"The Economic and Social Situation in Bulgaria"

Contributions from the Workers' Group

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Director of ISTUR

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Summary

Social dialogue and industrial relations in Bulgaria are conducted in a hostile environment of political instability, sluggish economic growth and low take-up of EU funds, with unpopular reforms in the offing in areas such as healthcare, education, the pension system and social assistance. There is a trend towards decentralising collective bargaining and halting the extension of sectoral collective agreements, which is gradually whittling away the number of workers covered by such agreements.

The minimum wage remains one of the cardinal tools for influencing incomes policy, but any increase is coming up against increasingly stiff resistance from employer organisations. The immediate task for the trade unions is to improve sectoral and industry dialogue and create a procedural framework for collective bargaining at the various levels.

High economic growth is not the only foundation for implementing a new incomes policy with a catch-up effect: another option is to have the State play a growing role in the distribution and redistribution of wealth. This means that the way to tackle poverty and social exclusion is not just with more and better jobs, but with fairer taxation, and solidarity and social systems that work better.

The social impact of the new economic governance and the European Semester is tangible. Restrictive policies are undermining potential ways of overcoming the economic crisis and getting a recovery in employment. The main thing that needs to be done to create a new type of growth is to stimulate consumption and investment.

The "supply economy" imposed in Bulgaria through unprecedentedly low taxes, flat-rate taxation and consistent reduction of social security contributions – all measures to help and support business – has run its course, without providing economic prosperity, adequate employment and better living standards. Instead, social division and income inequality have deepened.

There are three strategically important priority areas for trade unions:

− framing and implementing a national strategy to regenerate Bulgarian industry – with a view to creating new jobs and sustainable and high-quality quality employment;
− freezing of pension reform until an overall national strategy has been framed, with maximum social consensus, for the substance and stages of the reform;
− a new incomes policy geared to achieving catch-up growth, in line with GDP growth, an increase in household consumption, overcoming deflation and stimulating output.
1. Introduction

This study provides an overview of developments since the onset of the crisis, showing the current socio-economic situation in Bulgaria. Particular attention will be paid to the macroeconomic development parameters, the nature of the labour market, living and working conditions, industrial relations and social dialogue. The statistics used show the dynamics of socio-economic development and where Bulgaria stands within the EU based on comparative international analysis.

The country's transformation from a planned to a market economy experienced a slow-down as a result of the unstable political situation in the first years of transition and a lack of political will for large-scale and unpopular reforms. To this should be added the fall-out of the economic and financial crisis of 1996-1997, resulting in hyperinflation, an unprecedented currency depreciation and ultimately the introduction of the currency board arrangement. Belated privatisation was accompanied by deals shrouded in scandal, closure of systemically important companies, bankruptcies and mass lay-offs.

A new form of industrial relations started from zero and had to find its feet in difficult socio-economic circumstances. The absence of a social dialogue tradition and insufficiently formed social partnership institutions meant progress was initially weak, with improvised reactions to events and the partners themselves having to learn as they went along. The invitation to join the EU brought a new direction in Bulgaria's socio-economic development, with full membership in 2007 giving impetus to reforms, the restructuring of the economy and opportunities to raise the nation's standard of living.

An essential role and input in establishment of a new enterprise culture, efficient management of human resources and modern industrial relations was played by increasing interest of Western European investors after 2000 and the presence in large numbers of multinational companies through privatisation, joint ventures and greenfield investment. With preparations for Bulgaria's EU membership also came the completion of mechanisms for social dialogue at various levels.

In 2006-2008, the country's economy experienced remarkable annual growth of over 6%. At the same time, however, there were very clear signs of Bulgaria's economy overheating:

- Gross capital formation rose by almost twice as much as GDP growth, with investments mainly financing construction of sites not intended for production;
- The increase in inventories was four times greater than GDP growth and implies structural imbalances, with the loss of production one of the most direct proofs of the disconnection between manufacturers and their excessive credit indebtedness;
- The balance of trade slid further and further into the red, leading to a fragile balance of payments that was highly reliant on foreign investment and remittances;
- Rising inflation made some producers uncompetitive and urgently in need of technological innovation.

All these factors are testimony to weak internal growth in Bulgaria and the imbalances of an overheated economy. This broad gamut of domestic difficulties was combined with the effects of
the external financial crisis and triggered the deep recession the Bulgarian economy fell into from the beginning of 2009.

2. Socio-economic dimension of the crisis since 2009

2.1. Economic growth and financial policy

The 5.5% drop in GDP in 2009 came from a shrink in gross value added in almost every sector, but the greatest impact was reduced agricultural and industrial output, a slow-down in the construction industry and the collapse of the real estate sector. GDP growth in 2010 and 2011 ranged from 0.4% to 1.8% (see Table 1). Expectations that the upward drive of the economy would continue and accelerate after 2011 did not materialise. The debt crisis in Europe and lack of confidence on the part of internal and external investors frustrated the recovery process, but fluctuating economic growth rates for quarters of 2014 are more a sign of stagnation rather than a distinct upward development trend (Q1 = 1.2%, Q2 = 1.6% and Q3 = 1.5%).

