FINANCIAL DECENTRALIZATION AND THE DOWNTURN: EVIDENCE FROM BULGARIA

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Abstract

This study is intended to examine the influence of the current worldwide financial and economic crisis on financial decentralization process in Bulgaria and identify the answers of the central and local governments to the critical situation in the context of specific conditions of the national economy and the stage of financial decentralization reform. Analysis is focused on dynamics of the main macroeconomic indicators, based on fact figures for the period 1990–2009 and forecast for the period 2010-2011, and its impact on the public finance. The most important actions, taken by the national government to consolidate the crisis are described and evaluated on the base of their effects on the local finance. A comparison is made between the loss of Bulgarian economy in the beginning of transition (1991-1993), during the financial crisis in 1996-1997, caused by credit crunch and series of bank bankruptcies, and the current financial and economic crisis. Finally, some conclusions and policy recommendations are outlined, intended to improve crisis management in Bulgaria both on the national and local level.

Keywords: financial decentralization, local finance, economic crisis
JEL classification: H71, H77

1. INTRODUCTION

Bulgaria is a unitary state with 7.9 million population[i] and territory of 111 000 km^2. Territorial structure of the country includes two regions on level NUTS I, 6 planning regions, defined as level NUTS II, 28 administrative districts corresponding to level NUTS III, and 264 municipalities, which represent the level LAU 1.[ii] It is important to note, that regions are not administrative, but only statistical units, created according to the Regional Development Act (2008) and in compliance with the requirements of the European Union for allocation of regional development funds.[iii] The districts are deconcentrated administrative units of the central government, which coordinate national and local interests, but they neither enjoy financial autonomy, nor provide public services to the population. According to the Constitution (§136), the municipality - a legal entity is the only one tier of really autonomous subnational government in the country. It has the right of ownership and adopts independent municipal budget, which must be used in the interests of the local population.[iv]

The bodies of local government - Municipal Council and Mayor - are elected directly by the local population for a 4-year mandate with the purpose to make and perform local governmental decisions.[v] Some of the most important pillars of the legal base of the local self-government are Constitution of the Republic of Bulgaria (1991), Local Self-Government and Local Administration Act (1991), Act on Administrative and Territorial Structure of the Republic of Bulgaria (1995), Local Elections Act (1995), Municipal Property Act (1996), Local Taxes and Fees Act (1997), Municipal Budgets Act (1998), and Municipal Debt Act (2005).

Actually, the process of gradual political, administrative, and financial decentralization in the country started in 1991, parallel to the transition from the centrally planned, socialist type economy towards a market based economy. During the period 1991-2009 Bulgaria has made remarkable progress in reforming and decentralizing the public sector. First of all, the most important pillars of the legal base of local self-government have been adopted, providing a stable background of financial decentralization. Secondly, the importance of local governments has significantly increased, as a share respectively into the gross domestic product and consolidated public sector of the country. Thirdly, expenditure assignment and intergovernmental transfer system have been put on a clear and transparent basis. Fourthly, local governments have been given full control over some of the own-source revenues (local fees, service prices and revenues from municipal asset management) and limited control over the local tax levy. As a result local governments became powerful component of the public sector.

2. FINANCIAL DECENTRALIZATION REFORM: MAIN ACHIEVEMENTS AND KEY CHALLENGES

Financial decentralization process in Bulgaria comprises of several distinct periods. In the beginning of transition (1991 – 1993) the highly centralized system was preserved and there was not a sensible dialogue between local and central authorities. In 1993, the independence of municipal budgets within the consolidated state budget was acknowledged, meaning that the State abandoned the centralization of local budget surplus and the financing of local deficit. In addition, the intergovernmental fiscal relations were organized on the base of a newly introduced formula for distribution of the state subsidies to the municipal budgets. It is interesting to note, that although adopted with good intention, the allocation formula became exceptionally complicated and difficult to predict. Since its introduction it has been changed each year, becoming more and more complex with each change. Moreover, the original legislative rationale for the general state subsidy, namely to meet differing expenditure needs based on objective criteria, has been gradually converted into a redistributive mandate based largely on ad hoc decisions of the central government. [Tchavdarova, 2000, 36]

Typical for the period 1994 – 2002 has been the process of gradually building the capacities of local authorities. The National Association of Municipalities in Republic of Bulgaria (NAMRB) and regional associations of municipalities emerged as main champions of financial decentralization. Several changes in intergovernmental relations have been provoked, gradually eliminating mandatory priorities in the allocation of municipal expenditures. However, to the end of this period, the intergovernmental fiscal relations remained centralized as far as the central government established a model of almost complete control over the municipal budgets.

