

THE DYNAMICS OF PUBLIC EXPENDITURE IN BULGARIA (2014–2023)

Rumen Brussarski

University of National and World Economy

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THE DYNAMICS OF PUBLIC EXPENDITURE IN BULGARIA (2014–2023)

Rumen Brussarski

University of National and World Economy

Abstract: The modern state provides public goods, redistributes income and wealth, and ensures macroeconomic stability. It incurs expenses for this purpose which are financed (mainly) through taxation. In this sense, the scale and structure of public expenditures are key indicators of the state's participation in the economic life of its society. This article is devoted to the dynamics of public expenditure in Bulgaria over the last ten years (2014–2023): its total amount, current and capital expenditures, and expenditure by function.

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A century and a half ago, the share of gross domestic product (GDP) allocated for public expenditure in developed countries fluctuated at around 10% (e.g., 10.0% in Germany, 12.6% in France, 9.4% in Great Britain, 13.7% in Italy, 7.3% in the USA, etc.).¹ That is ancient history: a little more than a century later, this share increased 3 to 4 times, while today it has already reached 50% or higher. According to Eurostat data for 2023, the share of GDP spent on public funds is 48.4% in Germany, 57.0% in France, 53.8% in Italy, 55.7% in Finland, and 49.5% in Sweden.² In other words, the ratio between private (market) and public (non-market) sectors in the modern mixed economies of many European countries is roughly 50:50 (with some variation in both directions). Overseas, the share of public expenditure in GDP hovers around 40% (e.g., 36.3% in the USA and 41.4% in Canada).³

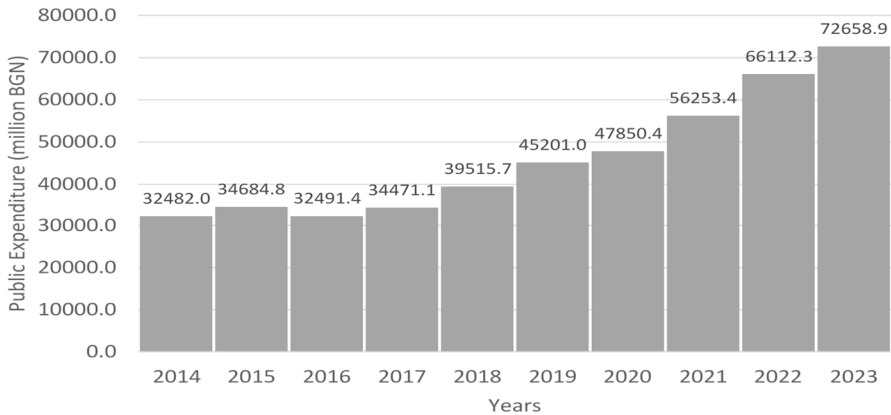
¹ For more details, see Tanzi, 2005.

² In the EU-27, France's public expenditure represents the largest share of its GDP (57.0%), and Ireland's is the smallest (22.7%). The differential is 34.3 percentage points.

³ <https://www.imf.org/external/datamapper/exp@FPP/USA/FRA/JPN/GBR/SWE/ESP/ITA/ZAF/IND>

I. Total Public Expenditure

The dynamics of *nominal* public expenditure in Bulgaria for the 2014–2023 period is presented in Figure 1.

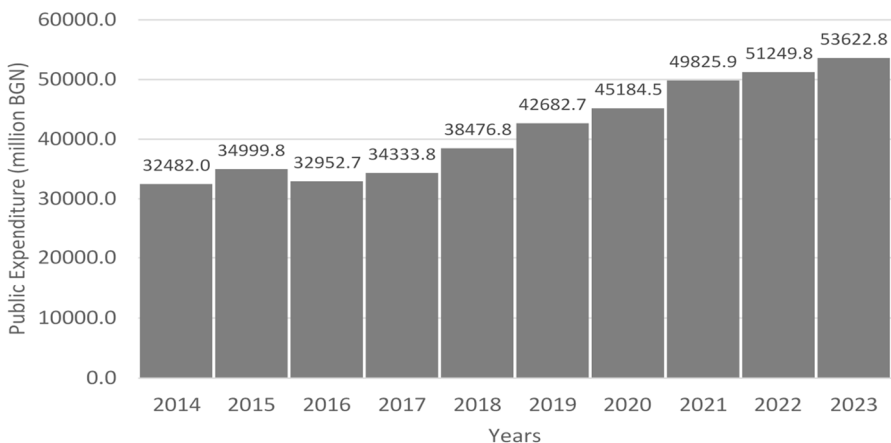


Source: Ministry of Finance (MoF).