Table 1.2 Macroeconomic parameters

<table>
<thead>
<tr>
<th>Year</th>
<th>EU27</th>
<th>BG</th>
<th>EU27</th>
<th>BG</th>
<th>EU27</th>
<th>BG</th>
<th>EU27=100</th>
<th>EU27=100</th>
<th>EU27=100</th>
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</thead>
<tbody>
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<td>2004</td>
<td>2220</td>
<td>280</td>
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<td>100.0</td>
<td>2.6</td>
<td>6.7</td>
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<td>35</td>
<td>22</td>
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<tr>
<td>2005</td>
<td>2260</td>
<td>300</td>
<td>101.8</td>
<td>107.1</td>
<td>2.2</td>
<td>6.4</td>
<td>37</td>
<td>36</td>
<td>23</td>
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<tr>
<td>2006</td>
<td>2320</td>
<td>320</td>
<td>104.5</td>
<td>114.3</td>
<td>3.4</td>
<td>6.5</td>
<td>38</td>
<td>37</td>
<td>23</td>
</tr>
<tr>
<td>2007</td>
<td>2390</td>
<td>340</td>
<td>107.7</td>
<td>121.4</td>
<td>3.2</td>
<td>6.4</td>
<td>40</td>
<td>38</td>
<td>24</td>
</tr>
<tr>
<td>2008</td>
<td>2390</td>
<td>370</td>
<td>107.7</td>
<td>132.1</td>
<td>0.4</td>
<td>6.2</td>
<td>43</td>
<td>39</td>
<td>26</td>
</tr>
<tr>
<td>2009</td>
<td>2270</td>
<td>350</td>
<td>102.2</td>
<td>125.0</td>
<td>-4.5</td>
<td>-5.5</td>
<td>44</td>
<td>40</td>
<td>28</td>
</tr>
<tr>
<td>2010</td>
<td>2310</td>
<td>350</td>
<td>104.0</td>
<td>125.0</td>
<td>2.0</td>
<td>0.4</td>
<td>44</td>
<td>41</td>
<td>31</td>
</tr>
<tr>
<td>2011</td>
<td>2350</td>
<td>370</td>
<td>105.8</td>
<td>132.1</td>
<td>1.7</td>
<td>1.8</td>
<td>46</td>
<td>43</td>
<td>33</td>
</tr>
<tr>
<td>2012</td>
<td>2330</td>
<td>370</td>
<td>105.0</td>
<td>132.1</td>
<td>-0.4</td>
<td>0.6</td>
<td>47</td>
<td>44</td>
<td>35</td>
</tr>
<tr>
<td>2013</td>
<td>2330</td>
<td>380</td>
<td>105.0</td>
<td>135.7</td>
<td>0.1</td>
<td>0.9</td>
<td>47</td>
<td>43</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: Eurostat and ISTUR figures. LP = labour productivity; PPS = purchasing power

The sharp decline in FDI (see Fig. 1) hit the Bulgarian economy particularly badly. From EUR 9 052 million in 2007 (absolute peak) and EUR 6 728 million in 2008 their annual inflow plummeted to
EUR 2,437 million in 2009 and EUR 1,151 million in 2010 (lowest level in the last 10 years). The relative share of FDI in GDP of over 20% in the pre-crisis period contracted 5-6 times and has been around 3-4% of GDP for the last four years.

Figure 1: Annual foreign direct investment inflows (EUR millions)

Source: Bulgarian National Bank

Internal economic growth factors continued to act as a disincentive throughout almost the entire crisis.

Gross fixed capital formation of +21.9% in 2008 collapsed catastrophically and was negative for three consecutive years (-17.6%, -18.3%, -6.5%). The only rise (+4%) came in 2012, but this was again followed by a fall (-0.3%) in 2013. Domestic investment is too weak to offset at least partially the lack of foreign investors.

Final consumption in 2009, the first year of the crisis, decreased by 7.3% and failed to rally in the years that followed. The contraction in household consumption adversely impacts demand, with production stagnating as a result. There was a further 2.3% drop in household consumption in 2013 and the trend is continuing in 2014.