The real financial decentralization in Bulgaria started in 2003, based on the Cooperation Agreement, signed by the Council of Ministers and the NAMRB in 2002, whereby both parties agreed to decentralize local government and to increase financial independence of municipalities. Moreover, both the Financial Decentralization Concept and the program for its implementation were adopted. As a result, one of the main achievements in the scope of intergovernmental fiscal relations became a reality, namely the clear division between the local and central responsibilities for the public services. Provided for the first time by the annual State Budget Act for 2003 it was continued and improved during the following years. Additionally, this law provided a framework for regulating a new, simple and transparent model of assigning government subsidies. Now subsidies allocation is based on a formula, which takes into account the expenditure needs and revenue capacity of local governments.

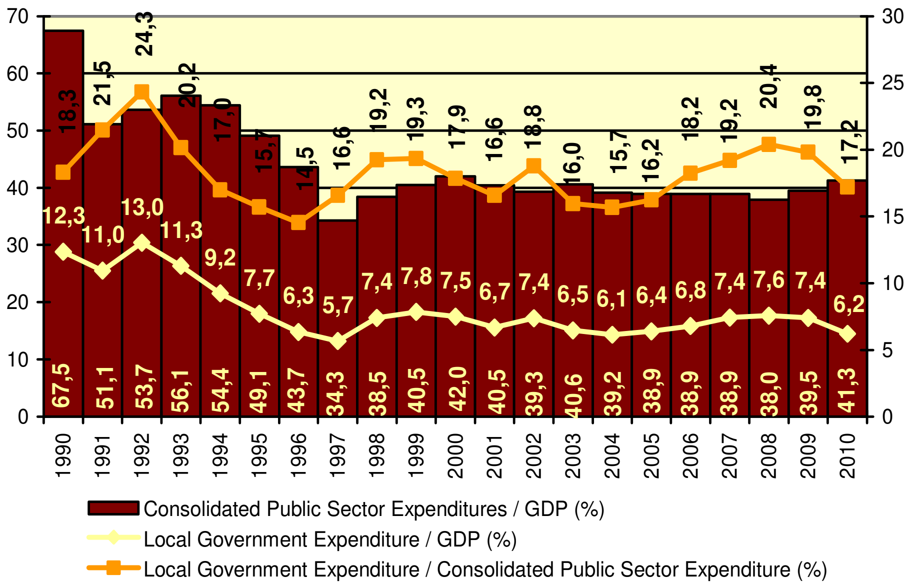
A fundamental weakness of the revenue assignment system in Bulgaria during the transition period has been the lack of local tax autonomy. Before the Constitutional amendments in the beginning of 2007 Bulgarian municipalities were prohibited from setting either rates or bases of local taxes. Property tax, motor vehicle tax, inheritance tax, donation tax, and tax on the real estate and movable property purchase, recognized as local taxes, were entirely regulated by the central governmental level. In terms of modern public finance, if local governments do not participate in the design of the local tax, it should be considered as a special transfer, based on the location of taxable property. Moreover, this regulation conflicted with article 9.3 of the European Chart of Local Self-Government, ratified by the Republic of Bulgaria in 1995.

In the beginning of 2008 two important legislative changes considerably influenced local taxation. Firstly, municipalities were given the authority to set local tax rates within certain legal limits. However, they are still disallowed to define local tax base and provide additional (or remove the existing) legal alleviations for certain taxpayers. Secondly, the patent tax was reassigned as a local tax. Basically, the patent tax is a net annual income tax, which is collected from the craftsmen and the owners of small enterprises, who offer handmade products and a variety of services. The patent tax replaces the payment of personal income tax or corporate income tax, so it has the potential to become an important part of local revenues and powerful instrument of the municipal tax policy.

3. LOCAL GOVERNMENT FINANCE: DYNAMICS OF THE MAIN INDICATORS

In response to the fast-changing legal and financial environment during the transition period, public sector expenditures have been very dynamic. Due to the economic stagnation, financial instability, and vertical imbalance in the last decade of 20th century the relative importance of local governments within the governmental system decreased. Moreover, regardless of the financial stabilization and economic growth, achieved during the first years of the new century, the downward tendency has proved its persistency. The relative share of local budgets in GDP has been reduced to 7,5% in 2000 and 6,1% in 2004 by comparison with 12,3% in 1990. At the same time expenditures of the local governments, which formed 21,5% of the consolidated state budget in 1991, reached respectively 17,9% in 2000 and 15,7% in 2004.

This negative trend was reversed in 2005, due to the ongoing process of financial decentralization during the period 2003 – 2008, which has considerably influenced intergovernmental fiscal relations. As a result, financial autonomy of municipal level of government increased. The positive dynamics has been accelerated by the clear expenditure assignment, transparent intergovernmental transfer system, and local tax authority. In 2008 local governments appeared as an important part of the public sector in the country, accounting for 20.4% of total government spending. At the same time consolidated public sector expenditures have been constantly decreasing, representing 38% of GDP in 2008, while local governments' share reached 7.6% of GDP. In 2009 and 2010, as a result of the economic crisis, local government expenditures tend to decrease, in contrast to increase of the central government expenditures.