Figure 1. Public expenditure in Bulgaria (2014–2023) at current prices

Over the last decade, public expenditure in the country has increased by 123.69%. This is an average annual growth of around 9.36%. In December 2023, the harmonised index of consumer prices (HICP) was 135.5% of the HICP in December 2014, i.e., inflation grew 35.5% in ten years. Obviously, the growth of nominal public expenditures has been significantly outpacing price growth in the Bulgarian economy.

Figure 2 shows public spending over the same period in real terms (at comparable prices).

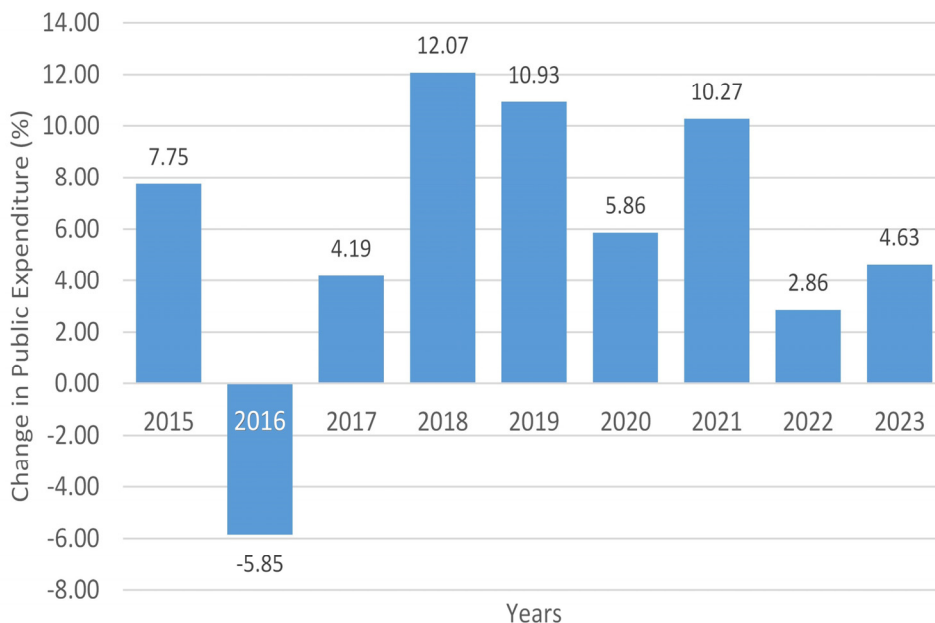


Source: MoF, National Statistical Institute (NSI), and author's own calculations.

Figure 2. Public expenditure in Bulgaria (2014–2023) at comparable prices (HICP, 2014 = 100)

From 2014 to 2023, *real* public expenditure in Bulgaria increased by 65.08% (with average annual growth at about 5.73%).

The year-on-year change in real public expenditure is presented in Figure 3.



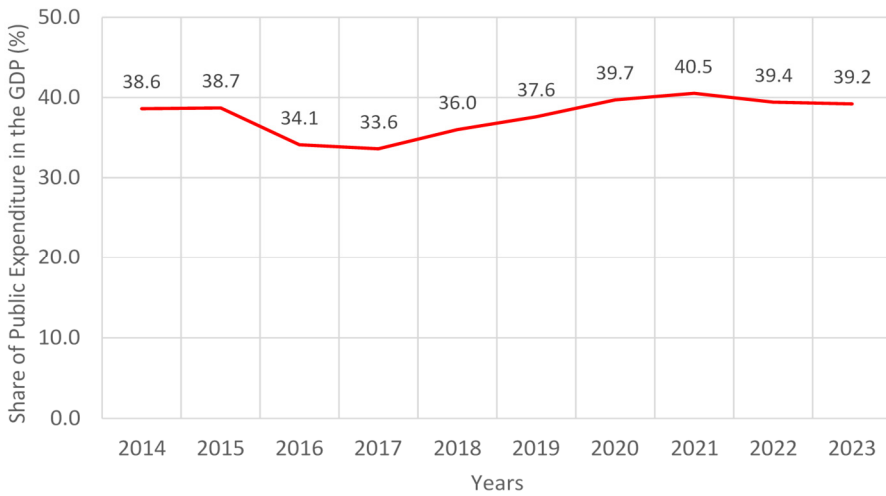
Source: MoF, NSI, and author's own calculations.