At present, exports are the main driver for the diffident economic growth, which was strongest in 2010 (+14.7%), 2011 (+12.3%) and 2013 (+8.9%). However, Bulgaria is a small country and this impact can hardly be guaranteed or even be a strategic priority in the future. If sustainable and strong growth is to be achieved, particular attention should be paid to domestic demand and stimulating investment and household consumption. Failure to adequately appreciate internal factors is one of the core reasons for a slow-down in cohesion.
GDP per capita in PPS stands at only 47% of the EU 27 average and remains low compared with all Member States (see Table 1). However, the 2004-2013 data show another distinguishing characteristic. Almost in parallel to the increase in GDP per capita (in relative position within the EU), labour productivity rose from 35% to 43%. At the same time, wages in PPS systematically lag behind compared with the previous two indicators. In 2013, they stood at 37% of the central European level.

This means that the options for boosting wages are not being seized in line with the contribution employees are making to GDP. As a result, a policy to catch up more quickly with the central European level in wages cannot be implemented as fully as it should be. Moreover, how little workers benefit in the distribution of national income is also evident in the wages to GDP ratio. The average for the 10-year period is 36.5%, only managing in 2013 to scrape over the 40% mark (40.7%). On this indicator Bulgaria scores among the worst in the EU 27, where the average is 49.3% and above 50% in most of the old Member States.

There are clearly serious problems in distribution that cannot be offset in individual periods of nominal and real wage growth. Trends are uncertain and contradictory. Even in the years of accelerated economic growth before the crisis the real growth in unit labour costs was predominantly negative (Fig. 2).

*Figure 2: Real growth in unit labour costs over the period 2002-2013 (%)*

![Figure 2: Real growth in unit labour costs over the period 2002-2013 (%)](image)

*Source: Eurostat*

The economic boom of 2007-2008 was accompanied by a double-digit average annual inflation rate. However, this dropped to the 2-3% range (see Table 5) with the onset of the crisis. In 2013, average annual inflation even reached 0.9%. It should be remembered that the country has had 15 consecutive months (August 2013 to October 2014) of record annual deflation, which is extremely dangerous, including for chances of economic recovery.
The policy of budget surpluses pursued in 2004-2008 under the currency board arrangement left the government elected in mid-2009 with a fiscal reserve of around BGN 7.7 billion. At the same time, however, as a consequence of the crisis, tax revenues fell sharply from the beginning of 2009 and could not cover the planned high spending. This fiscal trap led to a budget deficit – unprecedented in recent years – of -4.3% that drew criticism and recommendations from the European Commission. In this situation the government sought to bring influence to bear on both the revenue and expenditure sides of the budget through a policy of financial consolidation. As a result, the deficit fell steadily over the next three years (2010-2012) and in 2013, despite a mid-year budget revision, remained within the norm at minus 1.8% of GDP and well below the Maastricht criterion of 3%. A combination of low revenues from early 2014 and urgent expenditure requirements prompted a further budget revision. As a consequence, a deficit of -3.7% of GDP is projected for the end of the year.

Table 2: Government deficit and debt (% of GDP)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget deficit/surplus</td>
<td>1.7</td>
<td>-4.3</td>
<td>-3.1</td>
<td>-2.0</td>
<td>-0.8</td>
<td>-1.8</td>
<td>-3.7</td>
</tr>
<tr>
<td>Government gross debt</td>
<td>13.7</td>
<td>14.6</td>
<td>16.2</td>
<td>16.3</td>
<td>18.5</td>
<td>18.3</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Eurostat and National Statistical Institute; *Forecast

The debt financing of the deficit has brought about a rapid increase in the government debt to GDP ratio to a projected level of 23% in 2014, but still far from the Maastricht ceiling of 60%. Government debt is one of the lowest in Europe, but there are signs of a long-term trend towards an increase in the coming years. Over the period 2015-2017, government securities issued on the domestic and international capital markets will continue to be the main source of debt financing of the budget.

2.2. Labour market

The situation in the labour market in the last 6 years has been shaped by a number of key factors of a fundamental nature.

A demographic crisis began as far back as the end of the 1980s, but worsened particularly during the period of transition. It manifested itself in sharply increased emigration flows, mainly of young, highly educated and highly skilled people, and belated transformation and restructuring of the economy, which was detrimental to the population's living standards and hence to birth rates. This made a lasting impression on the size and quality of the labour force, with knock-on effects on the labour market.

The lack of synch between labour demand and supply worsened, marking out the Bulgarian labour market as structurally weak, with a high proportion of disheartened people, long-term unemployed, and segments suffering more than one form of inequality, all making for low competitiveness and poor adaptability of the labour force to changes in the labour market. Shortcomings in reform of the education system have also contributed to this. On the one hand, the relatively entrenched drop-out rates in secondary education persist; on the other, there is a structural mismatch between jobs being sought and those available and practical skills.
Despite all efforts and interventions to rein them in, the shadow economy and undeclared work have remained the most durable segment of the labour market over the last twenty years. This adds to the uncertainty about what is actually happening in the economy and whether the statistics and indicators are giving a true picture. Not only is the shadow labour market in competition with formal labour markets (primary and secondary), but it is to a large extent embedded within them and, depending on the state of the economy, is able both to absorb labour from them and channel it to them.