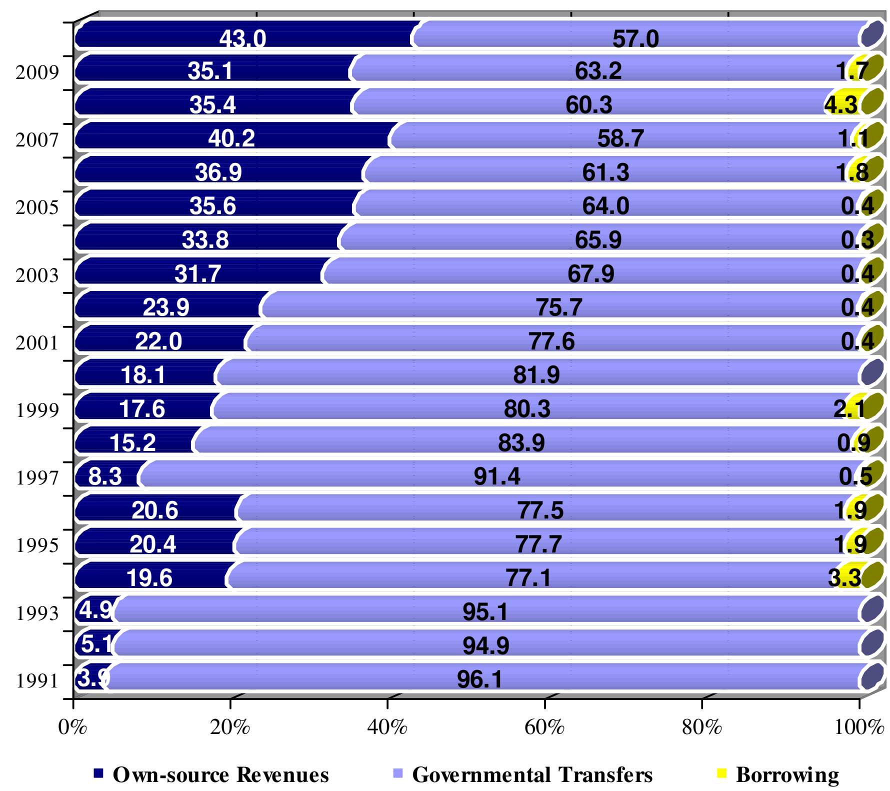
Source: Calculations based on the Ministry of Finance database [MoF, 2010]

Note: Data for 2010 are based on prognosis.

Figure no. 1 Public Sector Expenditures in Bulgaria (1990-2010)

During the transition period, local governments have suffered more than the central government from the decreased financial capacity of the public sector in the country. Because of the advantages of taxation at the central level and spending at the decentralized level, public sector in Bulgaria has often ended up with vertical and horizontal fiscal imbalance. Since 1991 the legislation in the scope of local finance has been subject to continuous changes, but the real decentralization of local revenues proved to be a very long and difficult process. In the beginning of transition period several problems had a decisive influence over the own-source local revenues, causing a significant decline of their relative share, especially during the 1990s.

First of all, the difficult interrelation of the local governments and the tax administration, which in 1991 became subordinated to the Ministry of Finance. As a result, the efforts of centrally dependent officers were aimed at collecting taxes from the larger taxpayers, causing delays of the local taxes and fees collection and even waste of local revenues. In a dynamic inflationary environment any postponement leaded to additional losses for the municipal budgets. Another serious problem was the outdated tax base for the property tax, which was also used for the calculation of inheritance tax, donation tax, and tax on the property purchase. This were the reasons why in the period 1991-1997 local taxes accounted for less than 3% of the local revenues. Especially low was local tax revenue share in 1997 (0.45%), due to the hyperinflation, which additionally devaluated local tax base. Moreover, it was beyond the municipal competence to solve the problem. Although autonomous on paper, municipalities did not have any possibility to influence tax revenues. In addition, the inability of local governments to impose local fees and to set their rates freely, particularly in the inflationary situation, resulted in a growing gap between local revenue potential and the actual costs of local service provision. This was the reason why in 1990s own-source revenues accounted for only 12.8% of the total local revenues on the average.