Figure 3. Percentage change of public expenditure in Bulgaria based on the previous year (2015–2023), comparable prices (HICP, 2014 = 100)

Except for 2016, real public expenditures have grown every year. The greatest growth can be noted in 2018–2019, and the most modest is in 2022 (see Figure 3).

A key indicator of the public sector's scale within the national economy is *the share of public expenditures as part of the country's GDP*. The dynamics of the "public-expenditure-to-GDP" ratio in Bulgaria (2014–2023) is shown in Figure 4.

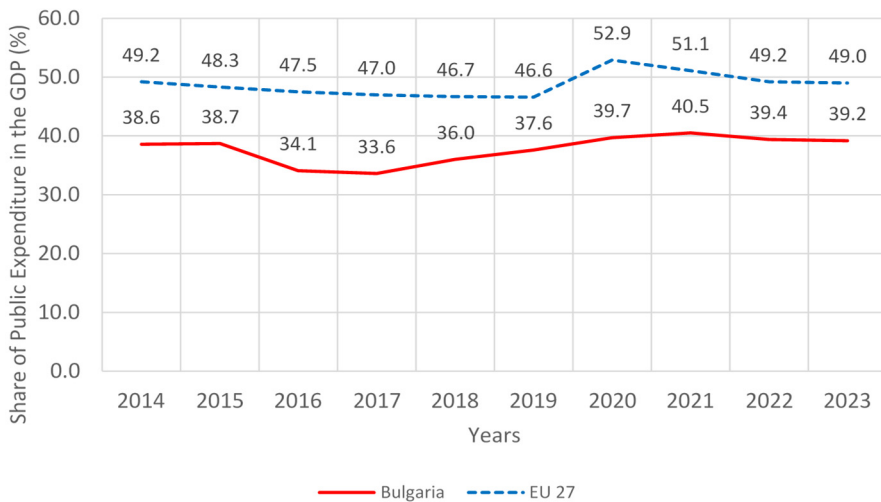
During the first two years of the research period, the share of public expenditure as part of GDP was (relatively) constant. In the following two years, it decreased by 4–5 percentage points and reached its lowest level of 33.6% in 2017. The public spending ratio then rose for four consecutive years, peaking in the (pandemic) year 2021 at 40.5%. This record was followed by a slight decline (just over 1 percentage point) in the final two years of the research period (see Figure 4).



Source: MoF.

Figure 4. Share of public expenditure within Bulgarian GDP (2014–2023)

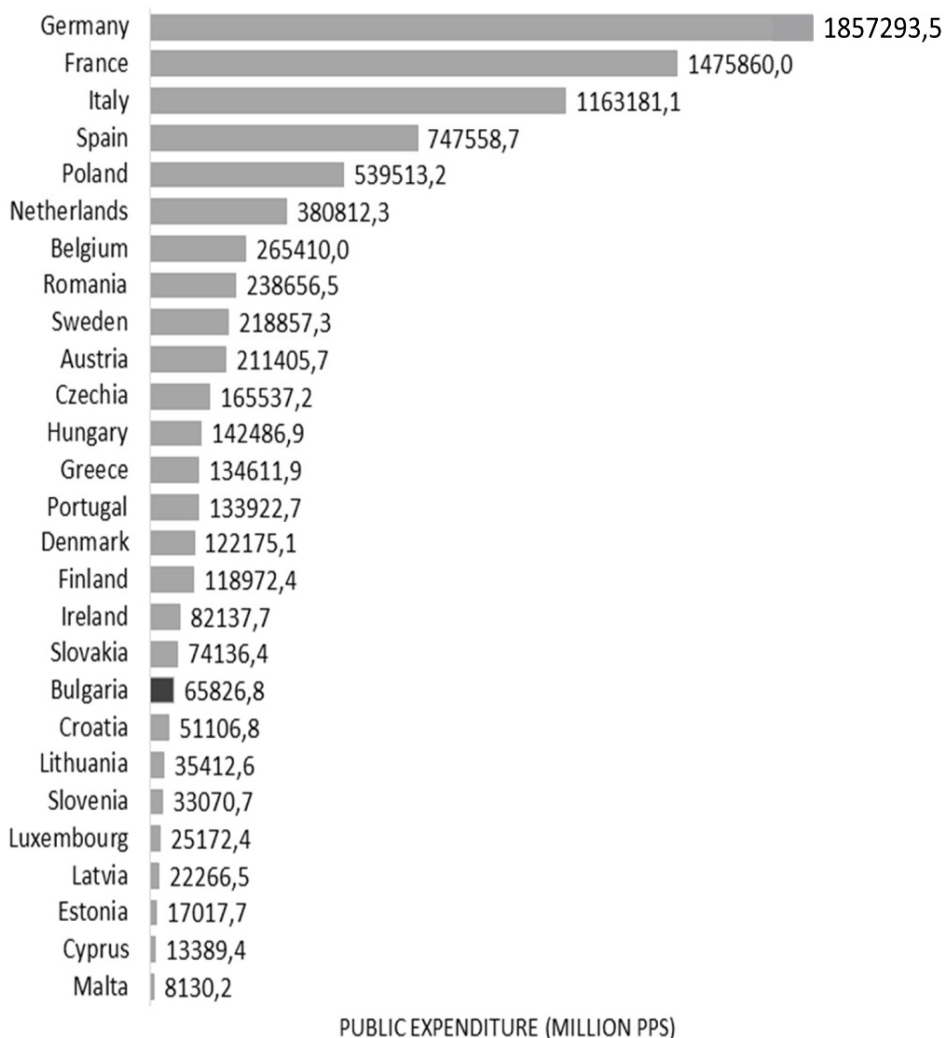
In comparative terms, the country’s public sector receives a *lower* share of GDP than the European Union (EU) average (see Figure 5).



