

development of Armenia and geopolitical situation in South Caucasus. We found that Armenia has exceeded its trade potential in total export and especially in export on product group “Industrial Supplies” with the most its leading trading partners in export. The top-10 countries where Armenia has potential for expansion of export are USA, Turkey, China, Japan, United Kingdom, France, Italy, United Arab Emirates, Hong Kong, and Saudi Arabia.

**Key words:** trade potential, export, gravity model, geographical structure of export.

## BUDGET IMPACT UNDER THE CONDITIONS OF AN ECONOMIC CRISIS

Naydenov L., Head assistant, Ph.D Economics University – Varna

The interrelations between state budget and private sector under the conditions of economic decline have to be viewed more and more carefully in order to formulate precise assessments and measures about the opportunities for relieving the negative consequences on the economy. The precise analysis, rapid and adequate steps in this field can guarantee preservation of financial stability in Republic of Bulgaria, restoration of economic growth and improvement of business environment. The processes of distribution, redistribution and movement of capitals, goods and people, reasoned by the world economic crisis and participation of the national budgets in them, define the topic actuality.

### 1. Peculiarities of budget impact – information influence and role of the good government management

The impact of the state budget on the structures of private business is multisided. For the purposes of the present analysis it can be brought to:

- Informational impact;
- Influence of the good budget practice (good management) in the public sector;
- Impact of the specific budget parameters.

*The informational impact* of budget on private sector follows from the characteristics of the country’s basic financial plan. The state budget is not only a technical instrument, documenting revenues and offering possibilities for making expenditures, but it is also the most important political and economic act of executive power for the fiscal year. It reflects the government’s views on the socio-economic state of public and private sectors. At the same time, the state budget is a declaration of government for its economic (incl. fiscal) purposes and from these positions it reflects the social and economic priorities of the ruling political power. The budget renders value assessments of the government’s future plans and is a consequence of similar assessments in the past. Viewed as a basic financial plan of the country, the budget makes it possible to determine and outline the problems of individual economic subjects (financial institutions, commercial enterprises, households) as well as the problems at macro level.

The above-shown basic characteristics of budget emphasize its role of a reference point regarding the future dynamics of important macroeconomic indicators, incl. unemployment, price level dynamics, rate of economic growth, fluctuations of currency rates, tax burden. Exactly in that sense the budget and budget policy perform informational impact on the behaviour of private sector structures. Logically the restrictive budget (oriented to achieving budget equilibrium or surplus under conditions of recession) is a clear signal for unfavourable economic environment, for lack of positive prospects and it predictably results in reducing the activity of private subjects. In contrast – a budget, oriented to maintaining a reasonable deficit and not risking the financial stability, under conditions of recession ensures conditions for future recovery and aids the improvement of business climate and the expectations of private subjects. Therefore, budget management is an important and responsible process.

Budget is an important document for ensuring transparency, accounting and thoroughness as regards the economic intentions and activities of the state power. From these positions the studied financial document stands out as an instrument for imposing the principles of *good management (good budget practice) in public sector*. To give thorough information about the intentions and activities of the public power is of primary importance for adequate management. By giving detailed description of the proposals for expenses the budget lets the Parliament and society (incl. private sector structures) set the amount and trends of spending public resources. The detailed information about the revenue part of the analyzed financial document, on its part, provides data about sources of funds. Therefore, budget is directly related to guaranteeing transparency of governmental management. Another essential issue concerns the accounting in

**ПРОБЛЕМЫ И ПЕРСПЕКТИВЫ РАЗВИТИЯ СОТРУДНИЧЕСТВА МЕЖДУ СТРАНАМИ ЮГО-ВОСТОЧНОЙ ЕВРОПЫ В  
РАМКАХ ЧЕРНОМОРСКОГО ЭКОНОМИЧЕСКОГО СОТРУДНИЧЕСТВА И ГУАМ**

the activities of public power. The key moment here is connected with the presence of an active civil society, which in cooperation with business-sector has to exercise active and responsible control over the budget proceeds and expenses.