The number of these in work has tumbled rapidly since 2008, resulting in a drop of 426 000 in 2013. Jobs in industry and construction took the brunt, with absolute reductions in these sectors of 336 000, or around 30%. Services and agriculture fared much better, while trade, energy and water sectors managed to retain jobs and even expand in some years.

Overall, the employment rate for men was higher before the crisis by around 9 to 11% (see Table 3), but this gap then gradually narrowed and is now at 5 to 6% for the age range 20-64, which shows there was also a gender disparity aspect to job losses, mainly the result of a strong decline of employment in the male-dominated construction and industry sectors.

Table 3: Employment figures (in %)

<table>
<thead>
<tr>
<th>Calculations based on:</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population aged 15 and over</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>50.8</td>
<td>49.4</td>
<td>46.7</td>
<td>46.6</td>
<td>46.6</td>
<td>46.9</td>
</tr>
<tr>
<td>Men</td>
<td>56.5</td>
<td>54.9</td>
<td>51.3</td>
<td>51.1</td>
<td>50.8</td>
<td>51.4</td>
</tr>
<tr>
<td>Women</td>
<td>45.5</td>
<td>44.4</td>
<td>42.4</td>
<td>41.9</td>
<td>42.6</td>
<td>42.8</td>
</tr>
<tr>
<td>Population aged 15-64</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>64.0</td>
<td>62.6</td>
<td>59.7</td>
<td>58.4</td>
<td>58.8</td>
<td>59.5</td>
</tr>
<tr>
<td>Men</td>
<td>68.5</td>
<td>66.9</td>
<td>63.0</td>
<td>61.2</td>
<td>61.3</td>
<td>62.1</td>
</tr>
<tr>
<td>Women</td>
<td>59.5</td>
<td>58.3</td>
<td>56.4</td>
<td>55.6</td>
<td>56.3</td>
<td>56.8</td>
</tr>
<tr>
<td>Population aged 20-64</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>70.7</td>
<td>68.8</td>
<td>65.4</td>
<td>62.9</td>
<td>63.0</td>
<td>63.5</td>
</tr>
<tr>
<td>Men</td>
<td>76.1</td>
<td>73.8</td>
<td>69.1</td>
<td>66.0</td>
<td>65.8</td>
<td>66.4</td>
</tr>
<tr>
<td>Women</td>
<td>65.4</td>
<td>64.0</td>
<td>61.7</td>
<td>59.8</td>
<td>60.2</td>
<td>60.7</td>
</tr>
</tbody>
</table>

Source: Eurostat and National Statistical Institute Labour Force Survey

Data from the Labour Force Survey (see Table 4) show the dynamic changes in unemployment. After 5.6% in 2008, which experts defined as equilibrium (or healthy) in macroeconomic terms for Bulgaria, the recession triggered the first waves of mass lay-offs at the beginning of 2009, which brought the unemployment rate up to 6.8%. This trend strengthened particularly in 2010, when it rose sharply to 10.2%, reaching 12.9% at the end of the period.
The dynamics and structure of unemployment have a number of features:

- The first is an encouraging performance in youth unemployment (with a fall to 12.7% in 2008). However, in just two years this figure doubled for those aged 15 to 24, approaching 30% in 2013. Clearly the crisis has hit the young particularly hard and they are finding it increasingly difficult to get work after finishing secondary or higher education.

- Only in 6.5% of instances can unemployment be defined as frictional: resulting from dissatisfaction with working conditions and a desire to change employer. Most unemployment by far (37.6%) is the result of redundancies and dismissals, while the termination of temporary or seasonal work accounts for 23.1% (data for 2013). Those looking for their first job are also having it tough and account for 15.3% of all unemployed. Many of these are young people trying to get into the labour market after finishing secondary or higher education.

- The pool of unemployed is also deteriorating in terms of skills and qualifications, testifying to the feeble competitiveness of the Bulgarian labour market. Around 30% of jobless have primary education or lower. The unemployment rate among those with basic education was 27% and those with primary or lower 47.9% (2013 figures). Employment levels for these people are extremely low: 19.3% for those with basic education, but only 9.9% for those with primary and lower. This means in effect that their chances of getting a job are nil.

- As a result of a downward trend in the labour market, the share of the long-term unemployed (from 12 to 23 months) was 21.4%, with those out of work for two or more years constituting 35.9%, meaning that a total of more than 57% have to a large extent lost their working habits and skills and, in turn, that their adaptation and reintegration will require additional resources and effort. Long-term unemployment grew from 2.9% in 2008 to 7.4% in 2013 and is considerably higher among men (8.1%) than women (6.6%).

- Regional differences in unemployment rates have increased. This has caused depopulation of entire regions, mass permanent emigration or emigration for jobs abroad and increased internal mobility, concentrating the labour force in the capital and some other major cities, with all the adverse consequences (demographic, social, infrastructure, etc.) this entails.