Source: MoF, Eurostat.

Figure 5. Share of GDP for public spending in Bulgaria and the EU-27 (2014–2023)

Obviously, the differing ratios of "public expenditure to GDP" in Bulgaria and the EU-27 (on average) is not to be ignored – *from 9 to over 13 percentage points*.

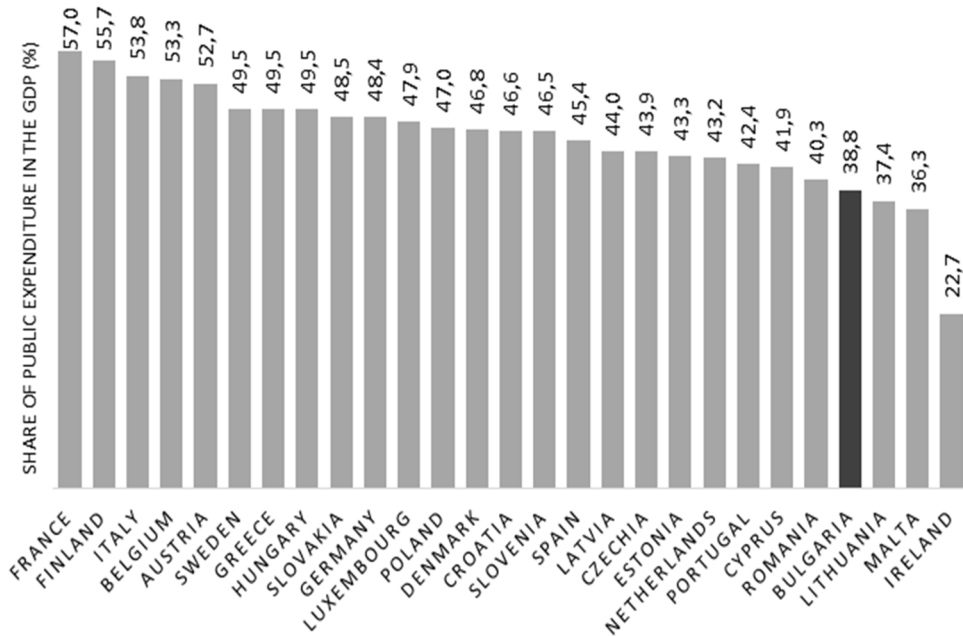


Source: Eurostat.

Figure 6. Public expenditure in member states of the European Union (2023), PPS⁴

Bulgaria was in *19th place* among the EU-27 in 2023 for public expenditure in absolute terms (see Figure 6) and in *24th place* for public expenditure as a share of its GDP (before Lithuania, Malta, and Ireland) – see Figure 7.