Transparency, accounting and thoroughness of state budget exert strong disciplining effect on the activities of private sector subjects.

The impact of good government management should also be analyzed in another direction. A specific aspect of budget influence on production structures affects administrative and bureaucratic procedures domineering in the budget practice of the respective country. Here, in particular, we should bear in mind factors like the time necessary for paying taxes, stability of tax legislation, explicitness and clarity of normative regulations, etc. These aspects of good management are assertively of paramount importance under the Bulgarian conditions.

The necessity of reform in the above-shown spheres can easily be illustrated with an analysis of data presented in table №1. The information regarding time necessary to pay taxes puts Bulgaria in the 157th place in the ranking prepared by the World Bank and clearly shows that additional efforts are needed to reduce the administrative burden. The table shows that efforts should be directed to reforming labour taxation and facilitating the payment of the so-called other taxes (incl. VAT and excises)

**Table №1**

**Time necessary to pay taxes (hours - 2008)**

Country	Position	Total	Profit tax	Labour taxes	Other taxes
Ireland	10	76	10	36	30
Estonia	21	104	20	36	48
Germany	24	105	30	35	40
Great Britain	24	105	35	45	25
Sweden	36	122	50	36	36
France	37	128	24	80	24
Denmark	42	135	25	70	40
Belgium	53	160	24	40	96
Lithuania	55	162	28	76	58
Poland	59	175	50	100	25
Rumania	66	198	42	96	60
Greece	68	204	12	48	144
Netherlands	90	250	40	150	60
Finland	94	264	16	200	48
Austria	104	272	80	96	96
Slovenia	104	272	80	96	96
Hungary	115	304	16	192	96
Latvia	119	320	32	192	96
Portugal	122	328	40	192	96
Slovakia	124	344	80	120	144
Italy	128	360	24	320	16
Spain	155	602	26	288	288
<b>Bulgaria</b>	<b>157</b>	<b>616</b>	<b>40</b>	<b>288</b>	<b>288</b>
Czech	164	930	150	420	360

**Source:** World Bank, Pricewaterhouse Coopers, Paying Taxes Database.

The recommended steps, which can simplify tax administration and thus increase the quality of government management, can be summarized in three main directions, namely:

- Simplifying the tax laws – eliminating tax exceptions and preferences;
- Reducing the number of taxes payable by individuals and expanding tax base;
- Specifying the controversial and ambiguous texts in the normative regulation and making them clear and explicit.

**2. Tax policy as form of budget impact**

It has already been explained above that budget impact on private sector subjects can be viewed in three directions – informational impact, influence of good public management and role of the specific budget parameters. The third aspect of the analyzed problem deserves special attention. The *influence of specific budget parameters* reflects the changes in private subjects' behaviour as a result of factors like common nominal amount of expenditures in public sector, relative share of government expenditures towards the

GDP of the country, structure of budget expenditures, total nominal amount of revenues in the public sector, structure of budget revenues, amount of budget deficit/surplus and country's tax system<sup>1</sup>.

Under the conditions of economic crisis the government tax policy is of paramount importance. It is a primary document, through which the state performs redistribution of incomes and impacts on resource allocation in national economy and on economic environment characteristics. As an element of fiscal policy, tax policy is an important lever for encouraging investment activity and economic growth<sup>2</sup>.

In specialized literature the role of tax policy is usually connected with changes in tax rates. They have influence at macro-level and at individual economic subjects level. At *macro-level* the tax rates influence simultaneously investments, employment and budget balance. The lower rates are supposed to result in reduction of revenues in budget and thus to lead to an increase in budget deficit and state debt. Of course, the effect of changes in tax burden at macro-level can also be viewed from an alternative point of view. From the positions of conservative economic thought there could be speculations that the reduced profit tax rate reducing the relative share of "grey" sector enterprises increases budget revenues. From the same positions it could be claimed that lower labour taxation results in an increased offer of labour and hence – an increase in revenues from personal income tax.