Source: Calculations based on the Ministry of Finance database [MoF, 2010]
Note: Data for 2010 are based on prognosis.
Figure no. 2 Local Governments Revenues Structure (%)

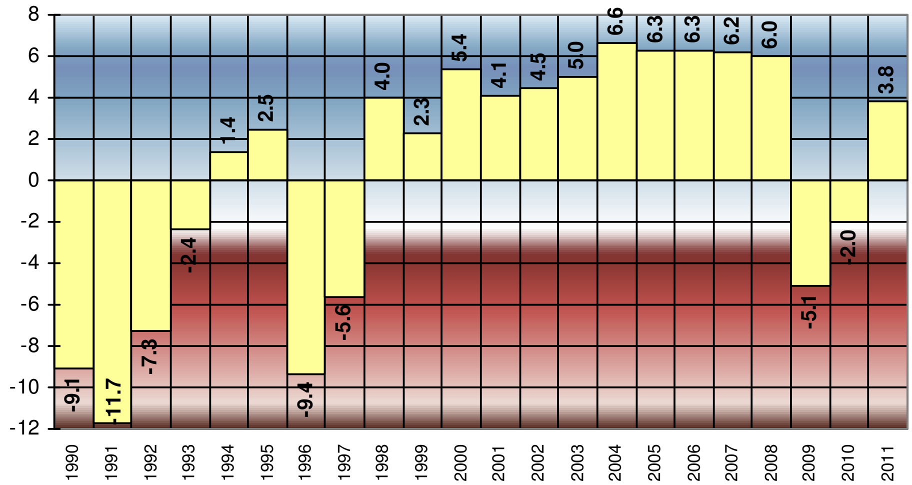
As a whole, during the period 2000-2007 local own-source revenues tend to increase gradually, from 18.1% toward 40.2% of the total municipal revenues, provoked by the expanding financial decentralization. Since 2003 local governments have been given full discretion over local fees and service prices, which have quadrupled their importance in real and relative terms. In 2006 municipalities started to collect local tax revenues. Especially high is the growth of local taxes in 2007 and the first half of 2008, due to the considerable revaluation of the property tax base on the one hand and the newly assigned tax competences on the other hand. At the same time, because of the expansion of the own-source revenues, intergovernmental transfer system has lost its dominant role in financing local governments in Bulgaria. However, having in mind the great difference between the fiscal capacity in several richest municipalities and the rest of the local governments in the country, for the present the strong intergovernmental transfer system still has no effective alternative.

It is important to note, that since 2003 the process of strengthening financial decentralization in Bulgaria has been accompanied and significantly influenced by constantly increasing economic activity, low levels of unemployment, dynamically deceasing public debt, and consolidated budget surpluses exceeding 3% of the GDP. This process was broken in the autumn of 2008, due to a new and deep worldwide financial and economic crisis. Because of the Currency Board, which preserved financial stability, Bulgaria faced the crisis later than most of the countries all over the world. However, in 2009 crisis hit Bulgarian economy with all its might. Decreasing economic activity strongly affected public finance by reducing government revenues and increasing social pressure, mainly due to the fast growing unemployment rate. At the local level economic crisis both sharply reduced local governments' own-source revenues and – via budget constraints at the central level – increased the pressure on the grant system.

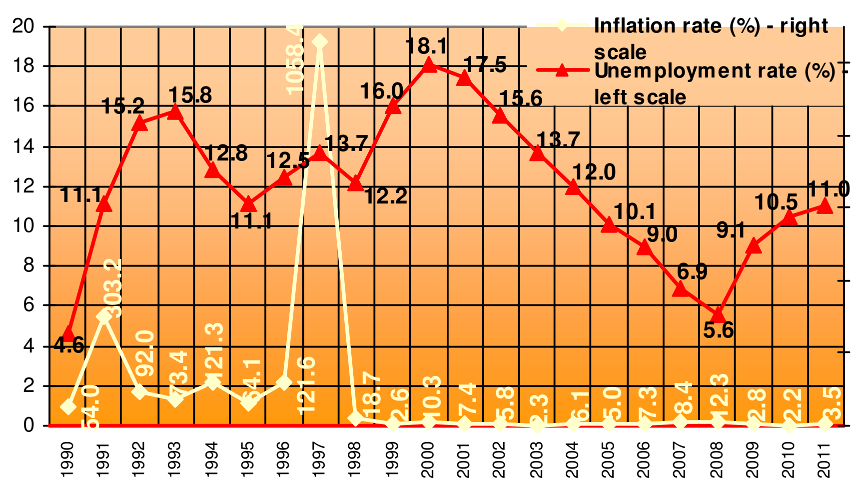
As a result own-source revenues decreased to 35.4% of the total local revenues in 2008 and hardly reached 35.1% in 2009. Although calculated as 43.0% of the total revenues in 2010, own-source revenues are expected to decrease vastly. The Annual State Budget Act 2010 is based on prognosis for own-source revenues equal to 1701.9 million BGN,[vi] which means 20% less own revenues than expected in the previous year. Especially negative is prognosis for the revenues from the tax on movable and immovable property purchase, mainly because of the collapse of the real estate market, reduction of the construction sector, and decrease of motor vehicles purchases. The increased share of the own-source revenue for 2010 is mainly due to the significant reduction of the state transfers. Constrained by decreasing revenues in the consolidated budget, central government cut out intergovernmental transfers by 26%, from 3049.3 million BGN in 2008 to 2256.7 million BGN in 2010.

