

International Labour Organization

Global Jobs Pact Country Scan,

Bulgaria

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Foreword

Representatives of governments and employers' and workers' organizations adopted the Global Jobs Pact at the International Labour Conference in June 2009 as a global policy instrument that puts employment and social protection at the centre of crisis response. It is based on the ILO's Decent Work Agenda and commitments made by the ILO constituents in the 2008 Declaration on Social Justice for a Fair Globalization. The Global Jobs Pact addresses the social and employment impact of the international financial and economic crisis and proposes a set of policies aimed at stimulating job creation, extending social protection, respecting international labour standards and promoting social dialogue, for countries to adapt according to their national needs. Support for the Pact continues to grow with the strong endorsement from, among others, the United Nations General Assembly and the Group of Twenty (G20) States. The ILO is providing technical assistance and financial support to constituents that have decided to apply the Pact to national contexts. Following a request from the Government of Bulgaria, the ILO has been working with national constituents to support their application of the Global Jobs Pact.

The Global Jobs Pact Country Scan for Bulgaria was prepared by the International Labour Office and made available to the Bulgarian constituents as an input into their national policy dialogue. The work was undertaken as part of the Director General's Special Office Arrangements to support constituents to give effect to the Global Jobs Pact. Specifically, this work relates to Special Assignment No: 1 concerned with *"Ensuring sound and integrated technical support to the operational response to constituents in countries wanting to apply Global Jobs Pact's policies"* coordinated by José Manuel Salazar-Xirinachs, Executive Director of the Employment Sector (ED/EMP). It examines the country situation and policy responses, using the Pact as an integrated framework of analysis. The structure of the Scan follows a template based on the Global Jobs Pact. It thus truly reflects the information that policymakers from the Government, as well as the employers' and workers' organizations, need in order to respond effectively to the crisis and prepare policies that accelerate a job rich recovery. The draft Scan was presented to constituents for comments and feedback at various occasions. The constituents provided invaluable information, which was not available elsewhere. We thank them for their enriching contributions that were used for finalizing the Scan.

This report was produced jointly by experts from ILO Headquarters, the Regional Office for Europe and Central Asia and the Budapest Decent Work Technical Support Team and Country Office for Central and Eastern Europe. The main coordination was the responsibility of Mr. Moazam Mahmood, Director of the ILO Economic and Labour Market Analysis Department. We thank all those who were involved in preparing this report.

We hope that this document will be a useful contribution to policy dialogue in Bulgaria.



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Contents

Foreword.....	3
Part I: Overview of the crisis impact on Decent Work in Bulgaria	6
1. Impact on major macroeconomic variables	6
2. Impact on the real economy.....	8
3. The impact of the crisis on growth and employment.....	11
3. Impact on labour market and employment	13
4. Impact on the social protection system.....	22
5. Impact on wages and working conditions	30
6. Impact on labour standards, including freedom of association and the right to collective bargaining.....	34
Part II: Description of crisis response and recovery policies	37
A. Accelerating employment creation, jobs recovery and sustaining enterprises	37
1. Measures to boost effective demand: monetary and fiscal policies, social stabilizers.....	37
2. Investment in infrastructure.....	41
3 & 4 Employment retention and active labour market measures.....	43
5. Special youth employment measures	48
6. Other targeted programs e.g. public employment guarantee schemes, emergency public works, and other direct job creation schemes.....	49
7. Support to public and private enterprises (including cooperatives) and micro-entrepreneurs	50
8. Support job creation across sectors of the economy, especially in agriculture, rural infrastructure and industry	51
B. Building social protection systems and protecting people.....	52
A. Social protection system.....	52
B. Wages policies	54
C. Strengthening respect for international labour standards.....	55
D. Social dialogue: bargaining collectively, strengthening labour administration and inspection, identifying priorities, stimulating action	58
Part III: Policy Recommendations for shaping a fair and sustainable globalization.....	60
1. Macroeconomic policy for growth and employment, trade and industrial policies by stimulating domestic and external demand.....	60
2. Labour market policies	65
3. Policy proposals in social protection	66
4. Wage policies to reduce poverty and inequity, increase demand and contribute to economic stability.....	68
5. Policies for labour standards.....	69
6. Policies for social dialogue.....	70
7. Policy coherence and cooperation between government ministries	71

8. Promote efficient and well-regulated trade, and markets that benefit all and avoid protectionism 71

9. Facilitate shifting to a low-carbon, environment-friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals and realize decent work in the process 72

10. Address informality to achieve transition to formal employment 72

Part I: Overview of the crisis impact on Decent Work in Bulgaria

1. Impact on major macroeconomic variables

The pre crisis growth model

Pre EU accession agreement growth was weak, despite the Currency Board Agreement

Until Bulgaria agreed on the terms of the EU accession in 2004, its GDP growth over the previous decade was weak, fluctuating, and sometimes even negative. It was threatened by hyper inflation, deindustrialisation, and poverty. Table 1.1 shows that between 1997 and 2003, annual GDP growth fluctuated between a band range of -6% and 5%. Gross fixed capital formation was equally volatile, ranging between -21% and 35%. Hyper inflation raged in the second half of the 90s, rising to near 1000% per annum by 1997. There were two years of negative growth, and some national banks closed. The crisis prompted a Currency Board Agreement (CBA), which brought down inflation into single digits, and allowed positive and higher GDP growth. FDI was low, just reaching 5% of GDP by 2003. The share of industry went down from 35% in 1995 to 29% in 2004. As a consequence of this pattern of weak growth, \$2 a day poverty actually increased from 2% in 1997 to 8% in 2001. Income inequality also increased, with the Gini coefficient rising from 26 in 1997 to 34 in 2001, (Table 1.1).

