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The Bulgarian Labour Market in 2003

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LABOUR MARKET IN BULGARIA IN 2003

Social, political and economic climate in 2003

Bulgaria is still in the process of transition to a market economy after 45 years as a socialist economy. Since the onset of reforms in 1989 Bulgarian society has undergone profound political, economic and social changes. After years of deep economic crisis, relative macro-economic stability was achieved due to the introduction of a Currency Board in 1997¹. Nevertheless, a number of acute economic and social problems remain unresolved, and this along with the political instability has had a negative impact on labour-market developments. The government keeps applying a firm policy on income and public spending using the Currency Board and pressure from the International Monetary Fund (IMF) and the World Bank as both an excuse and a threat.

An additional harmful factor is the existence of a **foreign debt** (approximately 10 billions USD, 11.8 billions USD as of August 2003), which is significant for the size of the country, inherited from the socialist period and increased as a result of inefficient government in the transitional years. The standby agreements with the IMF on one hand facilitate management of the foreign debt but on the other hand have also had a strong restrictive influence on the internal budget policy, and in practice has made all governments of the country highly dependent on the IMF and the World Bank.

The economic growth reported in recent years (over 4%) has not lead to the creation of new jobs or higher incomes. The real wage level continued to be half what it was in the beginning of the transition period. The trend of having irregular and delayed payment of wages in many enterprises continues, with the result that a substantial army of “working poor” has been created.

The macroeconomic stability achieved in recent years has been preserved in 2003 based mainly on the restrictions imposed by the Currency Board. The gross domestic product continued to grow in real terms (4.3% in the third quarter of 2003), but the data indicate that this is a result of the low starting point rather than a dynamically developing modern economy that provides conditions for a high standard of living.

¹ In essence the Currency Board is a system that does not allow the Central Bank to implement its own, independent fiscal and money supply policy. The implementation of these restrictions is based on two main principles: the foreign exchange rate is fixed to one of the international currencies (in Bulgaria – as at the date of introduction on 1 July 1997 to the Deutsch Mark, 1 BGL = 1 DM, and in the beginning of 2002 to the Euro, 1 BGL = 0.51129 EUR); the amount of money in circulation cannot exceed the amount of the fiscal reserve, which serves as an anti-inflationary measure.

Gross domestic product – 2002-2003

	2002	2003 (first 9 months)
GDP- growth as compared to the preceding year -%	4.0	4.2 ¹
GDP –million BGN	32 324	24 861
GDP – in million Euro	16 576	12 749
GDP per head – in BGN	4 108	3 160
GDP per head – in Euro	2 100	1 616
GDP in PPP per head of the population (EU-15 = 100)	24.75	24.70 ²

Source: National Statistical Institute, Eurostat, and BNB, 2002, 2003

1.As compared to the same period of 2002; 2. Data for third quarter (Q3)

The Bulgarian GDP per capita is the lowest among the acceding and accession countries representing ¼ of the average for the EU, measured in PPP.

Indices of the real GDP per capita (PPP), EU=100

	1999	2000	2001	2002
Bulgaria	24	24	26	26
Cyprus	74	76	78	76
Lithuania	34	35	37	39
Malta	71	71	70	69
Poland	41	41	41	41
Slovakia	43	44	45	47
Slovenia	67	66	68	69
Hungary	48	49	51	53
Czech Republic	.	60	61	62

Source: EUROSTAT, revised results, 2002 – preliminary data

The galloping inflation, which was typical for the period of transition and in certain periods reached hyperinflationary values (January – March 1997), was contained and conditions were established for a lasting and relatively high economic growth rate. The consumer price index in the last four years has varied between 2 and 10% with an increase in the prices mainly in non-food products and especially in services.

Average yearly consumer price indexes (previous year = 100.0)

Commodity groups	1999	2000	2001	2002	2003
Total	2.6	10.3	7.4	5.8	2.3
Food	-7.5	10.1	6.3	0.0	n.a.
Non-food	3.3	6.7	6.7	11.0	n.a.
Services	25.8	15.4	9.9	11.0	n.a.