4. IMPACT OF THE CRISIS ON BULGARIAN ECONOMY AND PUBLIC SECTOR

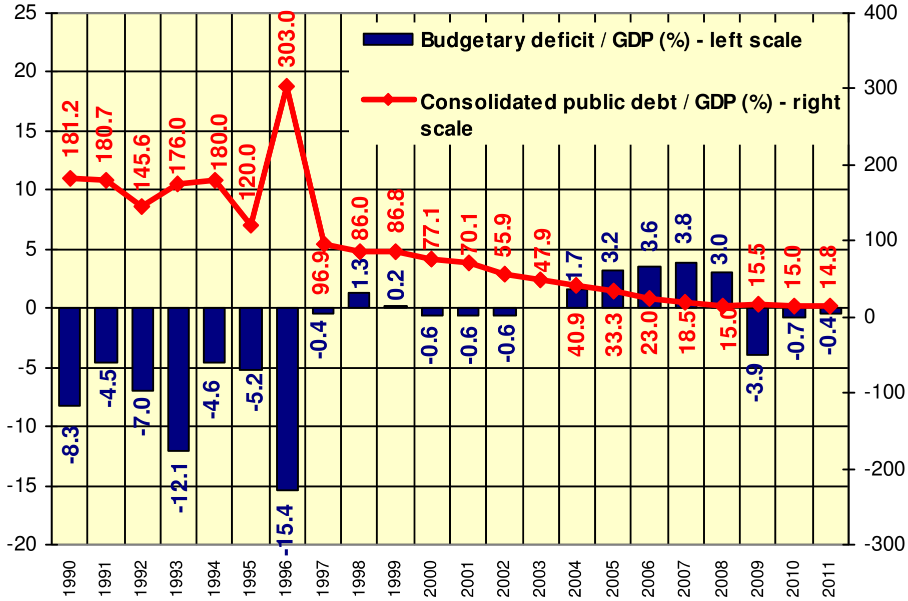
Although the 2008-2009 financial crisis is defined as the worst world wide economic crisis since the Great Depression of 1929, it is not the most severe crisis faced by Bulgarian economy during the last 20 years. Since the beginning of transition from centralized to market based economy Bulgaria has survived during two extremely difficult periods. First of all, following the 1990 moratorium on external debt repayments, Bulgaria lost access to commercial external financing. During the period 1991 - 1993 the expansion of the private sector took place against the background of the steep decline in production and high unemployment associated with the transition. The cumulative decline in real GDP during this period reached almost 25%, mainly due to the drop in domestic demand and loss of the export markets. (Figure 3) The restructuring of the economy resulted in enormous unemployment rate, which went up to 16% of the labor force and stabilized around that level. Price liberalization caused severe inflation in 1991 (303.2%). After the initial price shock the inflation rate steadily declined to 73.4% in 1993. (Figure 4) However, the sharp changes in relative prices and costs, and the drop in imports led to additional decline in the output. Reflecting the economic conjuncture during the period, consolidated budgetary deficit reached 12.1% of the GDP and public debt was calculated to 180% of the GDP. (Figure 5)



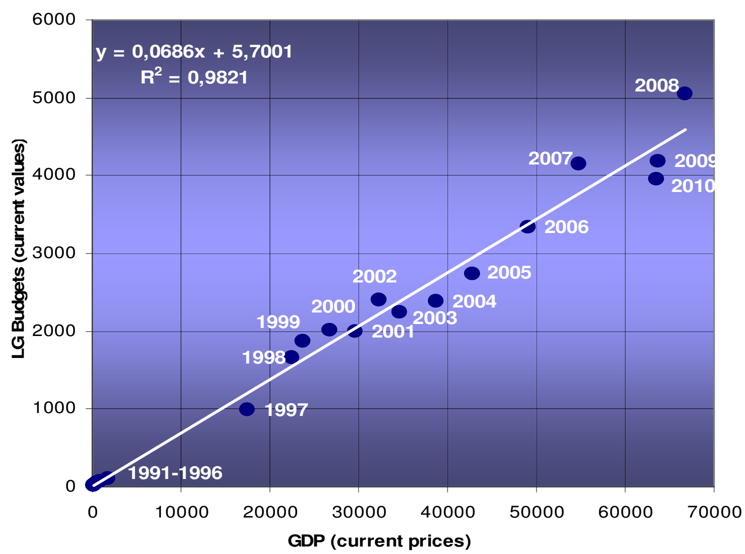
Source: Ministry of Finance, Bulgarian National Bank, National Statistic Institute
Note: Data for 2010-2011 are based on prognosis.
Figure no. 3 Annual GDP Growth (%)