With the EU accession growth picked up

In 2004, agreement was reached on the terms of the EU accession, which tightened fiscal policy, led to a surge in capital inflows, higher domestic investment, a credit boom, and a pick up in growth. Table 1.2 shows that fiscal policy was tightened up only with the EU accession track. The government's budget balance which had dipped into negative off and on till 2003, went significantly positive, rising to 3% by 2006. Table 1.1 shows that capital inflows in the form of FDI rose up from 6% of GDP in 2002, to 11% in 2004, and to peak at 30% of GDP in 2007. This is also reflected in the current account balance in Table 1.1, which went from -5% in 2003 to -25% in 2008. Gross fixed capital formation which had languished under 20% of GDP till 2003, rose up to peak at 33% of GDP by 2008. Spurred by capital inflows, the credit to GDP ratio rose from about one thirds of GDP in 2006 to two thirds in 2007¹.

¹ Bulgarian National Bank, 2010, Macroeconomic Indicators, Statistics Department, April 28.

Table 1.1. Bulgaria Economic Indicators

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Domestic Product													
GDP at market prices (millions of national currency)	17433	22421	23790	26753	29709	32402	34628	38823	42797	49361	56520	66728	66256
GDP growth (annual %)	-6	4	2	5	4	4	5	7	6	7	6	6	-5
GDP components (% of GDP)													
Household consumption expenditure	73.0	67.5	71.3	69.2	69.5	71.1	70.3	69.3	70.2	70.4	69.1	68.2	65.4
Govt. Expenditure	12.6	15.3	16.5	17.9	17.4	18.1	19.0	18.4	18.0	16.6	16.2	16.3	16.1
Gross fixed capital formation	11.0	13.0	15.1	15.7	18.2	18.2	19.3	20.5	24.2	25.9	29.8	33.4	24.8
Exports of goods and services	58.3	47.1	44.6	55.7	55.6	51.5	53.3	57.0	60.2	64.5	63.4	60.5	50.0
Imports of goods and services	53.7	46.8	50.3	61.1	63.1	59.9	64.0	68.5	76.4	83.3	85.5	83.3	57.7
GDP components (annual growth, %)													
Household consumption expenditure	-10.0	2.6	9.3	4.9	5.2	6.5	3.4	5.5	7.6	4.1	13.0	4.8	..
Govt. Expenditure	-20.9	35.2	20.8	15.4	23.3	8.5	13.9	13.5	23.3	14.7	21.7	19.6	..
Gross fixed capital formation	-2.7	11.5	5.0	11.9	1.4	4.1	7.5	3.9	3.8	1.0	0.0	0.0	..
Exports of goods and services	12.8	-4.7	-5.0	16.6	10.0	8.1	10.7	12.7	8.5	8.7	5.2	2.9	..
Imports of goods and services	10.9	12.1	9.3	18.6	14.8	5.0	16.4	14.5	13.1	14.0	9.9	4.9	..
Inflation													
Inflation, consumer prices (annual %)	1058	19	3	10	7	6	2	6	5	7	8	12	4.6
Inflation, GDP deflator (annual %)	949	24	4	7	7	4	2	5	4	8	8	11	..
Imports and exports													
Exports of goods and services (% of GDP)	58	47	45	56	56	52	53	57	60	65	63	60	..
Imports of goods and services (% of GDP)	54	47	50	61	63	60	64	69	76	83	85	83	..
Exports of goods and services (BoP, current US\$) billions	6.277	5.9813	5.7948	6.9998	7.2759	7.5574	10.043	13.961	16.158	20.391	25.076	30.589	..
Imports of goods and services (BoP, current US\$) billions	5.7303	5.9893	6.5615	7.6698	8.6039	8.7673	12.104	16.858	20.608	26.235	34.048	42.158	..
Poverty and inequality													
GINI index	26	..	..	..	34	..	29	..	..	..	..	..	..
Poverty headcount ratio at \$1.25 a day (PPP) (% of population)	2	..	..	..	3	..	2	..	..	..	..	..	..
Poverty headcount ratio at \$2 a day (PPP) (% of population)	2	..	..	..	8	..	2	..	..	..	..	..	..
Value added by industry (% of GDP)													
Agriculture, value added (% of GDP)	27	19	17	14	14	12	12	11	9	9	6	7	..
Industry, value added (% of GDP)	29	32	29	31	30	29	29	29	29	31	32	31	..
Services, etc., value added (% of GDP)	45	49	54	55	56	59	59	60	61	61	61	62	..
Value added by industry (constant 2000 US\$)													
Agriculture, value added (constant 2000 US\$) billions	1.6234	1.6428	1.7332	1.5547	1.5593	1.6326	1.5951	1.6318	1.4767	1.462	1.0278	1.2801	..
Industry, value added (constant 2000 US\$) billions	2.895	3.2395	3.0192	3.3543	3.4919	3.656	3.8644	4.0228	4.2119	4.5404	5.1751	5.328	..
Services, etc., value added (constant 2000 US\$) billions	5.4469	5.3489	5.6644	6.027	6.3102	6.6825	6.9966	7.3954	8.0093	8.5779	9.2213	9.7637	..
Foreign direct investment													
FDI, net inflows (% of GDP)	4.87	4.22	6.32	7.95	5.98	5.80	10.49	10.80	15.86	24.51	29.60	18.45	9.50
FDI, net outflows (% of GDP)	-0.02	0.00	0.13	0.03	0.07	0.18	0.13	-0.88	1.13	0.55	0.69	1.47	..
FDI, net (BoP, current US\$, millions)	506.5	537.2	801.7	998.2	803.3	876.3	2070.3	2879.2	4004.8	7582.8	11432.5	8472.2	..
Current and Capital Account (millions of national currency)													
Current + capital account	485.0	-44.0	-622.0	-731.0	-	-928.0	-	-	-	-	-8343.0	-	-
Capital account	0.0	0.0	-3.0	26.0	0.0	0.0	0.0	164.0	235.0	179.0	-587.0	277.0	478.0
Current account	485.0	-44.0	-619.0	-757.0	-	-928.0	-	-	-	-	-7756.0	-	-
Current and Capital Account (% of GDP)													
Current + capital account	2.8	-0.2	-2.6	-2.7	-3.7	-2.9	-4.3	-3.0	-5.8	-9.1	-14.8	-11.9	-4.1
Capital account	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.4	0.5	0.4	-1.0	0.4	0.7
Current account	2.8	-0.2	-2.6	-2.8	-3.7	-2.9	-4.3	-3.4	-6.3	-9.4	-13.7	-12.3	-4.8
Savings													
Gross savings (% of GDP)	13.4	16.6	13.1	12.7	17.0	17.3	16.0	16.6	15.8	12.9	12.0	13.6	

Source: Eurostat; World Bank, World Development Indicators 2010.