At *micro-level* taxes fix the disposable income of economic subjects (corporations and households) and influence directly their behaviour. The high levels of taxation decrease the returns rate from corporate investments, the economic activity and the number of job vacancies. Here we must point that tax policy is one of the factors influencing the business development and households welfare<sup>3</sup> as well as economic subjects migration. Logically, labour resources and corporate capitals are directed to countries with lower income and turnover taxes. This problem is a serious challenge to the EU member-states. "Economic integration and increasing mobility of production factors and particularly of capitals facilitate the relocation of tax bases and taxes are one of the elements determining the choice".<sup>4</sup>

The changes in tax legislation of EU countries over the period 2001-2007 show that the lower rates have undoubtedly a positive impact on private sector and economic development. Thus, for example, with a reform of 2003 in Slovakia a unified flat tax was introduced to the amount of 19% on individuals' incomes and corporate profits. The VAT rate is also brought to 19%, inheritance tax and donation tax are abolished (in 2005 the tax on purchasing and selling real estate was also abolished). During the analyzed period the proportional taxation of incomes is introduced in other countries, incl. Rumania (2005 -15%) and Bulgaria (2007 – 10%). With the aim to increase competitiveness and attractiveness of the country for foreign investments in 2007 Lithuania and Latvia reduced the amount of corporate tax on profit to 15%<sup>5</sup>. The trend to tax reductions affects West European countries too – in 2007 Germany decided to reduce the tax rate of corporate tax from 25% to 15%. At the same time opportunity is given to small and medium-sized enterprises to levy a reduced tax rate on reinvested profit<sup>6</sup>.

The specific parameters of tax changes or the relative constancy of rates are a challenge for every government. In certain cases, incl. in the conditions of financial and/or economic crisis it is advisable for the tax system to react quickly to the changes in economic conditions. Although it is principally logical, the drawn conclusion is incorrect in two aspects. *First*, the frequent changes in legislation reduce the possibilities for planning the investment activity (of financial institutions and commercial enterprises) and at the same time they affect the choice between work and free time and the choice between consumption and saving (of

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<sup>1</sup> The analyzed problem is narrowly connected with the more general issue regarding state interference in the conditions of market economy. A thorough analysis of the factors determining the interference of public power is made by V. Tanzi. Ref. Tanzi, V., The Changing Role of the State in the Economy: A Historical Perspective, IMF Working Paper, No. 97/114, 1997.

<sup>2</sup> It should be noted that tax policy efficiency is high when certain basic prerequisites are present, incl. macroeconomic stability, confidence in the private sector and private property protection, control on governmental expenditures and control on public debt, adequate legislation, etc.

<sup>3</sup> Dimitrova, T., Personal finance – instrument for households welfare management. // Journal of Business management (ISSN 0861-6604), 4/2009, Svishtov, D. A. Tsenov Academy of economics, p. 66-67

<sup>4</sup> Carone, G., G. Nicodème, J. H. Schmidt, Tax revenues in the European Union: Recent trends and challenges ahead, European Economy Economic Papers, №280, May 2007, p.2.

<sup>5</sup> For more details on the impact of proportional income taxation on economic activity refer to Mitchell, D., The Global Flat Tax Revolution: Lessons for Policy Makers, Prosperitas, Vol. VIII, Issue I, February 2008.

<sup>6</sup> The analysis of corporate taxation of profit in EU countries before the global economic and financial crisis shows that the average tax amount for the old member-states is 29,6%, whereas for the new ones it is 9% lower. The highest profit taxation is applied in Italy, Spain and Malta, and the lowest – in Cyprus, Ireland, Latvia, Lithuania and Bulgaria.

households)<sup>1</sup>. In this case the government finds it difficult to calculate the expected benefits and possible negatives of the undertaken tax changes. *Second*, a significant problem is the time lag of impact of tax policy on the real sector, as well as the concrete choice of taxes, which are to be reduced (the choice of percentage reduction of the respective rate is no less controversial). The problems outlined become particularly acute in EU after 2007.