Source: _Statistical Yearbook 2003, NSI

The years of transition are characterized by significant **political instability** and permanent changes of the governments. Over a period of 13 years, 9 governments have changed from all over the political spectrum. 2003 is not an exception. The Government failed to implement the priorities of society and to solve the main problems

of the ordinary people. The present political setting is characterized by an unprecedented lack of trust in the ruling political party, the National Movement Simeon the Second (NMSS). From more than 50% support in the parliamentary elections two years ago, the movement of the former monarch of Bulgaria now relies on no more than 6% of the voters as the local elections in November showed. However, we are currently witnessing a dramatically low extent of trust in the political parties and the political elite in general.

Labour market developments

Employment

One of the most characteristic features of the transition from a planned to a market economy in Central and Eastern European countries (CEEC) is the **reduction of employment**, the appearance of unemployment, and the high rate of unemployment in some of the countries in transition. This is especially true for Bulgaria, where the number of the employed has been reduced with more than one-third from the beginning of the transition.

The male economic activity rate for men (53.7%) continues to be higher by 9-10 percentage points than it is for women (43.6%). Comparisons with other EU-candidate-countries show that in Bulgaria the economic activity of the population, especially male is still lowest. As compared to 1990, the decrease in the labor force is about 20%, with the activity rate down by more than 10%.

In evaluating the labor market demand in the period of transition one should note the trend of continuous decline of employment with the number of employed dropping by 1.2 million down to 2 825 thousand in the fourth quarter of 2003 (2704.4 thousand in December 2002). Though the employment rate showed some increase, it is still rather low – 42.3%. Male employment rate (46.8%) continued to be higher than the female rate of 38.2%. For the first time in recent years, the Labor Force Survey (LFS) in 2003 has registered some increase of the number of employed.

The privatization process and structural reforms were accelerated significantly in 1997. For a period of 4-5 years, the structure of employment and economic entities have undergone radical changes. Approximately 75% of the people employed were in the private sector², the latter producing 64.1% of the GDP and 72.8% of the Gross Value Added.

However, the privatization does not ensure the necessary dynamics for economic development and employment growth. Against a backdrop of overall declines in employment in the period 1990-2003, employment in industry decreased (from 44.8% to 27.9%), while employment in services and agriculture increased (from 36.8% to 46.5% and from 18.4% to 25.6%, respectively). In comparative terms, the distribution of employment between sectors differs relative to that of EU countries.

² In 1990, employment in the public sector represented almost 100%.

Labor force, employed and unemployed by sex ³

	Labor force (thousands)			Activity rate -%	Employment rate-%	Unemployment rate*-%
	Total	Employed	Unemployed			
Total						
2002 - Dec.	3 248,6	2 704,2	544,2	48.4	40.3	16.8
2003 – Q4	3 237,1	2 825,6	414,4	48.5	42.3	12.7
Male						
2002- Dec.	1 722.6	1 419.7	302.8	53.2	43.9	17.6
2003– Q4	1 720.9	1 497.7	223.2	53.7	46.8	13.0
Female						
2002- Dec.	1 526.0	1 284.7	241.4	43.9	37.0	15.8
2003– Q4	1 516.2	1 327.9	188.3	43.6	38.2	12.4

Source: Employment and unemployment. Labor Force Survey, NSI, December 2002 and 2/2003

* Because of revising the definition of unemployment according to the EUROSTAT requirements the data for 2003 are not comparable with the data series of previous years

Another particularity of the Bulgarian labor market in the transition is the increase of the **hidden employment or employment in the “shadow” economy, which represents** by some estimates more than 30-40% of total employment. Estimates at present vary significantly as to where the boundaries have to be drawn. The main conclusion of the Survey of the Institute for Market Economy is that one third of all employed people are engaged in either the black (fully concealed) or the grey (partly hidden) sector of the economy. At the same time, one-in-ten employed persons received additional remuneration from employer, which both sides conceal.⁴ Some studies show that the level of shadow employment is higher in the private sector in agriculture, construction, retail trade and services. Although the hidden employment to a certain extent reduces the tensions in the labor market, the social consequences and the violation of the rights of the people employed in it, concerning the security of employment and remuneration, the social protection for risks and the social security, are considerable.