Table 1.2. Bulgaria Government Balance (% of GDP)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Net lending and borrowing	-	1.3	0.2	-0.3	0.6	-0.8	-0.3	1.6	1.9	3	0.1	1.8	-3.9

Source: Eurostat

As a result, GDP growth stabilised in the band range of 6-7% per annum between 2004 and 2008 as seen in Table 1.1.

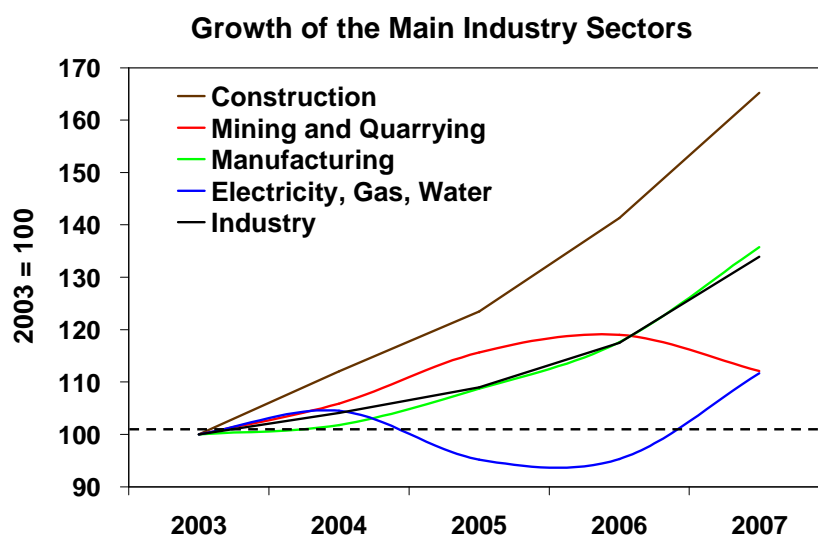
2. Impact on the real economy

The EU accession based pickup in growth was not wholly based on increased competitiveness, productivity, or consumption

The pickup in GDP growth did stabilise industrial growth, but did not raise exports sufficiently. This was because much of the investment and resultant growth went into construction rather than manufacturing. So productivity growth was also low. The high capital inflows probably also displaced domestic savings, rather than adding to them. And for the surging capital inflows, there would have been a domestic demand depression based on a falling consumption and government expenditure shares.

Table 1.1 shows that the share of industry which had been dropping down to a 2003 level of 29% of GDP, increased up some to 31% of GDP by 2008. With the share of agriculture falling, from 11% in 2004 to 7% in 2008, the other sector that increased its share was services. This increased from 60% to 62%, coming to pre-dominate the economy. The pickup in growth was not significantly based on an increase in exports. The export share in GDP which had risen to 57% by 2004, only rose further up to 60% by 2008. With the service sector predominating, and a limited rise in industry and exports, the implication is that growth went not into manufacturing, but construction. Figure 1.1 shows that in this period of 2003-2007, construction rose from a base of 100 to 165, while manufacturing only rose to 135. Note that the increase in industry is a muted one, up to 110. Table 1.3 again confirms that the share of expenditure on acquisition of tangible fixed assets, over 2003-07, was the highest for services at 50% of the total.

Figure 1.1. Growth of the main industry sectors in Bulgaria



Source: NSI

Table 1.3. Expenditures on acquisition of tangible fixed assets

	Volume (current bln BGN)		Composition (%)	
	2003-07	2007	2003-07	2007
Total	71,4	21,9	100,0	100,0
Servicing*	36,2	11,0	50,7	50,0
Manufacturing	14,7	4,3	20,6	19,5
Electricity, gas and water supply	7,0	2,0	9,8	9,1
Construction	5,9	1,8	8,3	8,2
Public administration; compulsory social	2,8	1,7	3,9	7,7
Agriculture, hunting, fishing and forestry	2,1	0,5	2,9	2,4
Mining and quarrying	1,3	0,4	1,9	1,9
Education; health and social work	1,3	0,3	1,8	1,2

* (1) Trade, repair of motor vehicles and personal and household goods; (2) Transport, storage and communication; (3) Real estate, renting and business activities; (4) Hotels and restaurants; (5) Financial intermediation; (6) Other community, social and personal activities.

The low growth in manufacturing and exports implies low growth in productivity. Table 1.4 shows that productivity growth was actually higher in the previous lower GDP growth period 1999-04, at 4.6% per annum, rather than in the higher GDP growth period 2004-08 at 3.1% per annum. An assessment of Total Factor Productivity (TFP), as an indicator of technical change shorn of just input increases shows the same pattern. Table 1.5 shows that in the period 1998-2003, TFP ranged between 1.9% and 7.9% per annum. In the later period 2004-08, TFP declined on trend, falling from 3.7% to 1.3%.

Table 1.4. Labour productivity (age 15+, both sexes)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average annual growth (%)	
												1999 - 2004	2004 - 2008
GDP per capita* (current US\$ prices)	1608.6	1546.1	1723.3	1988.4	2561.7	3175.8	3522.3	4122.3	5301.5	6560.7	6223.4		
GDP per person engaged (1990=100)	108.4	117	122.7	127.9	130.5	135.6	140.3	144.4	149	153	..	4.6	3.1
GDP per hour worked (1990=100)	103.3	111.5	116	121.1	124.2	127.3	132.1	136.4	140.2	142.7	..		