The changes in tax policy of the EU member-states under the conditions of a global economic and financial crisis (2008-2009)<sup>2</sup> are directed mainly to increasing the burden of indirect taxation and especially of excises. Thus, for example, in Lithuania, Latvia, Rumania, Slovenia, Finland and Ireland there is a tendency towards increasing the excise of oil, alcohol and cigarettes. Hungary, Lithuania and Ireland increase the VAT tax rate in order to compensate the reduction of direct taxes returns. The revenues in the national budgets of the EU member-states rise as a result of reducing the differentiated tax amounts for foodstuffs and construction, too.

In the conditions of economic and financial crisis stimulating the businesses and investments becomes particularly topical. The analysis of corporate income taxation in EU after 2007 shows that tax amounts are not changed and businesses get preferences in the form of amortization conditions reliefs (Austria, Netherlands, Czech Republic), reprieve in the time of advance corporate tax (Ireland, Italy, Portugal), relief of investments in spheres of priority for the relevant country, reduction of the period for paying off a tax credit (Iceland, Belgium, Poland).

The short analysis of the influence of tax changes on the private sector structures and the practical measures undertaken by the EU member-states in the period 2001-2009 argues the significance of tax policy in its quality of an instrument for anti-cyclic impact.

### **3. Tax system and tax policy of Republic of Bulgaria**

The drawn theoretical arguments, regarding the impact of tax policy on private sector have to be analyzed from the positions of Bulgarian practice. Table №2 presents specific data about the amount of tax proceeds in the central budget and makes it possible to draw the main characteristics of Bulgaria's tax system. The basic peculiarities can be summarized in a few points:

*First*, the total sum of tax proceeds constantly increases in the period 2001-2008. The trend is reverse in 2009 when the revenues in the central and local budgets fall by 1 874.4 million BGN compared to the previous 2008. The nominal increase in tax revenues in the time period 2001-2008 finds its explanation in the operation of a number of factors. Here, it is worth mentioning the favourable macroeconomic conjecture (stable economic growth rates, increasing employment and incomes) and the improved gathering of revenues. The drop in tax proceeds by 11.2% for 2009 compared to 2008 logically reflects the negative impact of the world economic crisis on Bulgarian economy.

*Second*, the indirect taxes (taxes on consumption) form the main part of budget revenues. In 2001 they account for 60.5% of the proceeds in the central and local budgets; in 2005 -73%, in 2009 г. – 69.8%.<sup>3</sup> VAT is of primary fiscal importance in the structure of taxes on consumption. The revenues from this source make up 65.3% of all proceeds from indirect taxes in 2001 and 61.9% of proceeds from indirect taxes in 2009. Another fact is worth mentioning – the total nominal amount of proceeds from indirect taxes tends to increase in the period up to 2008. Factors reasoning this dynamics are the growth of consumer demand and import (a direct consequence of increasing households' disposable income and credit expansion), the gradual increase of excise rates and comparatively high rates of increase in price level during the period. In 2009 there is a reverse trend – the proceeds from indirect taxes fall by 1 359.3 million BGN compared to 2008 as a result of the sharp drop of import and internal demand.

*Third*, the income taxes (corporate tax and personal income tax) account for 34.8% of the proceeds in the central and local budgets in 2001. Their fiscal burden falls over the next years. Thus, for example, in 2005 the taxes discussed form 22.1% of the budget proceeds at central and local level and in 2009 – 23.9%.

<sup>1</sup> The issue regarding the deforming Impact of taxation on labour market is of great significance and is an object of a number of studies Within the EU the problem is discussed in Carone, G. and Salomaki, A., Reforms in tax-benefit systems in order to increase employment incentives in the EU, Economic Paper, No. 160, European Commission, 2001.

<sup>2</sup> Ref. European Commission Taxation Trends in the European Union. Brussels, 2009, p. 13-19

<sup>3</sup> Most budget systems in the world rely on three main sources of revenues – direct income taxes, indirect taxes and proceeds from social insurance payments. The EU practice, incl. in R Bulgaria, however, prefer to tax consumption (because VAT is used as a source of revenue) to a greater extent than in other developed countries. For more details refer to: OECD, Tax and the Economy: a comparative assessment of OECD Countries, Paris, 2001.