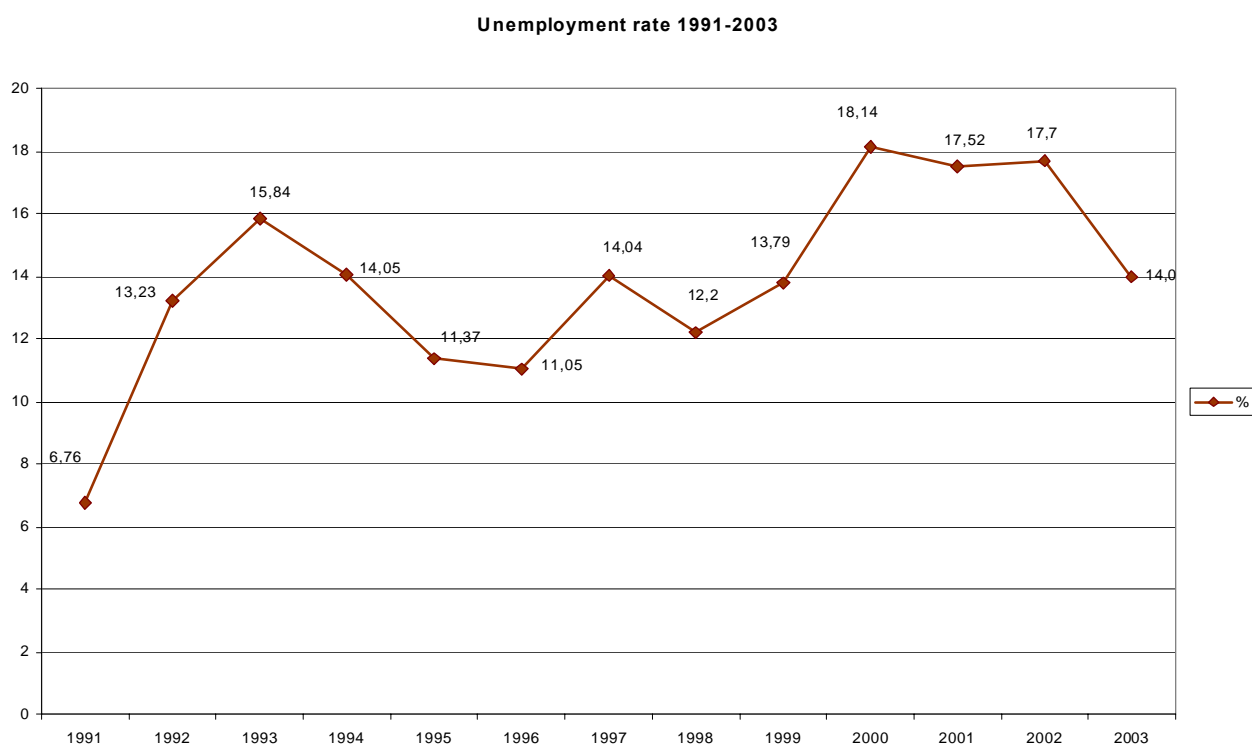
Unemployment

This very same period witnessed a sharp increase in the level of unemployment. From 12.2% in 1998, unemployment grew, in certain months in the period 2000-2003, to exceeded 19%. Regardless of some improvement in 2003, the labor market in Bulgaria is still defined by unfavorable trends, featuring high unemployment combined with low employment.

³ Following Eurostat guidelines, from the beginning of 2003 some changes in the methodology and the periodicity of the LFS have been implemented. As a result, some of the data are not comparable before and after the change in methodology.

⁴ Y. Hristoskov, G. Shopov, I.Beleva. Non-institutionalized employment and unemployment and self-employment, Sofia, Institute for Market Economy, unpublished (in Bulgarian), p.16

According to data from the Employment Agency, the average level of unemployment in 2003 was 14% for registered unemployed, but we should also keep in mind that there has not been a significant increase in the employment rate. To some extent this is a consequence of maintaining a steady group of approximately 450 thousand workers too discouraged to seek work (which is nearly equal to the number of the registered unemployed), which indicates that there is significant “hidden unemployment”.



Source: National employment office, various years

Despite the labor-market successes reported by the government, which are largely due to temporary work programs in social activities, a number of challenges still remain.

More than half of the registered unemployed are women, about one-third of all registered unemployed are youths, long-term unemployed account for more than 50% of all unemployed, over 40% of the unemployed have been registered for more than 2 years, and over 60% have low skills and a low level of education.

The formation of a significant group of **long-term unemployed** (those unemployed for more than 1 year), leads to loss of skills and brings serious social problems. Their percentage has almost doubled in the past two years to reach more than 50% of all registered unemployed in 2003. About 62.7% of the long-term unemployed have been in unemployment for more than 2 years. More than two-thirds of them have primary and lower education (especially those unemployed for two and more years). Coupled with

the erosion of their skills, this makes their integration on the labor market particularly difficult.