Source: KILM; *IMF World Economic Outlook

Table 1.5. Total Factor productivity (%)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
α	83,1	83,1	82,6	80,8	81,9	80,5	79,1	75,9	73,3	69,9
β	16,9	16,9	17,4	19,2	18,1	19,5	20,9	24,1	26,7	30,1
y_t	4,0	2,3	5,4	4,1	4,5	5,0	6,6	6,2	6,3	6,2
l_t	-0,2	-2,1	-3,5	-0,8	0,2	3,0	2,6	2,7	3,3	2,8
k_t	1,8	2,2	2,3	3,3	2,9	3,7	4,2	6,2	7,7	9,7
TFP	3,9	3,7	7,9	4,1	3,8	1,9	3,7	2,7	1,8	1,3

α = labour elasticity of GDP; β = capital elasticity of GDP; y : GDP; l : labour; k : capital

Source: The initial information about determining α and β was from: Main Economic Indicators, NSI, 2006 and the NSI site on the Internet. The data for 1998-2006 were final whereas for 2007 – preliminary. The rates of growth of employed were calculated on the NSI Internet site (<http://www.nsi.bg/Gdp/Gdp.htm>) the data for 2007 being preliminary.

Table 1.6. Bulgaria labour market indicators

	Age	Sex	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Employment to population ratio, by age, group and sex													
Emp to pop ratio	15+	Both sexes	41	38.4	40.1	40.7	41.6	42.9	43.8	46.1	45.6	46.3	
Emp to pop ratio	15+	Male	45.3	42.6	43.8	44.6	46.4	47.9	49.3	51.9	51.4	52.2	
Emp to pop ratio	15+	Female	37	34.4	36.8	37.1	37.3	38.4	38.8	40.9	40.2	41	
Employment (000's), by age group and sex													
Employment (000's)	15+	Both sexes	2848	2658.8	2778.1	2817.3	2885.8	2972.6	3034.8	3187.3	3135.1	3172.6	
Employment (000's)	15+	Male	1511.5	1416.7	1452.7	1478.8	1536.2	1583.5	1628.5	1705.4	1681.5	1695.6	
Employment (000's)	15+	Female	1336.5	1242.1	1325.5	1338.4	1349.6	1389.1	1406.4	1481.9	1453.6	1476.9	
Labour Force Participation Rates, by age group and sex													
LFPR	15+	Both sexes	53.0	52.4	51.6	51.2	50.3	51.2	50.5	52.6	54.1	55.6	54.5
LFPR	15+	Male	57.8	57.4	56.9	56.3	56.0	56.8	56.5	58.3	60.2	62.3	61.2
LFPR	15+	Female	48.6	47.7	46.8	46.4	45.0	45.9	44.9	47.2	48.6	49.4	48.2
Total unemployed, by sex													
Unemployed (000s)	15+	Both sexes		559.1	661.2	599.2	448.9	399.7	334.3	305.6			
Unemployed (000s)	15+	Male		306.2	363.2	328.7	246.1	221.7	182.5	156.3			
Unemployed (000s)	15+	Female		252.9	298.1	270.6	202.8	178.1	151.7	149.5			
Unemployment rate (%), by sex													
Unemployment rate	15+	Both sexes		17.1	19.4	17.6	13.7	12	10.1	8.9	6.9	6.3	9.1
Unemployment rate	15+	Male		17.6	20.2	18.3	14.1	12.5	10.3	8.6			
Unemployment rate	15+	Female		16.5	18.4	16.9	13.2	11.5	9.8	9.3			

Average annual growth (%)	
1999-03	2004-08
0.3	1.6

Source: Key Indicators of the Labour Market, 6th ed.

Unfortunately, the post accession high capital inflows did not add to domestic savings, but substituted for them. Table 1.1 shows that gross savings which had risen to 17% by 2004, dropped down to 14% by 2008, often dipping below that earlier. So the main driver of GDP growth in the post accession period of 2004-08 emerges as inflows. In Table 1.1, the largest increase in GDP share over this period is for Gross Fixed Capital Formation, rising by 13% to a high of 33%. But the domestic savings share of GDP was much lower and falling to 14% over this period. So inflows accounted for an increasing and near 20% share of GDP by 2008. Compared to this, the share of exports only expanded by 3% of GDP, the share of government expenditure declined by 2%, and the share of domestic consumption also declined by 2%. But for the surge in inflows, Bulgaria would have had a demand depression, with sluggish exports, and drops in government expenditure and consumption.

The EU accession based pickup in growth has had an impact on employment and unemployment

The pickup in GDP growth has had an impact on employment. The pickup in employment growth has not been commensurate with the pickup in GDP growth, but an improvement over the past. So the unemployment rate has fallen. And the sectoral and occupational structure of employment has diversified and improved. Table 1.6 shows that employment growth over 1999-03 was very low at 0.3% per annum. Compared to this, employment growth over later period 2004-08 has picked up, with the pickup in GDP growth, to 1.6% per annum. Between 1999 and 2003, employment was stuck at 2.8 million. By 2008 employment had risen to 3.2 million. As a result the employment to population ratio increased over the later period, from 42% to 46%, with significant increases for both women and men. Table 1.6 also shows that the unemployment rate over this later period more than halved, from 13.7% in 2003 to 6.3% in 2008.

The rise in employment and drop in unemployment over 2004-08 has contributed to the diversification of the sectoral and occupational structures, with major improvements. Table 1.7 shows that as the share of employment in agriculture have dropped over the decade leading up to the crisis, from 13% to 8%, the share for industry has increased from 33% to 36%, and the share for services has increased from 54% to 57%. Table 1.7 also shows that over the decade leading up to the crisis, the share of waged employment has increased from 83% to 88%, largely through a reduction in the shares of self employment from 15% to 11%, a reduction in the shares of own account workers from 12% to 8%.