**Structure of main tax revenue in Bulgaria's central budget for the period 2001 – 2009 (million BGN)**

Taxes	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>I. Corporate tax</b>	<b>1 150,3</b>	<b>975,8</b>	<b>1 085,2</b>	<b>972,8</b>	<b>1 028,4</b>	<b>1 334,1</b>	<b>1 832,6</b>	<b>2 059,7</b>	<b>1 617,4</b>
1. from non-financial enterprises	811,6	871,3	952,3	853,5	901,0	1 181,4	1 658,4	1 868,7	1458,4
2. from financial institutions	338,7	104,5	132,9	119,3	127,4	152,7	174,2	191,0	159,0
<b>II. Tax on personal incomes in labour and non-labour relationships</b>	<b>1 012,1</b>	<b>995,7</b>	<b>1 084,6</b>	<b>1 195,7</b>	<b>1198,5</b>	<b>1 274,6</b>	<b>1 706,3</b>	<b>1 860,9</b>	<b>1 938,2</b>
1. in labour relationships	870,6	813,7	929,1	1 001,2	964,2	1 000,3	1 402,5	1 556,2	1 687,5
2. in non-labour relationships	141,5	182,0	155,5	194,5	234,3	274,3	303,8	304,7	250,7
<b>III. Indirect taxes</b>	<b>3756, 6</b>	<b>4 190,2</b>	<b>4 876,0</b>	<b>6 068,6</b>	<b>7 357,5</b>	<b>8 776,3</b>	<b>10 106,9</b>	<b>11 757,9</b>	<b>10 398,6</b>
1. VAT	2 454,4	2 688,0	3 100,8	3 891,3	4 798,0	5 823,8	6 598,5	7 485,3	6 432,5
1.1 from the country	244,6	282,5	301,5	378,3	234,1	-151,9	3 086,9	3 452,7	4 048,7
1.2 from export	2 209,8	2 405,5	2 799,3	3 513,0	4 563,9	5 975,6	3 511,6	4 032,6	2 383,8
2. Excises	1 106,8	1 313,8	1 543,9	1 884,8	2 187,8	2 498	3 315,4	4 051,6	3 844,5
3. Duties	195, 4	188,4	231,3	292,5	371,7	454,5	193,0	221,0	121,6
<b>IV. Total tax revenues in the central and local budgets</b>	<b>6 205,6</b>	<b>6 521,9</b>	<b>7 460,5</b>	<b>8 698,3</b>	<b>10 074,3</b>	<b>12 016,9</b>	<b>14 433,4</b>	<b>16 775,1</b>	<b>14 897,7</b>

Source: MF of Republic of Bulgaria

**Note:** the table presents specific information about the main (not all) direct income taxes. Three moments are to be borne in mind: 1) for 2007 and 2008 there are no data about the so-called revenues by the Tax Law on Personal Income Taxes; 2) for the whole research period there are no data about the so-called other taxes by the Law on Corporate Taxation and data about tax proceeds of municipalities. In spite of the above-shown and with the aim to exhaust the analysis they are included in the article general tax revenue in the central and local budgets; 3) the data for 2009 are not final.

The change of tax rates of income taxes over the last years does not indicate proportional dependence between their amount and the absolute quantity of budget revenues. The arguments for the above thesis find confirmation in two directions:

- The amount of tax on profit in R Bulgaria falls from 23.5% (2003) to 19.5% (2004), 15% (2005 and 2006) and 10% (2007-2009). In spite of that the proceeds from the discussed tax rise for the period 2004 – 2008. The lower proceeds in 2009 are not directly related to the government's discretionary fiscal policy;
- The maximal amount with which personal incomes are taxed decreases from 29% (2002-2004) to 24% (2005 and 2006). The personal income tax for 2007 is 10%. At the same time the revenues of the analyzed tax increase, incl. in 2009 under the conditions of an economic drop (Table №2)