The dispersion of unemployment rates across regions is increasing. Across the nation's six regions, the unemployment rate varied from 12% in the Southwest to 28% in the Northwest. In some municipalities the unemployment rate exceeds 50%. The above mentioned parameters of unemployment have led to the intensification of the social exclusion processes, low living standards and impoverishment for Bulgarian households, and posed serious challenges to the national social protection system.

The active measures on the labor market are basically short-term in orientation and do not affect current problems. There are not clear national/regional/branch priorities with respect to where alternative employment will come from in order to alleviate enterprise closure and liquidation, and what the future of the Bulgarian economy will be in the context of EU accession. Job creation on the primary market is not sufficient. Temporary work as socially protected employment (or non-market worker demand) in prospect should not obstruct the development of other economically viable structures. The experience of the economically developed countries shows that the need for such programs diminishes as economic activity grows.

The situation on the labor market will remain difficult for the next 10 years to come, even after the eventual accession to the EU in 2007. That is related both to the serious demographic situation in the country, which will continue to deteriorate, and the imbalances of labor demand and supply, which will hardly be overcome in the mid-term perspective. Several typical features of Bulgarian demographics include a low birth rate, a negative natural growth, a growing retirement-age population, and net emigration of young people.

Pay Rises in Basic Rates and Average Earnings in 2003

The data indicate a growing income differentiation in society. Only 5% of the people live at the top of the pyramid and have a high standard of living. Over 65% of the pensioners receive pension lower or equal to 100 leva (about 50 Euro) per month and a substantial "army of working poor" has been created. The trend of irregular and delayed payments of wages in many enterprises is continuing in 2003.

The effective national incomes policy failed to curb the decline in the real value of earned incomes through the transition years or to provide progressive wage increases in proportion to the achieved financial and economic results. The rise of wages at enterprises with state **and municipal ownership** was limited by regulatory mechanisms concerning debt, financial outcomes and labour productivity.

The minimum wage in the country was 110 leva (56 EURO) per month. At a nominal rate of 10%, **real growth in 2003 was 7.5%, compared to 8.6% in 2002.** That nominal minimum wage growth was quite insufficient to make up for the loss of nearly 45% of the value of the minimum wage in 1990.

According to preliminary data, the average monthly wage for 2003 was 284 leva (146 EURO) up 10.1% in nominal terms or 7.6% in real terms from 2002. Wages in the public sector are generally higher than they are in the private sector, on average, by about 38%. The only exceptions are the sectors of education and financial intermediation where private salaries were considerably higher than those in the public sector – by 36% and 11% respectively. The pattern of lower wages in the private sector than in the public sector continued in 2003, but, in contrast to previous years, nominal and real wage growth was higher in the private sector than it was in public sector. The higher private-sector growth was largely due to the introduction of minimum social thresholds and minimum wages by branches at the beginning of 2003.