⁴ Purchasing power standard (PPS) is an artificial currency unit used in the European Union. Theoretically, 1 PPS can buy the same amount of goods and services in every member state of the European Union ("1 EU-27 euro").



Source: Eurostat.

Figure 7. Public expenditure as a share of GDP of EU member states (2023)

Proponents of the concept of *"less government"* traditionally appeal to reduce public spending and limit state intervention in economic and social life. However, as the data show, there is no problem with the size (absolute or relative) of public spending in Bulgaria. The big problem in our country is a proverbial *ineffectiveness and inefficiency of public spending*,⁵ the result of corruption, abuse, incompetence, sloppiness, and waste!

II. Current and Capital Expenditure

From an economic point of view, there are *current* (operating) and *capital* (investment) public expenditure – see Figure 8. Current expenses create benefits within a fiscal (budget) year (salary and social security contributions, purchase of goods and services, interest payments, etc.), while capital expenses refer to a longer period of time (expenses for the acquisition of tangible and intangible fixed assets).

⁵ See, for example: International Bank for Reconstruction and Development / World Bank, Review of Public Finance in Bulgaria 2023, Chapter 3; OECD, Public Investment in Bulgaria: Planning and Delivering Infrastructure, OECD Public Governance Reviews, OECD Publishing, Paris, 2023.

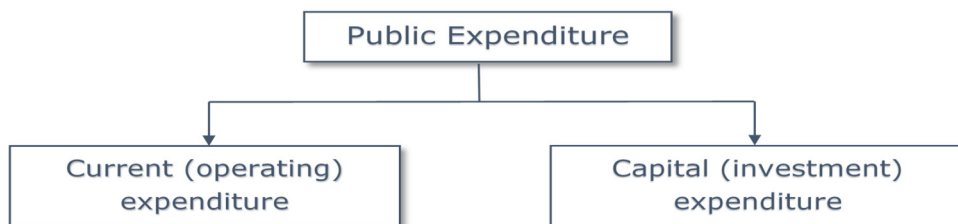
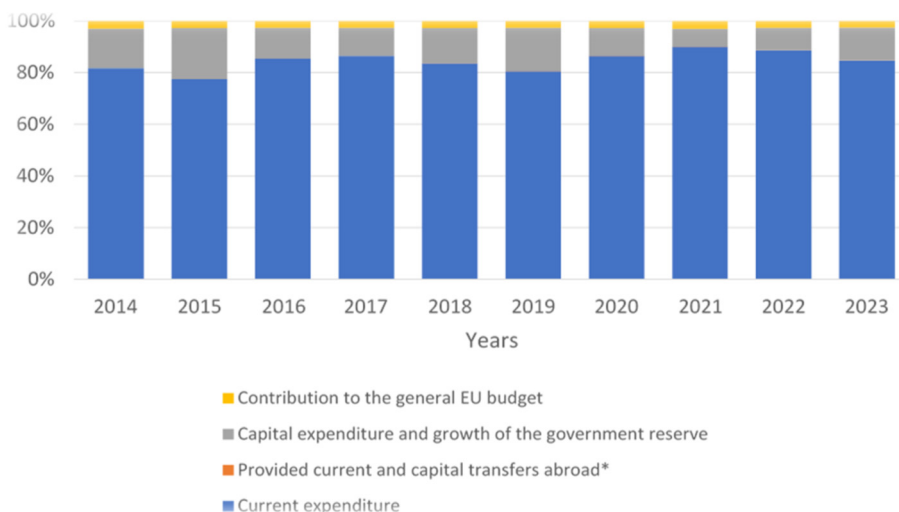


Figure 8. Economic classification of public expenditures

In the *consolidated fiscal programme*,⁶ public expenditure is divided into:

- current expenditure;
- provided current and capital transfers abroad;
- capital expenditure and growth of the government reserve;
- contribution to the general EU budget.

Figure 9 presents the economic structure of public expenditures in Bulgaria’s consolidated fiscal programme for the 2014–2023 period.



* Until 2017, current transfers abroad were included in "Current expenditure" (i.e., overheads) and capital transfers abroad were part of "Capital expenditure and growth of the government reserve".

Source: MoF.

Figure 9. Economic structure of public expenditure in the consolidated fiscal programme (2014–2023)

⁶ According to Art. 4 of the Law on Public Finance (Promulgation, SG No. 15 of 15.02.2013): "The consolidated fiscal program is a system of summary indicators for the central budget and for the budgets, accounts for funds from the European Union and accounts for foreign funds of budget organizations."