The conclusion is that under the specific conditions of Bulgarian practice the low rates of income taxes lead to improvement of business environment, increase of investment activity, growth of incomes and shrinkage of grey economy. However, the possibilities for impact on unfavourable effects of the world economic crisis through additional reductions in the amounts of income taxes are exhausted. In this relation the lack of changes in the income tax rates in 2010 has to be assessed positively. The grave budget problems

of public power at the end of 2009 and the beginning of 2010 (budget deficit, unpaid expenditures, shrinking incomes) do not allow reduction of indirect taxes. Nevertheless, the increase in excise rates (from the beginning of 2010) and the government's intentions to raise the VAT are inappropriate. Such a policy regarding direct taxes, additionally depressing consumer demand, protects solely the fiscal interest of public power and creates conditions for deepening the economic drop. The conclusion again is that, on one hand, efforts should be directed to improving the tax management and specifying the controversial and ambiguous texts in normative regulations. On the other hand, the budget problems of the central power have to be solved in priority through reducing ineffective government expenditures and starting reforms in spheres like healthcare, education and social security.

In conclusion, it must be strongly emphasized that the global economic and financial crisis, spreading in all spheres of social and economic life, results on the parameters of the main financial plan of every country. Tax policy is one of the instruments which influence the income part of the budget as well as the disposable income of production structures. The tax policy reform under the conditions of crisis requires the creation of a stable economic environment, efficient tax control, strict discipline and improvement of the work of tax administration.

## SUMMARY

Attention should be directed to improving the work of tax administration, to specifying controversial and ambiguous texts in the normative regulations like reducing ineffective government expenses and restructuring of spheres like healthcare, education and social security, under which the stable economic environment, effective tax control and strict financial discipline acquire priority importance as necessary prerequisites for a successful reform of Bulgaria's tax policy.

**Keywords:** budget, budget impacts, tax policy, tax rates.

## РЕЗЮМЕ

Внимание должно быть направлено на улучшение работы налогового ведомства, на определение спорных и неоднозначных текстов в нормативных инструкциях, как сокращение неэффективных правительственных расходов и реструктурирование сфер таких, как здравоохранение, образование и социальное обеспечение, под которым устойчивая экономическая обстановка, эффективный налоговый контроль и строгая финансовая дисциплина приобретают приоритетную важность по мере необходимости предпосылки для успешной реформы налоговой политики Болгарии.

**Ключевые слова:** бюджет, воздействия бюджета, налоговая политика, налоговые ставки.

## РЕЗЮМЕ

Увага повинна бути спрямована на поліпшення роботи податкового відомства, на визначення спірних і неоднозначних текстів у нормативних інструкціях, як скорочення неефективних урядових витрат і реструктурування сфер таких, як охорона здоров'я, освіта та соціальне забезпечення, під яким стійка економічна обстановка, ефективний податковий контроль і суворі фінансова дисципліна здобувають пріоритетну важливість у міру необхідності передумови для успішної реформи податкової політики Болгарії.

**Ключові слова:** бюджет, впливи бюджету, податкова політика, податкові ставки.

## DAMAGE AS AN ELEMENT OF EUROPEAN COMPETITION LAW

**Radenkovic-Jocić D.**, PhD, full professor, Faculty of Economics, Nis, Serbia

**Marjanovic M.**, PhD student, Faculty of Economics, Nis, Serbia

1. **INTRODUCTION.** Market can produce the harm. Usually, the producer of the harm is cartels, mergers, as well as joint ventures. Generally speaking, the main harm arising from hardcore cartels is that parties further down the supply chain pay more for the product than they do in a non-cartelized market. Several damages claims in relation to exclusionary conduct have been made in courts across Europe, in both follow-on and stand-alone actions. Existing participants may be prevented from competing. Potential competitors may be prevented from entering the market. Buyers in the market would be harmed by exclusionary conduct if the reduction in competition leads to higher prices, a reduction in choice, or a reduction in quality. Generally speaking, economy policies have been often faced to different co-operations among the companies. For example, any merger, acquisition, joint venture or setting up the cartel constitutes a concentration. It means that mentioned shapes could produce the problems. This is the reason why European Commission insists these subjects have to be subject of control review of the competition authority.