Nominal and real average monthly wage

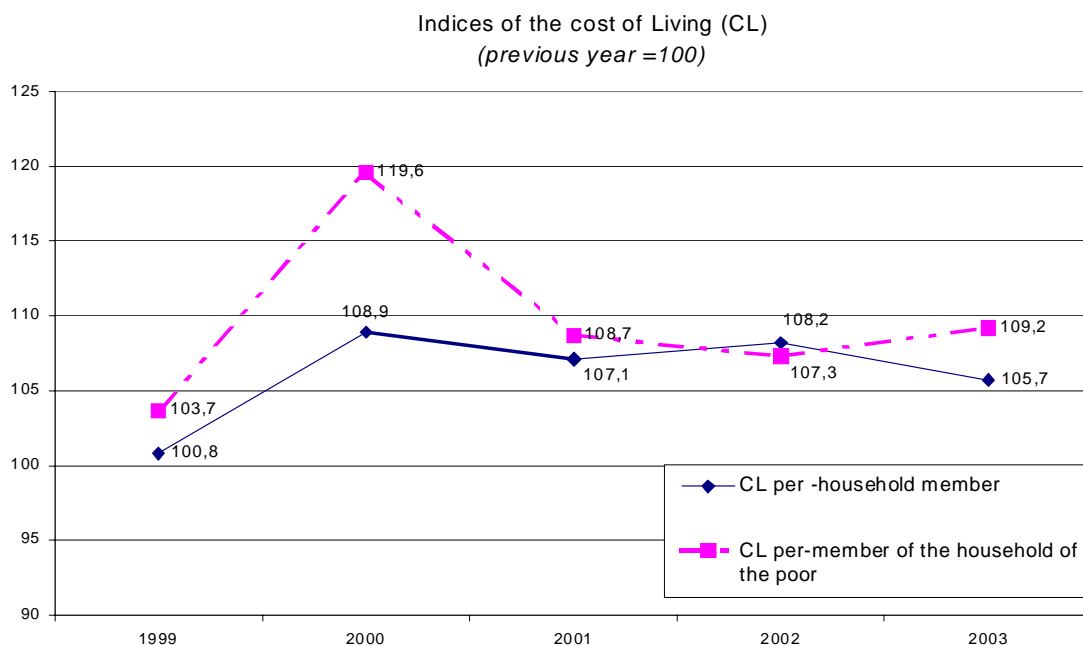
	2002	2003 *
<i>Nominal wage in BGN</i>		
<i>Minimum wage</i>	100	110
<i>Average wage</i>	258	284
<i>Public sector</i>	323	343
<i>Private sector</i>	218	248
<i>Ratio - %</i>		
<i>MW as % of AW</i>	38,7	38,7
<i>Indices, the same period of previous year =100</i>		
<i>Minimum wage</i>	114,9	110,0
<i>Average wage</i>	107,5	110,1
<i>Public sector</i>	111,0	106,2
<i>Private sector</i>	106,9	113,8
<i>Real wage</i>		
<i>Minimum wage</i>	108,6	107,5
<i>Average wage</i>	101,6	107,6
<i>Public sector</i>	104,9	103,8
<i>Private sector</i>	101,0	111,2
<i>Inflation rise – National index, previous year =100</i>		
	105,8	102,3

Source: NSI, own calculations * Preliminary data

The trend of strong **wage differentiation between the individual sectors of the economy** and occupational categories also continued last year. In 2003, the ratio between highest and lowest wages was 3.5:1. Remuneration was lowest for the employees in the sector of Hotels and restaurants (95 EURO) and highest in the sector of Financial intermediation (332 EURO). Wages in the enterprises of the mining industry continue to be higher than the average level for the country by about 51%. In some monopoly sectors (energy, transport and communications) pay is also higher than the average for the country. Thus in the sector of energy it is nearly 79% over the average level.

The Gini coefficient,⁵ which measures the income inequality of households, was 0.360 in 1995 and declined to 0.317 in 2001. During 2002, income inequality rose, returning to the level obtained in 1997. At the same time, the ratio of incomes of the richest 10% to the poorest 10% of households showed a tendency similar to that of the Gini coefficient: in 1995 it was 11.9 times, in 1998 it is 9.3, rising to 10.5 in 2002. One can conclude that after some decrease in inequality in the period 1995-2000, since 2001 inequality has begun to rise.

ISTUR's data on the average annual **cost of living** for 2003, which is equal to 300.60 BGN per member of a four-member family, per month, show that the wages earned by Bulgarian workers are not enough to provide normal reproduction of workers and the members of the household.



Source: ISTUR quarterly Surveys on Living standards published in “Living standards”, Quarterly Information bulletin, 1999-2003 (in Bulgarian and English)

Wage differentiation between men and women also continued in 2003. In December 2003, the average wage for women was about 81% of that for men.—Over 50% of all employees in Bulgaria are women, 54% of them employed in the processing industries, education, and health. The average wages of women working in those sectors are below the national average, by about 18% in the processing industries, 5% in education, and 7% in health.