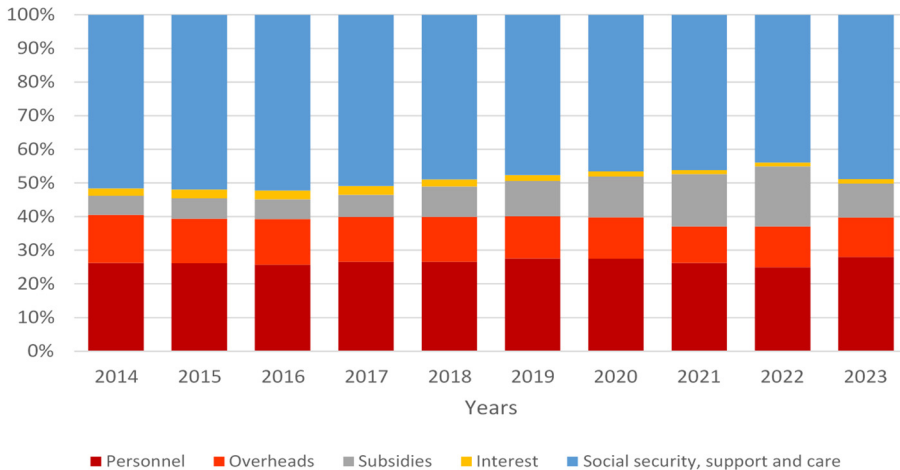
It is clearly visible that the two main components of the consolidated fiscal programme structure are current (operating) expenditure and capital (investment) expenditure. The weight of the other two (provided current and capital transfers abroad and contribution to the general EU budget) is insignificant.

During the period under study, *current expenditure* made up more than 80% of spending within the consolidated fiscal programme (the only exception is 2015, when it amounted to 77.4% of total expenditure – the lowest level for the period). Six years later (in the pandemic year 2021), the share of current expenditure in the consolidated fiscal programme peaked at 90.0% (see Figure 9).

Current (operating) expenditures include *five groups*:

- personnel;
- overheads;
- subsidies;
- interest;
- social security, support and care.

Figure 10 shows the dynamics of these current expenditure groups in the consolidated fiscal programme between 2014 and 2023.



Source: MoF.

Figure 10. Structure of current expenditures in the consolidated fiscal programme (2014–2023)

The share of current expenses for social security, support and care is the largest (about half); interest expenses are the smallest (under 3%). Ratios of personnel costs

and overheads have remained relatively stable over time. The total amount of these expenditures constitutes 37–40% of current expenditure. Within the studied period, the relative share of subsidies is the most dynamic: from around 6% at the beginning, it gradually increased, reaching 17.9% in (post-pandemic) 2022 (at the expense of the share of social security, support and care as well as personnel and overheads) – see Figure 10. In 2023, the relative shares of the current expenditure groups returned to their mid-period levels.

The share of the other main component in the consolidated fiscal programme structure (*capital expenditure* and *growth of the government reserve*) fluctuates within quite a broad range: between 19.89% in 2015 (absolute peak) and 6.88% in 2021 (lowest level for the period).⁷ Public investment is critically important for the whole economy. To maintain and develop the public sector’s capital base, about 5% of Bulgarian GDP (give or take 2–3 percentage points per year) is allocated.⁸ In 2023, the average share of capital expenditure from GDP among the EU-27 member states was 3.5%, and it was 5% among those from Central and Eastern Europe. Therefore, according to this indicator, Bulgaria is at the level of other EU-27 member states in Central and Eastern Europe. Finally, it should be noted that a significant part of public investments in the country is co-financed by the European Structural and Investment Funds (ESIFs).

A specific phenomenon in Bulgarian budgetary practice is the systematic unfulfillment of the state’s investment programme. Analysis of budget variances⁹ shows a substantial discrepancy between (higher) planned and (lower) reported capital expenditures.¹⁰ In fact, capital expenditure acts as a hidden budget buffer.

III. Expenditure by Function

The modern state provides national security, justice, public order, health care, and education, insures its citizens against certain social risks, and carries out economic and other activities. The consolidated fiscal programme includes *nine groups of expenditure by function*:

- general government services;
- defence and public order;
- education;
- health care;

⁷ Author’s own calculations.