2.3. Wages, social inequalities and poverty

Overall, the restrictive measures and pay freeze policy has held back nominal and real wage growth. Table 5 shows growth in average wages (AW) throughout the period covered. However,
this is largely because of dynamic changes in the employment structure and in how the average wage is calculated. It is primarily unskilled workers or lowly paid workers that companies lay off. This means that those remaining in work are the better paid, which automatically pushes up average wage levels without their pay actually increasing. This is an artificial statistical effect that cuts across all levels of the calculation – from company, industry and sector level to national level.

Table 5: Average annual wage (in BGN), annual inflation (%), nominal and real wage growth (percentage change over previous year)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual wage (in BGN)</td>
<td>6538</td>
<td>7309</td>
<td>7777</td>
<td>8230</td>
<td>8773</td>
<td>9301</td>
</tr>
<tr>
<td>Annual inflation (%)</td>
<td>12.3</td>
<td>2.8</td>
<td>2.4</td>
<td>4.2</td>
<td>3.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Nominal wage growth (%)</td>
<td>26.5</td>
<td>11.8</td>
<td>6.4</td>
<td>5.8</td>
<td>6.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Real wage growth (%)</td>
<td>12.7</td>
<td>8.7</td>
<td>3.9</td>
<td>1.6</td>
<td>3.5</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Source: National Statistical Institute

From a nominal growth in the average wage of 26.5% in 2008, the figure gradually declined over the following years to around 6%. In real terms, annual average wage increases are mainly due to low annual inflation rates, largely the result of the recession and decline in consumption.

However, it should be noted that some sectors of industry were unscathed by the crisis, did not experience this artificial effect and have actually seen rising wages along with increasing jobs. Cases in point are the IT sector, the pharmaceutical and paper industries, wood processing, and some mechanical engineering branches.

Wage disparity is high in Bulgaria in terms of both jobs/qualifications and sectors/branches. According to Eurostat data, 27% of workers are "low-paid", their salaries below 67% of the median for this indicator, and Bulgaria is one of the three countries with the highest proportion of low-paid workers.

In terms of the average wage (EUR 396 per month in 2013), Bulgaria continues to be the lowest among EU Member States. Its position is also unenviable when it to comes to the AW in purchasing power parity (PPP) compared with most EU countries. For example, it amounts to 25% of AW (PPP) in industry and services in Germany, 26% in the Netherlands, 31% in Finland, 41% in Malta and 50% in Portugal (Eurostat 2011 data and own figures).

In line with the officially announced wage freeze policy, the minimum wage remained unchanged for over two and a half years at EUR 123, and then – from 1 September 2011 and under strong pressure from the trade unions – was raised in several increments to EUR 174 from the beginning of 2014. However, its ratio to the average wage throughout the period remained very low: 40% in 2013. In nominal terms, the minimum wage was among the lowest in the EU in 2013. Bulgaria's position is also very weak in terms of the minimum wage in purchasing power parity: 25% of the MW (PPP) in Belgium, 26% in Ireland, 32% in Greece, 35% in Malta and 47% in Portugal.
The crisis and the measures taken to freeze income exacerbated social inequality and the chances of nearly half of the population to get out of the trap of poverty and social exclusion.

Table 6: Inequality and poverty

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income quintile share ratio (S80/S20)</td>
<td>6.5</td>
<td>5.9</td>
<td>5.9</td>
<td>6.5</td>
<td>6.1</td>
<td>6.6</td>
</tr>
<tr>
<td>Gini Coefficient</td>
<td>35.9</td>
<td>33.4</td>
<td>33.2</td>
<td>35.0</td>
<td>33.6</td>
<td>35.4</td>
</tr>
<tr>
<td>Population at risk of poverty or social exclusion (%)</td>
<td>44.8</td>
<td>46.2</td>
<td>49.2</td>
<td>49.1</td>
<td>49.3</td>
<td>48.0</td>
</tr>
<tr>
<td>Population at risk of poverty (%)</td>
<td>21.4</td>
<td>21.8</td>
<td>20.7</td>
<td>22.2</td>
<td>21.2</td>
<td>21.0</td>
</tr>
<tr>
<td>Employed at risk of poverty (%)</td>
<td>7.5</td>
<td>7.4</td>
<td>7.7</td>
<td>8.2</td>
<td>7.4</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Source: Eurostat, SILC

After a lengthy period starting in the 1990s when the Gini coefficient stood at 25-30, it has been in the range of 33-36 for the last five years, one of the highest levels in the EU alongside Romania, Spain, Greece and Portugal (see Table 6). Unpopular measures exacerbated income inequality, making the poor poorer and the rich richer.