Source: Bulgarian National Bank, National Employment Agency, National Statistic Institute
Note: Data for 2010-2011 are based on prognosis.
Figure no. 4 Dynamics of Inflation and Unemployment Rates (1990 – 2011)



Source: Ministry of Finance and Bulgarian National Bank
Note: Data for 2010-2011 are based on prognosis.
Figure no. 5 Budgetary Deficits and Consolidated Public Debt (1990 - 2011)



Source: Calculations based on the Ministry of Finance database [MoF, 2010]
Note: Data for 2010 are based on prognosis.
Figure no. 6 Correlations GDP / LG Budgets

The second hard period was the financial crisis of 1996 – 1997. The two factors, which provoked the crisis, were bad loans on commercial banks balance sheets and large government deficits. Until 1996, commercial credit in Bulgaria was expanded to a degree that was unprecedented relative to any other European transition economy. Government attempts to recapitalize the banks failed. The government replaced bad loans to enterprises with government bonds. Banks then made additional loans, and their balance sheets did not improve. The credit crunch was followed by series of bank bankruptcies. The economy slumped as a result of the collapse of the bank system. At the same time the government bonds increased the level of government debt (303% of the GDP) and the interest obligations on this debt ballooned, creating enormous government deficit (-15.4% of the GDP). Hyperinflation of more than one thousand percents was registered in 1997, which totally deformed all the economic and financial relations.

As a last resort, the Currency Board was introduced on 01 July 1997, in order to restore the confidence in the national currency and bank system, to impose financial discipline and stabilize the economy. Generally speaking, Bulgarian Currency Board proved to be a great success. It established a fixed exchange rate and relied on automatic mechanisms to restore macroeconomic equilibrium, limiting severely the discretion of policymakers. From hyperinflationary levels during the first half of 1997, inflation fell to very low levels in the following years. The significant decrease of nominal interest rates made it possible for the government to reduce large government deficits. The economy started to grow, although more slowly that might be hoped during a recovery period.

Estimation of the impact of crises on the local finance by applying the linear regression shows a significant correlation (R2 = 0.98) between the fluctuation of general domestic product and local governments budgets in Bulgaria. (Figure 6) During the last 20 years, every change of the GDP by 1% has caused 0.07% unidirectional change in the local budgets. Obviously local finance reform and financial decentralization process in Bulgaria have been considerably influenced by the economic cycle.

Having in mind the experience of Bulgaria and other countries all over the world, the core question is: how public sector should respond to the current crisis? As a result of the previous significant worldwide crises, namely the World Economic Crisis in 1929-1933 and the Oil Price Shock in the mid 1970s, the role of the state increased, in order to eliminate market failures. On the other hand, the last crisis within the region of the Central and Eastern Europe in the 1990s was accompanied by a process of decentralization of an entirely centralized political and economic system. In this context it is interesting to study the reactions to the current crisis in individual countries: increasing concentration of power and fiscal capacity on the level of central government or increasing role of decentralization among the government levels.