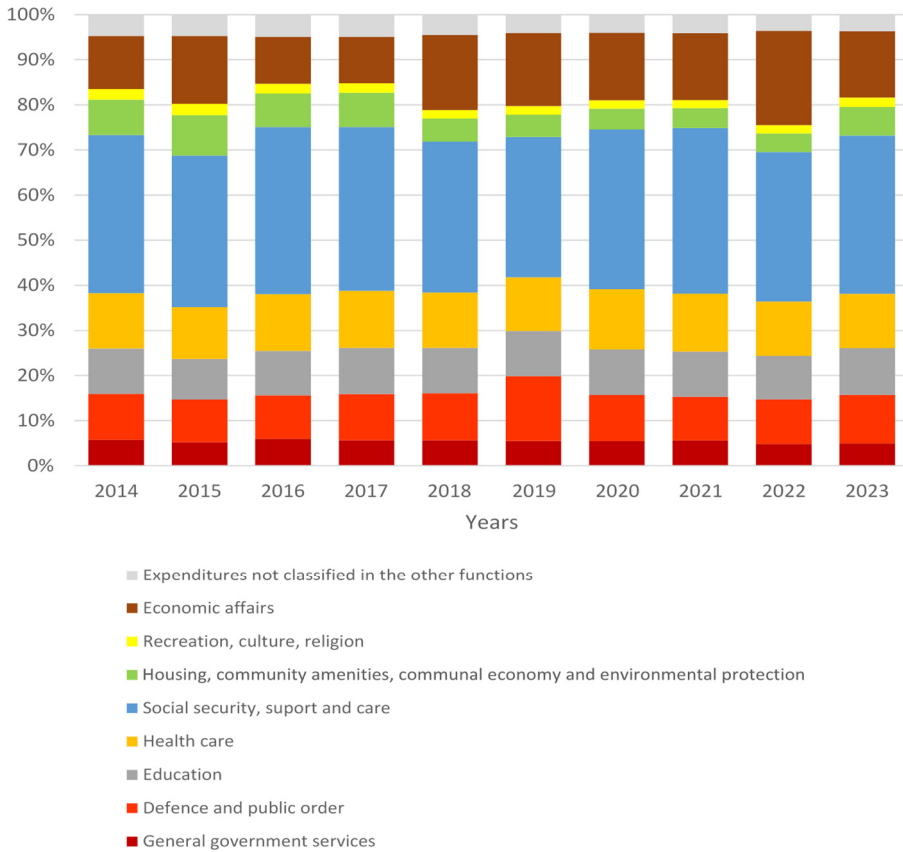
⁸ Author’s own calculations.

⁹ Budget Variance Analysis (BVA) compares the actual performance results of revenues and expenditures with budget plans.

¹⁰ The World Bank Group, *Review of Public Finance in Bulgaria 2023*, World Bank Publications, 2023, p. 53.

- social security, support and care;
- housing, community amenities, communal economy, environmental protection;
- recreation, culture, religion;
- economic affairs;
- expenditures not classified in the other functions.

The expenditure structure by function from 2014 to 2023 is shown in Figure 11.



Source: MoF.

Figure 11. Structure of expenditure by function in the consolidated fiscal programme (2014–2023)

Over the period of study, the share of general government expenditure on services in the consolidated fiscal programme has (hesitantly) declined from close to 6% at the beginning to below 5% in the last two years. The share of defence and public order spending was relatively stable at about 10% (give or take half a percentage point). The

only exception is 2019, when this share was 14.41% (mainly due to the payment of 2.2 billion BGN for eight F-16 Block 70 military aircrafts). Expenditure in education and health care also demonstrated resilience. The share of education expenditures hovered around 10%, while health care expenditures stayed between 12% and 13%. The largest share of spending under the consolidated fiscal programme was on social security, support and care – around or higher than a third of total expenditures. Their share was 31.1% in 2019 (the lowest level) and 37.1% in 2016 (the highest level). Economic affairs spending shows the most dramatic changes over time: doubling from 10.3% in 2017 to 20.9% in (post-pandemic) 2022 – see Figure 11.

In summary, between 2014 and 2023 there were no significant changes in the structure of expenditure by function under the consolidated fiscal programme.

Table 1 presents the share of Bulgaria’s GDP being allocated for various expenditures by function during the period under study.