Income polarisation rose sharply for the poorest and richest 20%. In the period 2002-2006 the income quintile share ratio (S80/S20) lay in the range of 3.6-5.1 times, since when it has steadied in the range of 6 to 7 times. Here, again, Bulgaria is one of the countries with the highest polarisation of incomes between rich and poor.

Bulgaria is one of the countries in which the risk of poverty or social exclusion for the population is above the EU average (see Table 6). According to EU-SILC data, in 2013, 48% of people were living in poverty or social exclusion, with 21% at risk of poverty (so-called monetary poverty).

Due to chronic underfunding and underperformance of important social areas such as education, health, social security and social assistance, the risk of secondary poverty is very high. Social protection expenditure accounts for only 17.4% of GDP, compared with the EU average of 27 to 29.5%.

Table 7: Selected social indicators

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Year</th>
<th>Bulgaria</th>
<th>EU 27</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure on social protection – % of GDP</td>
<td>2012</td>
<td>17.4</td>
<td>29.5</td>
</tr>
<tr>
<td>Expenditure on pensions – % of GDP</td>
<td>2012</td>
<td>8.5</td>
<td>13.3</td>
</tr>
<tr>
<td>Life expectancy at birth (years):</td>
<td>2012</td>
<td>70.9</td>
<td>77.5</td>
</tr>
<tr>
<td>Participating in lifelong learning – %</td>
<td>2013</td>
<td>1.7</td>
<td>10.5</td>
</tr>
<tr>
<td>Young people (15-17) in neither education, nor employment – %</td>
<td>2013</td>
<td>8.0</td>
<td>2.8</td>
</tr>
<tr>
<td>Young people (18-24) in neither education, nor employment – %</td>
<td>2013</td>
<td>25.9</td>
<td>16.9</td>
</tr>
</tbody>
</table>

Source: Eurostat

The pensions system is under strain and there is strong pressure to raise the retirement age and increase the insurance period in a situation in which:
− the proportion of average monthly pension to average monthly salary across all pension types is 36.4%
− the proportion of pensioners to insured persons is 80.4%, but also
− life expectancy (70.9 years) is far below the EU average.

According to the two Bulgarian trade union confederations, the main reason for the shortfall in the pension system is the unprecedented and sustained reduction in the contribution rate for pensions from 32% in 2000 to 17.8% today, 5% of which is paid into the supplementary private Universal Pension Funds (UPFs), which are mandatory for insured persons born after 31 December 1959. In addition, a measure was introduced in 2000 requiring Category I and Category II workers to make a further contribution of 12.7% to compulsory private occupational supplementary pension funds instead of the National Social Security Institute scheme.

The education system also suffers from a number of shortcomings, such as insufficient funding, low quality of education provided, difficult access to different levels of education for particular population groups (material status, ethnicity etc.). A disturbingly high proportion of young people are neither in education nor employed (see Table 7) and the merely symbolic percentage of people undertaking lifelong learning (1.7%) casts doubt on whether this way of retaining and acquiring knowledge is generally working.

3. Industrial relations and social dialogue

3.1. The challenges of the new economic governance

Against the backdrop of the crisis, austerity policies and the new economic governance, progress in industrial relations has been marred over the last few years by lack of continuity and controversy, particularly at national level. Industrial relations are facing huge internal and external challenges. On the one hand, the Europe 2020 strategy sets quite ambitious targets for each Member State on labour standards, wages and jobs, but at the same time the new economic governance undermines Europe’s social dimension, putting in question national social protection systems and the progress wrought so far through social dialogue and collective bargaining.

The impact on Bulgaria has been a new tightening of restrictive policies, an abrupt start to painful reforms (job losses, raising of the retirement age) and heightened social tensions and discontent in the long term. The restrictive fiscal policy poses major challenges for the implementation of targets for tackling poverty and alleviating acute social inequalities, which means that there are profound inconsistencies between the objectives and instruments of the policy itself. There is a clearly diverging trend between the economic and social dimensions of the policy pursued by the Bulgarian government, which has moved to limit the role and scope of social dialogue.

Social dialogue at national, sectoral and branch levels is progressing unevenly. On a number of occasions during this period, either trade unions or employers have withdrawn from the National Council for Tripartite Cooperation (HCTC), because:
The government took unilateral decisions on a range of issues, including freezing public sector wages and not meeting commitments under the Pact for Economic and Social Development 2006-2009 (in 2008-2009);

- there was a breach of the agreement on pension reform (in 2011);

- disclosure requirements were introduced regarding the incomes and assets of executives in the social partner organisations (employers’ organisations in 2013);

- the social dialogue was ineffective (Podkrepa confederation in 2013).

The views and positions of the social partners were not given due weight and were not taken into account in many cases. Decisions on the new economic governance were not consulted with the social partners.