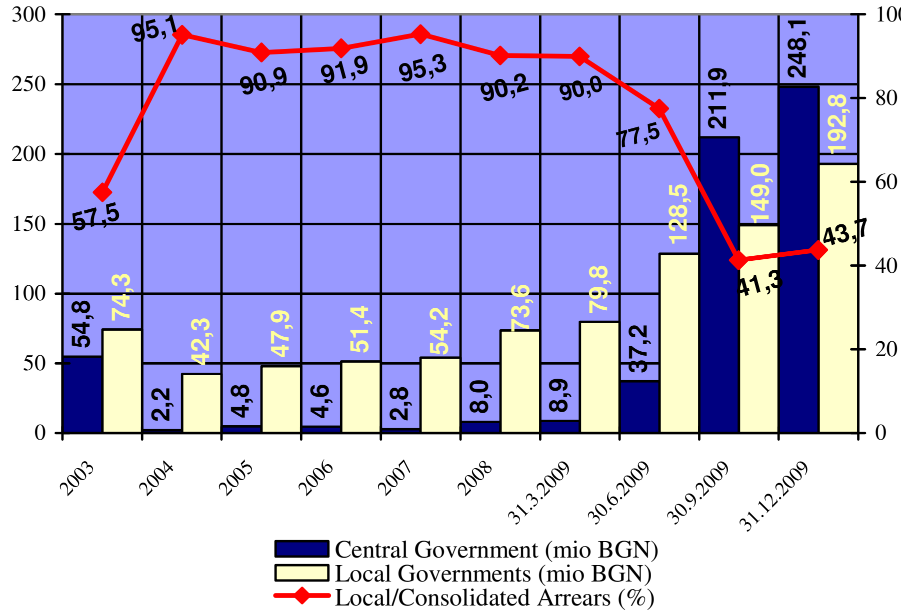
5. THE ANTI-CRISIS MEASURES

The anti-crisis measures in Bulgaria were taken comparatively late – in the second half of 2009, mainly due to the national elections in mid July. The efforts of the newly elected government were aimed at stabilizing public finance and diminishing budgetary deficit to the end of the year. The government actions were related both to the revenue and expenditure side of the state budget, mainly intended to increase the efficiency in the public sector. First of all, state administration was significantly reduced (by 15%), and salaries in the public sector were frozen for an indefinite period of time. As part of the measures intended to optimize administrative expenses, the Parliamentary Commission of Regional Policy and Local Self-government discussed the possibility of merging municipalities with few citizens. According to the legislation in force[vii] municipalities must have population of at least 6000 in order to be administrative centers. Although local government in Bulgaria is not very fragmented, having in mind that the average municipality has 30 000 citizens, such a measure would affect 53 municipalities with population between 1242 and 5944. However, representatives of the central government declared that merger of municipalities could become a reality only after referendum.

Secondly, public sector investments were postponed for better times. Targeted capital investment subsidy, which used to be a significant source of financial resources for the local governments, has been reduced with 43.1%, from 205.5 million BGN in 2009 to 117 million BGN in 2010. Under the circumstances, most of the local governments rely on the European funds for investment financing. Moreover, the central government assumed the responsibility to pay on behalf of the local governments the required 5% project co-financing, in order to support local investments.

Thirdly, tax collection efforts were strengthened. Because Bulgaria applies the lowest tax rates of the personal income tax and corporate income tax (both of them equal to 10%) among the EU countries, so the most popular anti-crisis fiscal measures, namely decreasing income taxes, [European Commission, 2009] are not applicable. Instead, the National Revenue Agency launched large scale audits of legal entities and physical persons in order to improve tax collection. Moreover, local governments were given full legal rights of public executives, meaning in essence that they can levy distraint upon the bank accounts, salaries, and properties of the incorrect taxpayers. In order to expand local tax base, the maximum rates of the tax brackets were increased from 2‰ to 2.5‰ for the property tax and from 2.6% to 3.0% for the tax on the movable and immovable property purchase. In spite of these measures, public sector revenues dropped significantly, especially in the second half of 2009, mainly due to the decreasing economic activity.

At the same time consolidated public sector arrears increased more than five times, from 81.6 million BGN in the end of 2008 to 360.8 million BGN in September and even 440.9 million BGN in the end of December 2009. Local government arrears almost reached 200 million BGN in the end of the year, which is the highest level since the start of financial decentralization reform. It is interesting to note that central government arrears are accumulated faster than local government arrears. During the period 2004 – 2008 local governments' arrears have formed more than 90% of the total public sector arrears. In the end of 2009 they represent only 43.7%. The increased amount of local arrears is partly due to the low local revenues. In 2009 only 60.2% of the expected local revenues were actually collected. On the other hand, pressed by the scarcity of financial resources, central government retained 10% of the state subsidies for the municipalities, which is in accordance with the regulations of the Annual State Budget Act 2009 (§17).



Source: Ministry of Finance [MoF, 2010]

Figure no. 7 Public Sector Arrears (2003 - 2009)

It is interesting to note, that local governments in Bulgaria have generally not been sources of severe fiscal deficits in recent years, as a result of the adopted equalization scheme. According to the calculations smaller municipalities register lower indebtedness. The equalization scheme provides smaller local governments with more subsidies per capita and thus compensates them for the shortage of funds caused by low fiscal capacity. Because large and medium size municipalities traditionally rely more on the own-source revenues than on the governmental transfers, they have lost significant part of their revenues due to the economic downturn. However, the local deficit does not exceed 7.6% of the total municipal expenditures, so it still does not represent a significant burden on the local budgets.

6. CONCLUSION

The current worldwide financial and economic crisis reached Bulgaria at comparatively mature stage of financial decentralization reform. The basic achievements, strengthening local self-government can be summarized as follows: firstly, adoption of a stable legal base; secondly, constantly increasing importance of local governments, as a share respectively into the gross domestic product and consolidated public sector of the country; thirdly, clear expenditure assignment; fourthly, transparent intergovernmental transfer system; and fifthly, full local control over some of the own-source revenues (local fees, service prices and revenues from municipal asset management) and limited control over the local tax levy. Although the remarkable progress in reforming the public sector, financial decentralization proves to be a very long and difficult process. Moreover, having in mind the great difference between the fiscal capacity in several richest municipalities and the rest of the local governments in the country, for the present the strong intergovernmental transfer system still has no effective alternative.