Table 1. Share (%) of GDP, expenditure by function (2014–2023)

Function	Years									
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
General government services	2.2	2.0	2.0	1.9	2.0	2.1	2.2	2.3	1.9	1.9
Defence and public order	3.9	3.7	3.3	3.4	3.7	5.4	4.1	3.9	3.9	4.2
Education	3.9	3.5	3.3	3.4	3.6	3.7	4.0	4.1	3.8	4.0
Health care	4.7	4.4	4.3	4.2	4.4	4.5	5.3	5.2	4.8	4.7
Social security, support and care	13.5	13.0	12.6	12.2	12.0	11.7	14.1	14.9	13.1	13.8
Housing, community amenities, communal economy and environmental protection	3.0	3.5	2.5	2.6	1.8	1.8	1.8	1.8	1.6	2.5
Recreation, culture, religion	0.9	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Economic affairs	4.5	5.8	3.5	3.5	6.0	6.1	6.0	6.0	8.2	5.8
Expenditures not classified in the other functions	1.8	1.8	1.7	1.6	1.6	1.5	1.6	1.7	1.4	1.4

Source: MoF.

As can be expected, the largest share of GDP expenditure is under "Social security, support and care". This is also the case in the other EU-27 member states. The Bulgarian government allocates around 13–14% of GDP for social security, support and care (5–6 percentage points less than the EU-27 average). This ranks the country at the head of the lowest third of member states (together with Romania and before Croatia, Cyprus, Estonia, Ireland, Hungary, Latvia, and Malta). According to Eurostat data for 2022, the share of spending on this function is between 15% and 20% in ten EU-27 member states (Denmark, Greece, Luxembourg, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, and Sweden); it is over 20% in six member states (Belgium, Germany, France, Italy, Austria, and Finland).

The state allocates about 5% of GDP to the health of Bulgarians (over 2 percentage points behind the EU-27 average). According to this indicator, Bulgaria is also in the bottom third of member states. In 2022, Austria registered the largest share of public health care expenditures from GDP (9.3%) and Hungary (4.4%) had the smallest.

During the studied period, the share of Bulgaria's GDP going towards public expenditure on education did not exceed 4% (except for in 2021) – see Table 1. According to Eurostat data from 2022, the share of GDP expenditure on education was between 5% and 6% in ten EU-27 member states (Cyprus, Denmark, Estonia, Finland, France, Hungary, Latvia, Malta, the Netherlands, and Slovenia); it was 6.3% in Belgium and 7.1% in Sweden. Regarding public expenditure on education, Bulgaria shares 25th place in the EU-27 with Greece.¹¹

After 2018, the share of Bulgaria's GDP expenditure on economic affairs was about 6% (a level comparable to the EU-27 average). The only exception is in (post-pandemic) 2022, when this share was 8.2%. That year, the country ranked 5th in the EU-27 in terms of its percent of GDP expenditure for economic affairs, after Malta (8.9%), Austria (9.2%), Greece (10.0%), and Hungary (10.5%).

In summary, the Bulgarian state allocates far less of its GDP to social security, support and care, and health care than most of the other EU-27 member states. Our country is in the bottom ranking in terms of education spending and in the middle for economic affairs expenditure as a percentage of GDP.

Conclusion

In terms of the absolute amount of public expenditure, Bulgaria is in the bottom third of the EU-27 member states; in terms of its share of GDP allocated for public spending, it ranks in almost last place. Traditionally, more than 80% of expenditures in the consolidated fiscal programme are current (operating) expenditures. The share of

¹¹ Romania is in penultimate place, with 3.2%; Ireland comes in last at 2.7%.

capital (investment) expenditures in the country's consolidated fiscal programme structure fluctuates quite widely. As a share of GDP, public capital expenditure in our country amounts to about 5% – a level comparable to the average among EU-27 member states in Central and Eastern Europe. For social security, support and care, health care, and education, the Bulgarian state allocates far less GDP spending than the majority of the EU-27 member states. This should be changed through the appropriate reallocation of resources (especially in favour of education).

To achieve effective and efficient public spending in Bulgaria, there is a need for:

- true programme (performance-oriented) budgeting – since 2003, many budget organisations have been applying principles of programme budgeting only formally, and the result is traditional (resource-oriented) budgets in "programme packaging";
- improvement of procedures and strict control over public procurement;
- cost-benefit analysis of public investment projects financed with national resources.

Conflicts of Interest

The author has no conflicts of interest to declare.

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Rumen Brussarski, PhD, is a Professor in the Finance Department at the University of National and World Economy, brussarski@yahoo.com.

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