The lack of an effective and fruitful tripartite social dialogue and the imposition of unilateral decisions by the government have resulted in a stronger dialogue between the two sides of industry at national level. In 2010, the social partners signed two bilateral national agreements on teleworking and working from home and agreed relevant legislative changes affecting the labour and social security rights of those working in these ways. At the end of 2012 and the beginning of 2013, the social partners conducted negotiations and concluded an agreement on proposals for the social security system, improvement of social dialogue and fostering industrial relations.

At the end of 2013 and the beginning of 2014, one of the employers’ organisations – the Bulgarian Industrial Association – unexpectedly launched an assault on labour legislation and collective bargaining with a package of 28 proposals to "reduce red tape for business" that constituted an unprecedented attack on social and labour rights and jeopardised future social dialogue.

3.2. Decentralisation of collective bargaining

A trend towards decentralisation of collective bargaining has been in evidence since the beginning of 2000 and has been further accelerated by the austerity policy. In some branches, there are legitimate grounds for decentralisation because of a lack of employer organisations or weak trade unions; but in others it is largely due to a refusal of employer organisations at sectoral/branch level to participate in collective negotiations, citing financial constraints.

There have also been changes in the outcomes of collective bargaining agreements. As a result of the austerity policies and requirements of the new economic governance, more clauses are agreed on employment, training and social benefits rather than on pay rises. Measures relating to collective bargaining or affecting industrial relations include:

- Pressure exerted on the social partners by the introduction of stricter criteria for representativeness at national level.
- Freezing of the minimum wage (2009-2011) and public sector wages for 6 years.
- Mass redundancies and the introduction of a new salary system in the civil service without a meaningful discussion with the trade unions (civil servants do not have the right to bargain collectively or to strike).
Reduction of public spending and freezing of funds for social protection and active labour market policies.

Use for the first time of opt-out clauses on salaries (payment of the minimum wage equivalent, with the rest deferred) in construction, engineering, retail, branches of light industry, and so on.

Some more general conclusions can be drawn from analysis of what issues collective bargaining covered and the agreements reached at various levels during the crisis:

- The options for negotiating new, higher wage levels are shrinking and compromises are increasingly imposed in negotiations at sectoral and company level.
- There are trends towards deregulation and decentralisation in collective bargaining (refusal of automatic wage indexation schemes, application of open clauses, the increasing importance of collective bargaining at company level).
- In many cases the result is a trade-off: negotiating on measures for employment, training and qualifications, rest periods and working hours, new social benefits, etc. at the expense of maintaining wage levels, where it is very difficult to achieve a breakthrough.

These general findings regarding collective wage bargaining are strongly influenced by policies driven at European level in favour of decentralisation of negotiations, against automatic indexation schemes and to link wages exclusively to labour productivity growth.

Another adverse impact stems from two European Commission recommendations as part of the European Semester and are themselves the result of the findings of the in-depth reviews enshrined in Regulation (EU) 1176/2011 on the prevention and correction of macroeconomic imbalances:

- To prevent further rapid growth in unit labour costs measured by the *index of nominal ULC*. High and above-normal growth in labour costs started in 2007 (19%) and reached a peak in 2009 (38.5%). A downward trend followed and since 2012 Bulgaria has been in effect within acceptable bounds of 12% for countries outside the euro area: 9% in 2012 and 6.8% in 2013.
- According to the Commission, the crisis saw an undue increase in *minimum social insurance income thresholds* for one segment of economic activities. The assumption is that this system of bilateral negotiations, which was designed to combat undeclared work, might in practice be detrimental to workers in some low-skilled segments and regions of the labour market, severely reducing their chances of employment. Such doubts have been decisively refuted by two studies launched by the Ministry of Finance and the Ministry of Labour and Social Policy.

The trade unions' contentions that the minimum thresholds for social security contributions do not increase the cost of employing low-skilled workers were selectively and unjustifiably ignored by the Commission. The Confederation of Independent Unions (KNS) and the Podkrepa confederation do not support the removal of minimum thresholds and have repeatedly insisted on agreed thresholds being laid down for minimum wages for various categories of workers in the principal activities and sectors, while setting and maintaining a nationwide minimum wage. For the two Bulgarian trade union confederations the fundamental problem is not about employment, but the disconnection between wages actually received and the legal obligation to pay insurance
contributions on amounts that are not necessarily received. This means that income is taken away from working people that they have not in fact been paid, generating additional poverty – a practice that it is wrong and illogical to continue.

Despite this, the European Commission’s recommendations were reflected in: 1) the government's wage freeze policy; 2) a refusal to set minimum social insurance income thresholds administratively in cases where none is agreed in bilateral negotiations, and 3) a refusal to continue the practice of extending sectoral collective work agreements to all businesses in the sector.