It is important to note, that since 2003 the process of strengthening financial decentralization in Bulgaria has been accompanied and significantly influenced by constantly increasing economic activity, low levels of unemployment, dynamically deceasing public debt, and consolidated budget surpluses exceeding 3% of the GDP. This process was broken in the autumn of 2008, due to a new and deep worldwide financial and economic crisis. Due to the severe financial discipline provided by the Currency Board, Bulgaria faced crisis consequences later and in a milder form than most of the countries all over the world. However, in 2009 crisis hit Bulgarian economy with all its might. Decreasing economic activity (GDP reduction of -5.1%) strongly affected public finance by reducing budgetary revenues and increasing social pressure, mainly due to the fast growing unemployment rate. As a result a budget deficit of 3.9% of the GDP was reported in 2009 and a deficit of 0.7% is expected in 2010. Although completely different from the expected 3% surplus, Bulgarian budgetary deficit is among the lowest in the European Union. In addition, bank system remained stable, inflation rate decreased to 2.8%, and public debt did not exceed 15.5% of the GDP.

A brief review of the country's economic development showed that the current downturn is not the most severe crisis, faced by Bulgaria during the last 20 years, mainly due to the lessons for fiscal policy drawn from previous crises and the Currency Board, which preserved financial stability. However, local governments were affected less or more heavily by the decreased economic activity. Own-source revenues were sharply reduced and the pressure on the grant system was increased. In attempts to consolidate the crisis, national government centralized public sector expenditures, as the role of the state increased. In 2009 and 2010 local government expenditures tend to decrease measured as percentage of the gross domestic product and consolidated public expenditures, in contrast to increase of the central government expenditures.

The anti-crisis measures in Bulgaria were taken comparatively late – in the second half of 2009, mainly due to the national elections in mid July. The efforts of the newly elected government were aimed at stabilizing public finance and diminishing budgetary deficit to the end of the year. The government actions were related both to the revenue and expenditure side of the state budget, mainly intended to increase the efficiency in the public sector. First of all, state administration was significantly reduced (by 15%), and salaries in the public sector were frozen for an indefinite period of time. Secondly, public sector investments were postponed for better times. As a result, targeted capital investment subsidy, which used to be a significant source of financial resources for the local governments, has been reduced with 43.1% in 2010 by comparison with 2009. Thirdly, tax collection efforts were strengthened. The National Revenue Agency launched large scale audits of legal entities and physical persons in order to improve tax collection. Moreover, local governments were given full legal rights of public executives, meaning in essence that they can levy distraint upon the bank accounts, salaries, and properties of the incorrect taxpayers. Fourthly, in order to expand local tax base, the maximum rates of the most important local tax brackets were increased.

In spite of these measures, public sector revenues dropped significantly, especially in the second half of 2009, mainly due to the decreasing economic activity. At the same time consolidated public sector arrears increased more than five times, but they are more rapidly accelerated at the central level than the local level. During the period 2004 – 2008 local governments' arrears have formed more than 90% of the total public sector arrears. In the end of 2009 they represent only 43.7%. According to the calculations smaller municipalities register lower indebtedness. The equalization scheme provides smaller local governments with more subsidies per capita and thus compensates them for the shortage of funds caused by low fiscal capacity. Because large and medium size municipalities traditionally rely more on the own-source revenues than on the governmental transfers, they have lost significant part of their revenues due to the economic downturn. However, the local deficit does not exceed 8.7% of the total municipal expenditures, so it still does not represent a significant burden on the local budgets.

The key message of the paper is that local governments in Bulgaria can do very little without active central government support and cannot substitute for it in regard of the basic anti-crisis measures for raising general demand. Local expenditures need rebalancing to meet shifting needs within constrained levels of overall activity. Local revenues can be increased, mainly by strengthening tax collection. Local governments' most appropriate role is to mitigate effects and relieve some specific market or government failures. The emphasis should be focused on the short term gains, rather than pursuing expensive and unrealistic development initiatives.

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[i] Last census on 01.03.2001, source: National Statistical Institute,
at http://www.nsi.bg/Census/Census.htm
[ii] NURTS I, NUTS II and NUTS III are the abbreviations respectively of the level I, II and III of the Nomenclature of Territorial Statistical Units within the meaning of Regulation (EC) No 1059/2003 of

the European Parliament and of the Council of 26 May 2003. LAU 1 is denotation for local administrative unit.

[iii] Regional Development Act, § 4

[iv] Constitution of the Republic of Bulgaria, §140 and §141. Local Self-Governance and Local Administration Act, §14

[v] Constitution of the Republic of Bulgaria, §138 and §139

[vi] BGN is the abbreviation on Bulgarian currency. According to the Currency Board provisions 1 EURO is equal to 1.95583 BGN.

[vii] Law on Administrative Territorial Structure of the Republic of Bulgaria, §8 (1) 1