Table 1.7. Status in employment (% share)

	2000			2008		
	Both	Male	Female	Both	Male	Female
Wage & salaried workers	83.1	80.1	86.6	87.6	85.3	90.2
Total self-employed workers (a + b)	14.6	18.2	10.5	11.4	14.1	8.3
Employers (a)	2.3	3.3	1.3	3.7	4.9	2.3
Own-account workers (b)	12.3	14.9	9.2	7.7	9.2	6
Contributing family workers	1.7	1.1	2.4	1	0.6	1.5
Not classified	0.5	0.6	0.5	..	..	..
Vulnerable employment	14	16	11.6	8.7	9.8	7.5

Source: Key Indicators of the Labour Market, 6th edition

3. The impact of the crisis on growth and employment

The major transmission mechanism of the crisis has been the reversing of capital inflows

The major driver of the pickup in GDP growth after the EU accession agreement was observed to be the surge in capital inflows. The financial crisis hit these inflows, reducing them drastically. Table 1.1 shows that FDI peaked at 30% of GDP in 2007, coming down to 18% of GDP in

2008, finally falling to 10% of GDP for 2009. In nominal terms, FDI fell from its peak of EU 9 billion in 2007 to EU 7 billion in 2008, finally to EU 3 billion in 2009².

The second major transmission mechanism of the crisis has been the fall in exports

The second major driver of GDP growth after the EU accession agreement had been the increase in exports. The financial crisis hit these exports, reducing them significantly. Table 1.1 shows that the share of exports in GDP fell from 63% in 2007 to 61% in 2008, finally down to 50% in 2009. The nominal value of exports fell from a peak of EU 15 billion in 2008, to EU 11 billion in 2009.

The third transmission mechanism of the crisis was a depression in domestic demand

Since domestic demand had already been weak, as observed, and been buoyed up by the large capital inflows, the reversal of the inflows led to a large fall in domestic consumption. Table 1.1 shows that domestic consumption had stabilised at about 70% of GDP before the crisis. This now dropped down to 68% in 2008, and then further to 65% in 2009. This fall in domestic consumption took this driver of growth back to a level lower than that prevalent in the pre CBA 90s.

Then both supply and demand factors combined to hit investment and GDP growth

The major supply side factor driving investment and GDP growth in the economy was observed to be large capital inflows. Domestic savings were observed to be weakening pre crisis already, perhaps being substituted by the inflows. The major demand side factors driving investment and GDP growth, though weaker, but still significant were exports and consumption. The huge falls in both the supply of capital, and demand for exports and domestic consumption combined to produce a large fall in investment and GDP growth. Table 1.1 shows that Gross Fixed Capital Formation, which peaked in 2008 at 33% of GDP, fell down drastically to 25% of GDP. As a result of the huge fall in investment, Table 1.1 also shows that GDP growth which had been stable at 6% per annum on the eve of the crisis, fell drastically to -5% for 2009. So GDP contracted by 11% in just one year.

A credit crunch hit firms and production

The outflows hit parent banks and their domestic counterparts, reducing credit to firms. Therefore indebted firms had to shut down or reduce production and services. Figure 1.2 shows that industrial output index fell by 30% in 2008, plateaued over 2009, but may have fallen further in early 2010 by another 9%. Figure 1.3 shows that the construction index fell from a high of 170 in mid 2008 to 130 by the end of the year, and then fell further to 90 by the end of 2009.

Figure 1.2

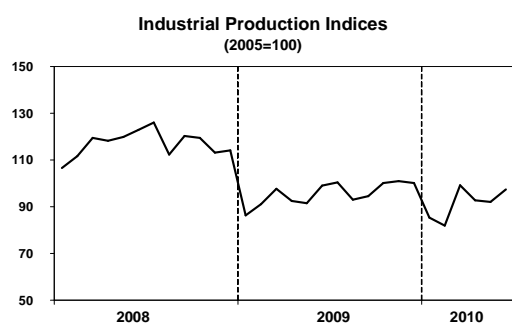
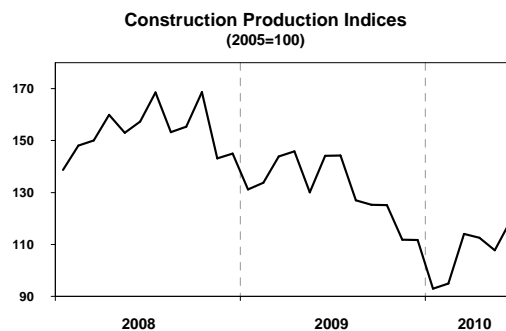


Figure 1.3



The sectors most hit by the crisis have been mining, metallurgy, metals extraction, chemicals, construction, clothing and textiles, real estate and tourism³.

² Bulgarian National Bank, 2010, Statistics, April.

Leading to large scale distress in the labour market

The following section examines the impact of the crisis on the labour market in greater detail. Here the broader macro impact on the labour market is noted. Unemployment increased, and employment and labour force participation decreased. Table 1.6 shows that the registered unemployment rate had settled at about 6% of the labour force on the eve of the crisis. This unemployment rate jumped up to 9% over 2009, which was 50% increase. There was an additive discouraged worker effect, with people leaving the registered labour force. Table 1.6 shows that the labour force participation rate which had risen up to 56% by 2008, dropped down to 55% over 2009.

3. Impact on labour market and employment

Labour market trends before the crisis

Until the crisis hit the country at the end of 2008, the Bulgarian labour market has been performing quite well: employment has risen and unemployment has fallen significantly since the beginning of the decade. An increase in employment levels was recorded from 2003 onwards reflecting improved economic conditions as well as job creation programs in the social sector. For 2003-2006 the fastest growth was recorded in construction – of 39%, while the overall growth in employment came to 8%. Employment rates have increased steadily from 2000, from 51.5 per cent to 64 per cent in 2008 (table 2.1). This good performance remains however below the Lisbon target of an overall employment rate of 70% by 2010. As for unemployment, it was still over 18 percent in 2000, considerably higher than the EU-27 average (9.2 percent). Despite rapid growth in the early 2000s, unemployment remained at about 18 percent until 2003, when it fell to 13.7 percent. By 2008, the unemployment rate had fallen to only 5.6 percent – slightly lower than the average for the EU and lower than in many of the large EU economies⁴. Most of the increase in employment during that period has come from the sharp drop in unemployment since labour force participation rates have been rather stable (i.e. few inactive people have entered the labour force).