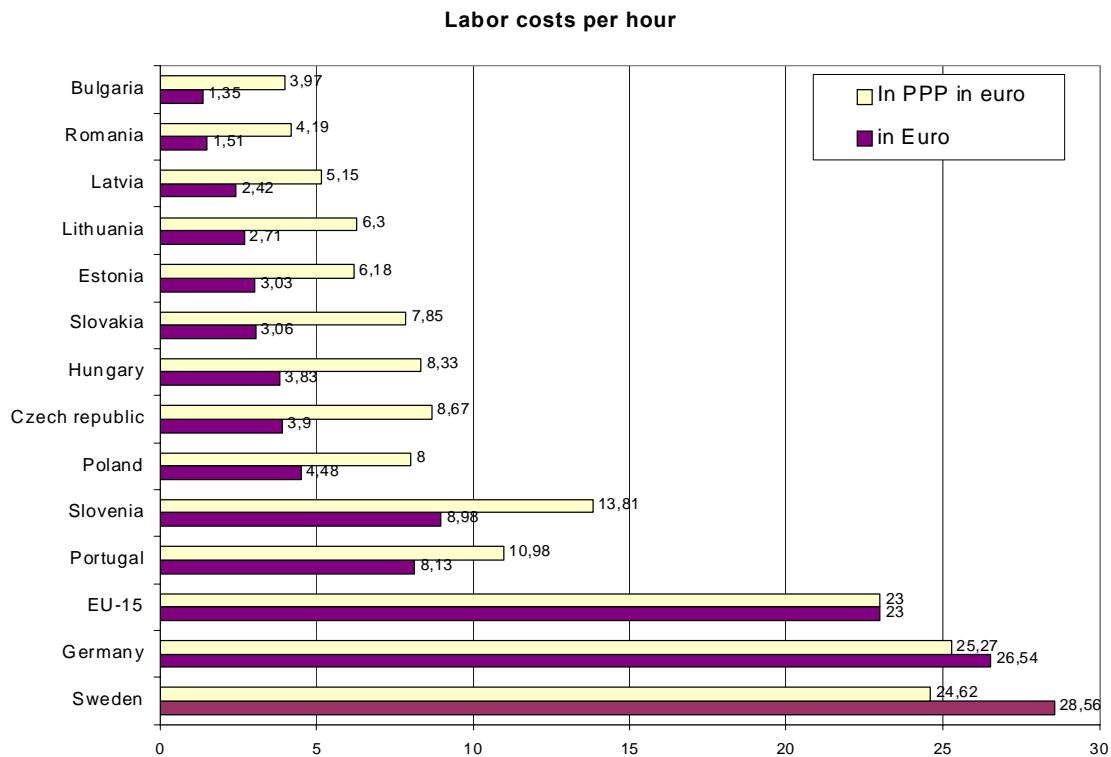
The purchasing power of wages fell in the second quarter of 2003 when the price of bread jumped 22.2% at the same time that the price of heating only (up 15.4%),

⁵ Calculated here on the basis of data for the distribution of the household members by income in decile groups and is standardized in the interval from 0 to 1.

electricity (up 24.3%), and postal services (up 17.8), and passenger railway transport (up 9.1%) all took off. Meanwhile, prices of some seasonal goods such as tomatoes, apples, fresh milk, and others fell somewhat.

On the whole **labor costs** over the period of 2000-2003 declined, due largely to the impact of transferring part of social security and health insurance contributions to the workers and employees. Under the Mandatory Social Security Code starting from 2002 the employee's social security contributions amount to 36.7% and are divided between employers and employees in the proportion of 75: 25.

The hourly labour costs amounted to 1.33 EURO in 2002 rising by 5.5% relative to 2001. For the first nine months of 2003, the hourly labour costs amounted to 1.25 euro, down 2.4% compared to the same period of 2002. The share of **compensation in Bulgarian GDP** was 34.5% in 2002, falling to 33.8% in the first nine months of 2003.



Source: EUROSTAT

There is still no established practice in the Bulgarian economy of linking **productivity and wage growth**. The trend of real wages lagging behind labor productivity in the country continues.

Nominal pay rise- %, previous year =100				Real growth of productivity	
Compensation per head		Hourly labour costs		GDP per head	
2002	2003 (first nine months)	2002	2003	2002	2003 (first nine months)
7,8 %	-2,8%	5,3%	n.a.	4%	1%

Source: NSI, own calculations

In order to increase the compliance rate of the social security contributions, a minimum social security income (MSSI) for employees was introduced early in 2003 under the State Social Security Budget Act, divided in 48 groups of economic activities and 9 qualification groups of occupations. The new laws will hopefully put an end to the widespread fraudulent practice whereby employers insure their workers on a minimum wage basis and supplement their wages in cash “under the table”. This measure was discussed and accepted by the social partners. Parallel with this new measure, the mandatory registration of the individual employment contracts at NSSI was also introduced.

