, November 20, 2003

Radio Plovdiv, interview, November 10, 2003

Inforadio, news editions, November 10, 2003

How Not to Create a Commission – the Case of Personal Data Protection Commission

In the beginning of 2002 in the State Gazette was published the Personal Data Protection Law, which “sets out regulations for the protection of individuals with regard to the processing of personal data, and the access to such data”. The law was enacted on January 1, 2002 (although it was published on January 4, 2002). How did the things developed after that?

1. According to section 2 of the Transitional and Concluding Provisions of the law the Council of Ministers must propose to the Parliament the members of the Personal Data Protection Commission **within one month** after the enactment of the law. That did not happen – the members were proposed on May 9, 2002, with a delay of more than three months.

2. The Parliament voted the members on May 23, 2002, in the last day of the 14-days’ limit, given by the law. As members of the commission were selected Ivo Stefanov (chairman), Stanimir Tzvetkov, Krassimir Dimitrov, Evgeniy Radev and Rady Romansky.

3. **Within three months** after the members of the commission were voted by the Parliament, the Personal Data Protection Commission had to approve and publish in the State Gazette the Statute book on its activities and the activities of its administration. However, the Statute book was published in the State Gazette on January 31, 2003, i.e. with a delay of five months.

The total delay from the late selection of the commission’s members and the late approval of the Statute book is eight months. Anyway, two weeks after the Statute book was published it was amended.

4. The commission’s Statute book stipulates a total staff of 76 people (see table 1). However,

this personnel is not completed – at the moment 1/7 of the staff was hired.

Table 1: Personnel of the Personal Data Protection Commission

Total number of personnel	76
1. Members of the commission	5
1.1. Chairman	1
1.2. Members	4
2. Secretary General	1
3. General Administration	20
3.1. Department “Financial, Economic and International Activities”	20
4. Specialized administration	50
4.1. Legal Department	20
4.2. Program-technical Department	18
4.3. Information Department	12

Source: Rules for Personal Data Protection Commission and its administration

5. Looking at the international experience we see that the staff of the respective bodies is lower than Bulgaria (see table 2). In Sweden’s *Datinspektionen* the staff consists of 40 people (Swedish population is 1 million more than Bulgarian). In Ireland in the *Office of the Data Protection Commissioner* only 16 people are employed, and in New Zealand in the *Office of the Privacy Commissioner* work about 30 people, but some of them are part-time employees. Obviously, the personnel of the Bulgarian commission is at least two times higher than needed.

Table 2: International Comparison of the Personnel

	Bulgaria	New Zealand	Sweden	Ireland
Personal Data Protection Commission	76	30	40	16
Population of the country	7 845 499	4 009 200	8 867 320	3 917 203

Institute for Market Economics, Bulgaria

Sources: *Statute book on the activities of the Personal Data Protection Commission and its administration, Fourteenth Annual Report of the Data Protection Commissioner (Ireland), 2002, Annual Report of Privacy Commissioner (New Zealand) for the year ended 30 June 2002, Datainspektionen (Sweden), International Financial Statistics*, November, 2003, national statistics institutes

6. In the first half of December 2003 the Personal Data Protection Commission became popular because it bought automobiles BMW, latest model from 5th series, for 300 000 leva (The exchange rate of the lev is 1.96 Leva per 1 Euro. It is fixed under a Currency Board Arrangement.) (which is 1/3 of its annual budget). The justification of Krassimir Dimitrov from the commission was “*The money was for capital expenditures and there were two possibilities – to send them back or to buy automobiles*”. The view of the commission that it is natural to spend the saved money at the end of the year, instead of returning it to the budget, shows at least three things:

- The commission cannot understand that it is moral, just and responsible to return the money that is not spent and not to spend them.

- There is not a single reason for the government employees to use expensive limousines.
- There are distorted incentives in the public sector toward spending. One of the means to change them is to treat the capital expenditures from the budget as a credit from the budget that has to be services (with payment of interest) by the body that used the public money. Similar approach is used in New Zealand.

7. The Personal Data Protection Commission obliged without any reason hundreds of thousands people to declare that they are administrators of personal data. It doesn't seem that the commission understands the huge cost imposed by this obligation. However, after a long delay, the commission announced that maybe that requirement would be changed. The efficient administration, that reaches some reasonable goals at the lowest possible cost and the least obstacles before the people and business is of great importance for the economic development. In the case of the Personal Data Protection Commission that is not the case.

We Present You:

A Brave Exercise in Measuring the Effects of G-3 Exchange Rate Volatility on Small Open Economies in Eastern Europe and East Asia

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The paper presents empirical evidence that exchange rate volatility among the G-3 currencies (dollar, euro, yen) affects small open economies around the globe. In particular, the empirical analysis is applied to the small transitional economies of Eastern Europe, where the dollar competes with the euro, and to the small East Asian economies, which lie on the fault line between the dollar and the yen.

To download the paper click [here](#).

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IME mission is to develop and protect market approaches in resolving problems that Bulgaria faces. In order to continue its work IME needs the support of those, who read, understand and appreciate IME activity that contribute to Bulgaria development.

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