Table 2.1: Unemployment, labour force participation and employment rates in Bulgaria (%)

Labor force participation rate (15-64)					
	2003	2005	2007	2008	2009
Total	60.9	62.1	66.3	67.8	67.2
Male	65.4	66.9	70.6	72.5	72
Female	56.5	57.3	62.1	63.1	62.5
Employment rate (15-64)					
	2003	2005	2007	2008	2009
Total	52.5	55.8	61.7	64	62.6
Male	56	60	66	68.5	66.9
Female	49	51.6	57.6	59.5	58.3
Youth 15-24	20.7	21.6	24.5	26.3	24.8
Older workers 55-64	30.1	34.7	42.6	46	46.1
Unemployment rate (15-64)					
	2003	2005	2007	2008	2009
Total	13.7	10.1	6.9	5.6	6.8
Male	14.1	10.3	6.5	5.5	7
Female	13.2	9.8	7.3	5.8	6.6
Youth (15-24)	28.2	22.3	15.1	12.7	16.2

Sources: National Statistical Institute (NSI). Household labour force survey, LFS

³ For details see Loukanova and Markova, 2010, ILO.

⁴ According to EUROSTAT, in 2008 it was less than that of Germany (7.3 percent), France (7.8 percent), Poland (7.1 percent) and Slovakia (9.5 percent).

The impact of the Global Job crisis on the labour market

According to the 2009 Labour Force Survey, the total number of employed persons aged 15 and over was 3 171.6 thousand in the last quarter of 2009 and their relative share of the population of the same age group was 48.2%. In comparison with the same period of 2008 the number of persons employed decreased by 191.9 thousand and the employment rate - by 2.6 percentage points.⁵ In 2009 the economically active population aged 15-64 was 3 441.5 thousand and accounted 67.2% of the population in the same age group. Compared to 2008 the activity rate (15-64) went down by 0.6 percentage points. The total number of employed persons was 3 253.6 thousand, of which 3 204.8 thousand aged 15-64. The employment rate (15-64) dropped by 1.4 percentage points in comparison with 2008 getting 62.6% in 2009. In 2010 this decline continued: in the first three quarters the number of employed persons declined compared with the same period of 2009.

The unemployment rate, according to the LFS, increased by 1.2 percentage points in comparison with 2008 to 6.8%. The raise of unemployment rate was higher for men (by 1.5 percentage points) than for women (by 0.8 percentage points). Unemployment then picked at a high 10.3 percent in February 2010 and seemed to have stabilized at this high level. The numbers of discouraged and long term unemployed had been increasing since the onset the crisis. After three years of continuous and sharp decline, the youth unemployment rate increased from 12.7% in 2008 to 16.3% in 2009. The rise was particularly marked for young men whose unemployment rate reached 18% in 2009. The average wage in Bulgaria increased in Q2 of 2009 by 15.3 per cent on average, as opposed to figures from the corresponding period in 2008. These trends are further detailed in the next sections.

Employment and unemployment by age

As in the majority of countries, employment rates are lower for younger and older workers groups. In 2008, about 46 per cent of workers aged 55 to 64 were employed compared to the overall rate of 64 percent (table 2.1). This was, as for the overall employment rate, a significant increase from the 2003 level (30.1 per cent) and a remarkable achievement for Bulgaria. Labour market outcomes for younger workers display however big deficits: the employment gap between adult population (aged 25-64) and younger worker is quite striking with about 25 percent of persons in the (15-24) age group employed. This was a rather modest increase over the years 2000 from 20.7 in 2003. Unemployment among this age group has fallen significantly since 2000 and until 2009 (table 2.2). From a high 38.8 per cent of young people in the labour force were unemployed. This had fallen to 12.7 by 2008. The sharp fall in unemployment for young people as well as the relatively mild increase of employment rate of the same group highlighted before indicates that labour force participation rates of young people were rather stable over the decade. However in 2009, after several years of continued decline of unemployment, youth unemployment increased to 16.2 per cent. This represented a percentage change of about 3.4 percent between 2008 and 2009. In fact, activity and employment gaps among the youth explain most of the differences in overall labour market outcomes between Bulgaria and the EU averages. Coinciding vacancies and low employment and activity rates suggest that there are skills mismatches – an excess supply of low-skilled workers in the face of an excess demand for high skilled workers. This suggests that Bulgaria has large underutilized pools of labour among the youth, and the challenge is to find ways to activate and ready them to fill the vacancies.

⁵ NSI, Key Indicators for Bulgaria, update 2 April 2010

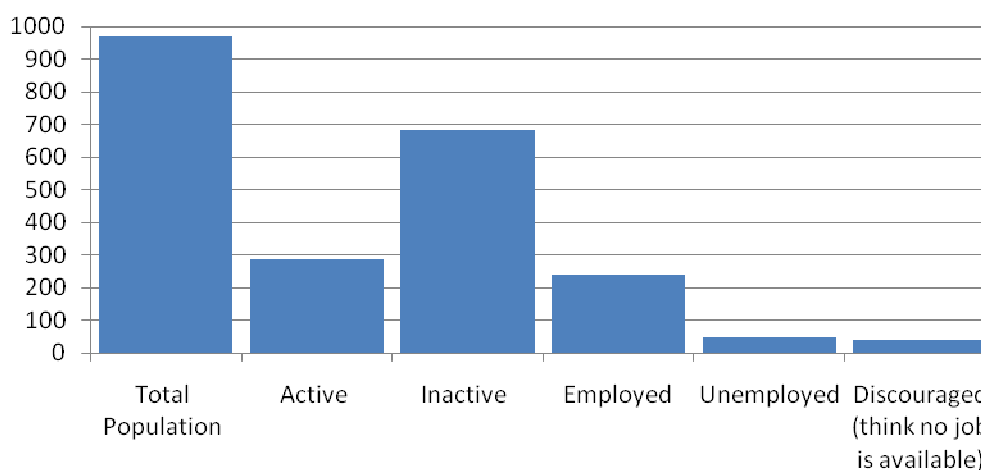
Table 2.2: Unemployment rates by Age groups in Bulgaria (%)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total	16.4	19.5	18.2	13.7	12.1	10.1	9	6.9	5.6	6.8
15-24	33.7	38.8	37	28.2	25.8	22.3	19.5	15.1	12.7	16.2
25-75	14.5	17.2	16	12.2	10.7	8.9	7.9	6.1	5	6