The results are quite telling:

- In the first four months of the year alone, the revenues in the social security funds increased by about 120 million leva as compared with the same period in 2002;
- The average social security income rose by nearly 11% in the first three months of 2003 as compared with the same period of the previous year and for the main qualification groups of professions it is over 2 times higher than the minimum wage and the lowest MSSI respectively.
- As a result of the introduced mandatory registration of employment contracts 24 000 employers and 150 000 workers surfaced from the grey economy.

These positive results made it possible to increase the social old age pension by 7.2% instead of 6.2% as planned, starting from 1 July 2003. The higher compliance rate of the social security contributions facilitated the decision to remove the ceiling of the maximum pension of 200 leva (four times the social pension) in 2004 and starting from 1 January 2004 it was fixed at 450 leva (one third of the maximum social security income).

The introduction of MSSI will further stabilize the pension fund, but it should be explicitly underlined that the social effect of this stabilization is limited due to the low starting level of pensions in the country (the average pension is about 55 EURO per month) and the extremely unfavorable ratio of one employee supporting one pensioner.

The above-mentioned unfavorable tendencies regarding incomes and employment will continue in 2004 as well. The analysis of the 2004 Budget shows that the government is planning for a minimum wage of 120 leva, nominal growth of the average wage by 8.5% by July (real growth about 2,5-3%) and lower real pensions (since in the medium term the envisaged nominal increase by 5.8% starting from 1 June will be eaten up by inflation).

Working time developments

Following long debates between the social partners, some significant amendments were introduced in the Labour Code in 2001 concerning working time, rest and leave. The working week is five days, with up to 40 hours defined as the normal length of weekly

working time (8 hours per day). At the same time, however, an opportunity is provided both to lengthen the normal work hours and to introduce part-time work. The LFS data show that full-time work is still the prevailing form of employment in the country. That finding is valid for the formal economy at least, since no data are available for the “gray” sector. Only 3.2 % of the employed work part-time (2003) and the main reason given is the lack of enough work or inability to find another job.

The data show that there have been no substantial changes in the average length of working on a daily, weekly, monthly or yearly basis.. The relative share of part-time employees is diminishing, which is almost entirely due to the increase of the number of full time employees under MLSP’s Program “From Welfare to Employment”⁶.

Overtime has not undergone any substantial changes. It should be borne in mind however that the data on overtime presented above are official. According to expert estimates, the real amount of overtime in some parts of the private sector (for instance the textile and garment industries) many times higher, reaching up to 20-30% of normal working time. Most of this overtime is unpaid and often concealed in the form of piecework and the execution of urgent orders. The amount of paid leave varies slightly above the minimum number of 20 working days per year established by law. That is due to negotiated longer annual leaves for some staff categories in some branch/sectoral collective agreements. In total the maximum annual fund of employees’ working time (the sum of days worked and not worked for various reasons) has grown by over 27 million days due to higher employment, although no changes have set in structural terms.

Rate of Trade Union Membership and Its Evolution

On the whole, trade union membership declined significantly in the years of transition.⁷ The decline reflected several factors: high unemployment, privatization, lower trust in the trade unions, and others. From 2 191 901 people in 1993.⁸ the number of trade union members dropped to 514 957 at the end of 2003, according to data from the national census of union and employer organizations aiming to prove their representativeness.⁹ The first official census in 1998 registered 777 276 union members. According to the census in 2003 only two trade union confederations still meet the representation criteria: the Confederation of Independent Trade unions in Bulgaria (CITUB) with 390 000 members and Podkrepa CL with 109 000 members. The other trade union centers have 2 000 to 5 000 members. Though these data are not final, unionization in the country shown by them is at the rate of 22-25%.

⁶ *The programme provided subsidized full-time employment at the minimum wage for a period up to 1 year in the field of socially useful activities for about 89 thousand unemployed.*

⁷ Before the changes in 1989 the membership in trade unions in Bulgaria, although formally voluntary, was compulsory in practice and the trade union density was almost 100%.

⁸ According to data from the trade union centers as no official data are available.

⁹ The data have not been officially announced by the government and they may be subject to modifications.

Other statistical links:

National Statistical Institute: <http://www.nsi.bg>

Bulgarian National Bank: <http://www.bnb.bg>

Employment Agency: <http://www.nsz.government.bg>