3.3. Key indicators for trends in industrial relations

Expert assessments of collective bargaining coverage are based on changes in the number of collective agreements concluded, the estimated number of workers involved and the total number of workers (see Table 8). This means that the indicator for the level of coverage is more strongly influenced by changes in the number of those in work than by other factors, which play a less significant role (the number of agreements concluded and persons covered by them remain relatively stable). Data from nationally representative empirical surveys in recent years show significantly lower coverage of employees by collective agreement (around and below 30%), which can be explained by cessation of the practice of extending sectoral collective agreements and the limited popularity of the actual collective bargaining process in Bulgaria.

Table 8: Trade union density and collective bargaining coverage of employees (%)

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade union density</td>
<td>16.9</td>
<td>17.3</td>
<td>18.9</td>
<td>21.2</td>
<td>21.9*</td>
<td>20.9**</td>
<td>20.9**</td>
</tr>
<tr>
<td>Collective bargaining coverage</td>
<td>30</td>
<td>32</td>
<td>35</td>
<td>38</td>
<td>29*</td>
<td>30</td>
<td>30</td>
</tr>
</tbody>
</table>

Source: Expert evaluations – Confederation of Independent Trade Union’s Institute for Social and Trade Union Research (ISTUR); *Data from national representative survey "Labour Climate Index" (ISTUR); *Data from the national representative survey "Trade Union Barometer" (ISTUR)

There are also reasons for changes in trade union density. When the number of employees in the national economy falls, trade union membership usually increases, since most of those laid off are not trade union members. Data from empirical sociological studies show slightly higher trade union density (around 21-22%), but on the whole the downward trend in absolute numbers of trade union members has not been arrested.

The results of the last census of employer organisations (2011-2012) identified four national representative organisations — the Bulgarian Industrial Capital Association (BICA), the Bulgarian Industrial Association (BIA), the Bulgarian Chamber of Commerce and Industry (BCCI) and the Confederation of Employers and Industrialists in Bulgaria (CEIBG). Evidence suggests that their members are mostly medium-sized and large firms, with small and micro-enterprises tending not to be members of employer organisations (see Table 9).
Table 9: Indicators for the coverage of national representative employer organisations

<table>
<thead>
<tr>
<th>Indicators</th>
<th>BICA</th>
<th>BIA</th>
<th>BCCI</th>
<th>CEIBG</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of economic activities in which bodies have branches</td>
<td>46</td>
<td>43</td>
<td>34</td>
<td>41</td>
</tr>
<tr>
<td>Number of local branches</td>
<td>88</td>
<td>133</td>
<td>94</td>
<td>88</td>
</tr>
<tr>
<td>Total number of employers/members</td>
<td>6 614</td>
<td>3 217</td>
<td>21 977</td>
<td>5 636</td>
</tr>
<tr>
<td>Number of contracted employees</td>
<td>335 805</td>
<td>244 737</td>
<td>665 714</td>
<td>504 984</td>
</tr>
<tr>
<td>Share in total workforce – %</td>
<td>13.0</td>
<td>9.5</td>
<td>25.8</td>
<td>19.6</td>
</tr>
</tbody>
</table>

Source: Ministry of Labour and Social Policy, census of national representative employer organisations (2011-2012)

The actual number of national representative employer organisations (four) is not in itself relevant to their coverage (employer/members and employees in their companies) because some employers are members of more than one organisation. One more point: fragmentation of employer organisations undermines the social dialogue and collective bargaining at sectoral and branch level, since there is not always a clear and unequivocal mandate for negotiations with the trade unions.

4. Conclusions

Despite the economic and social benefits for Bulgaria of EU accession, the cohesion process has slowed down since 2009 and fiscal consolidation has been only partially successful. The government faces a struggle in collecting tax and social security revenue. The stagnation of the economy is fuelled by weak investment and declining household consumption.

The medium-term budgetary outlook is gloomy, with relatively low economic growth expected – from 0.8% in 2015 to 2.3% in 2017. The downward pull will come from consumption (from 0.5% to 2.3%), gross fixed capital formation (0.1-3.1%) and exports of goods and services (2.9-3.5%).

The level of the general government budget balance will fall by 0.5% each year (from -3% of GDP in 2015 to -2% in 2017). The continuing debt financing of the deficit could push public debt up to 30%, but without real risks to financial stability if it is used to prioritise investment in employment and economic growth. The necessary structural reforms must be aimed at changing how money is spent and not at freezing wages, which will not bring benefits.

The labour market will be slow to recover, with pessimism fed by structural weaknesses, supply and demand imbalances, sluggish investment and difficulties negotiating and launching the eight operational programmes in the new programming period (only two of them can expect funding at the end of this and in the first half of 2015).

The chances for maximum take-up of the youth employment guarantee and the Juncker investment plan are strategically important. However, the latter is rather risky for Bulgaria, since there are no quotas for individual countries and mobilisation of private finance is based on approved projects – an area in which our potential has proved to be limited.
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