Source: LFS

Figure 2.1 shows the distribution of youth population by employment status (in thousands) in 2009. A striking observation is that the number of inactive youth who could be considered discouraged workers (41,000 units) is very close, in absolute value, to that of unemployed youth (46,200). Young discouraged workers, constituting 6% of the total inactive youth population, gave up looking for jobs because of the conviction that no job is available. Another 5 percent of the inactive category claims childcare or family care to be the main reason for inactivity. These numbers show a potentially considerable share of youth (over 34,000) who result to be inactive but could instead be willing to become engaged in the labour market, would the opportunity arise and would adequate child or family care structures be in place.

Figure 2.1 Distribution of youth population (2009).



Source: own elaboration based on Eurostat data.

Lastly, long-term unemployment is also a prominent feature in youth unemployment. As of 2009, a substantial amount of the unemployed youth (over 30%) had been unemployed for over a year. While the decline over the past decade is evident, there seems to remain a core of unemployed youth who cannot be easily reinserted in the labour market.

Employment and unemployment by sex

As in many countries, employment rates for women are below those of men. About 68.5 per cent of men between 15 and 64 were employed compared to about 59.5 in 2008 (table 2.3). While lower than the male employment rate, female rates are closer to the rates in the EU27 than those for men are⁶. Unemployment rates increased more for men than women between 2008 and

⁶ For example the difference between EU and Bulgaria was about 3.7 percent for the total, of which 6.5 per cent difference due to men and 0.7 percent due to women

2009 (figure 2.1). Unemployed in 2009 were 238.0 thousand persons, up by 19.2% compared with a year ago. Of the total number of unemployed 130.1 thousand (54.7%) were men and 107.9 thousand (45.3%) - women. Moreover, according to the 2009 Labour Force Survey, the raise of unemployment rate was higher for men (by 1.5 percentage points) than for women (by 0.8 percentage points).

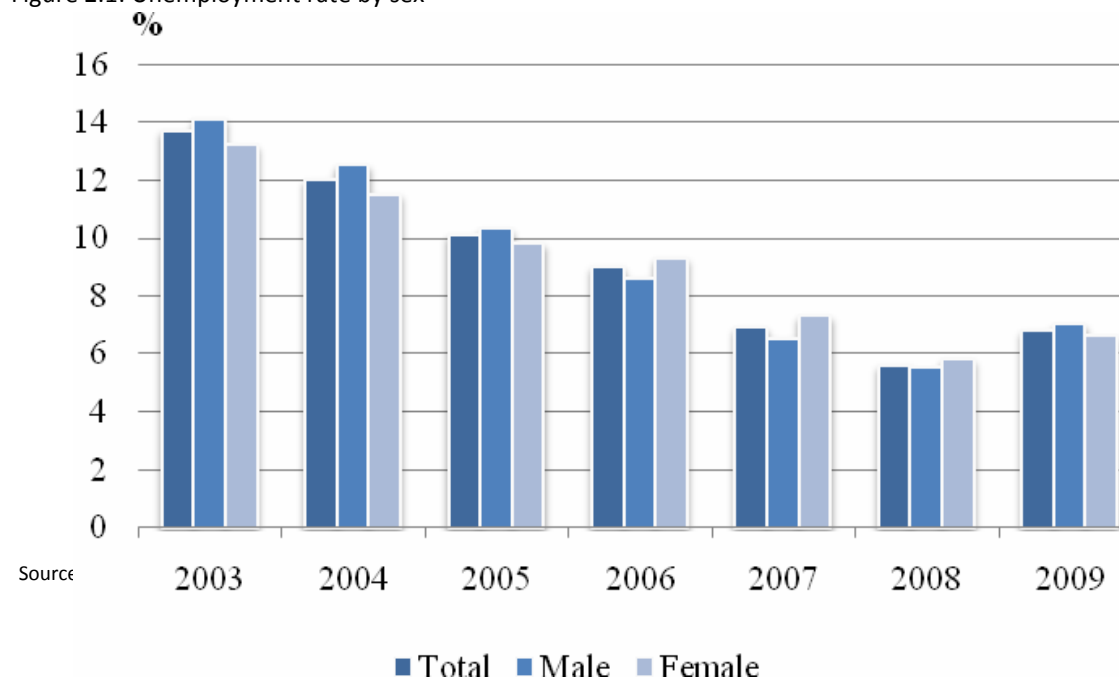
However, the labour status of women remains generally lower than that of men: they prevail in the group of long-term unemployed (long term unemployment rates were 2.9% for men and 3.1% for women respectively in 2009) and in the group of unpaid workers in family business; women are predominantly employed in segregated low paid economic activities and professions – health care, education, tourism, etc. The horizontal segregation of women and men into different types of jobs and their vertical segregation in different parts of the hierarchy are based on stereotypes and educational choices that take a lot of work to shift. Women’s greater share of responsibility for caring for children and discriminatory practices by employers also disadvantages their access to good jobs, pay and promotion.

Table 2.3. Main labour market indicators by sex, 2008 and 2009 (%)

	2008	2009	p.p changes
Total			
LFP rate	67.8	67.2	-0.6
Employment rate	64.0	62.6	-1.4
Unemployment rate	5.7	6.9	1.2
Long term unemployment rate	2.9	3.0	0.1
Male			
LFP rate	72.5	72.0	-0.5
Employment rate	68.5	66.9	-1.6
Unemployment rate	5.6	7.1	1.5
Long term unemployment rate	2.7	2.9	0.2
Female			
LFP rate	63.1	62.5	-0.6
Employment rate	59.5	58.3	-1.2
Unemployment rate	5.8	6.7	0.9
Long term unemployment rate	3.1	3.1	0.0

Source: LFS

Figure 2.1: Unemployment rate by sex



Between 2003 and 2008, the largest increases in employment were in the construction sector, wholesale and retail trade and repairs of vehicles and household goods and finally manufacturing. Financial intermediation and real estate, renting, and business activities grew very quickly in relative terms (35 percent and 34 percent between 2003 and 2007 according to the NSI) but started from smaller sizes. According to the WB Investment Climate Survey for Bulgaria, most job creation over the pre-crisis period (i.e. until 2008 in Bulgaria) has been in relatively low-skilled sectors where wages were low. Part of this can be explained by the demand side – the large amount of investment in construction and real estate reflecting the high level of demand for these services. But in other sectors, it is possible that important supply of available low-skill workers have contributed to the growth in low-wage, low-skill sectors. It is interesting to note for example, that according to the NSI business inquiries in March 2010 5.6% of the industrial enterprises pointed out the labour shortage as a factor limiting their activity.

Highest sector decrease following the global job crisis (GJC) were reported in economic activities accommodation and food service activities (16.7%), agriculture, forestry and fishing (16.6%) and construction (9%). As for employment, largest decline were found in manufacturing, agriculture, real estate activities and construction (table 2.4).

Table 2.4: Employment by sector (in thousands)

	2008	2009	Percentage point change
Total - All NACE branches	3306	3205	-3.1
Agriculture, forestry and fishing	233	219	-5.7
Mining and quarrying	35	34	-2.9
Manufacturing	765	709	-7.3
Electricity, gas, steam and air conditioning supply	42	41	-2.6
Water supply; sewerage, waste management and remediation activities	37	35	-6.0
Construction	338	320	-5.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	524	521	-0.5
Transportation and storage	188	186	-1.2
Accommodation and food service activities	167	167	0.0
Information and communication	71	70	-0.4
Financial and insurance activities	57	61	8.0
Real estate activities	14	13	-6.5
Professional, scientific and technical activities	81	85	4.4
Administrative and support service activities	70	68	-2.0
Public administration and defence; compulsory social security	234	233	-0.4
Education	204	189	-7.5
Human health and social work activities	155	161	3.7
Arts, entertainment and recreation	42	40	-6.1

Source: Eurostat

Employment and unemployment by education level

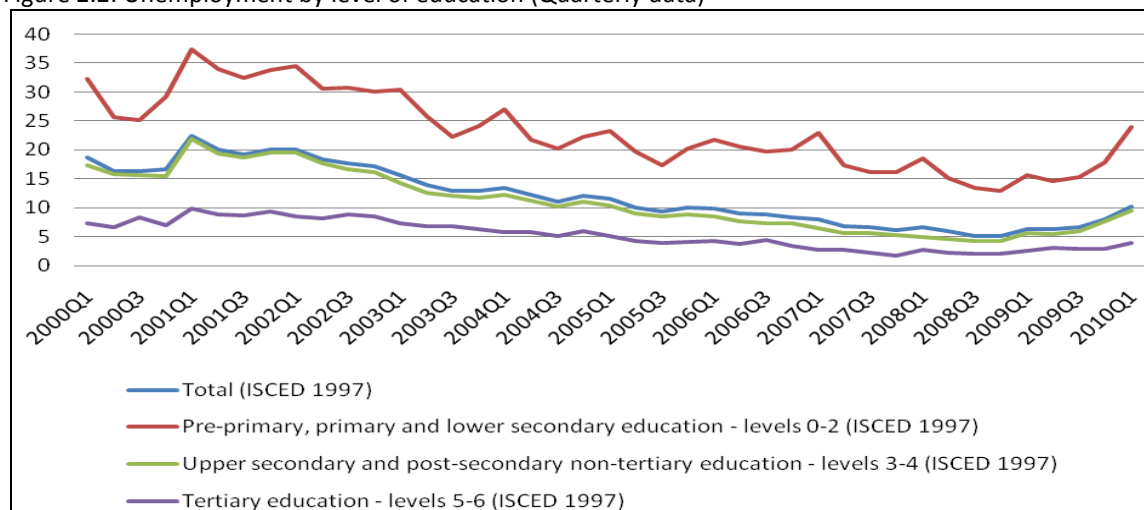
Employment rates have increased and unemployment has fallen across almost all levels of education attainment since 2003 (Table 2.5). Unemployment rates have fallen from about 6.7 percent in 2003 to 2.3 percent in 2007 (NSI, LFS) for people aged 15 to 64 with higher education; this rate increased however to 4.4 percent in 2009 (table 2.5). The changes have been less significant for people with upper secondary education (from 11.9 in 2003 percent to 9.2 percent in 2009). Those with lower secondary or primary education have been the main affected by the crisis, with an increase of their unemployment rates in 2009 (Figure 2.2).

Table 2.5 Statistics by level of Education

Statistic by level of education	2003			2009		
	Activity rates	Employment rates	Unemployment rates	Activity rates	Employment rates	Unemployment rates
Higher	75.2	68.5	6.7	88.1	85.5	4.4
Upper secondary	68.4	56.5	11.9	74.6	70	9.2
of which: <i>secondary vocational</i>	56.9	45	11.9	79.3	74.4	9.2
Lower secondary	43.6	24.2	19.4	39.7	34.2	20.1
Primary or lower	42.2	11.8	30.4	31.4	22.5	40.5

Source: Labor Force Survey from National statistical institute

Figure 2.2: Unemployment by level of education (Quarterly data)



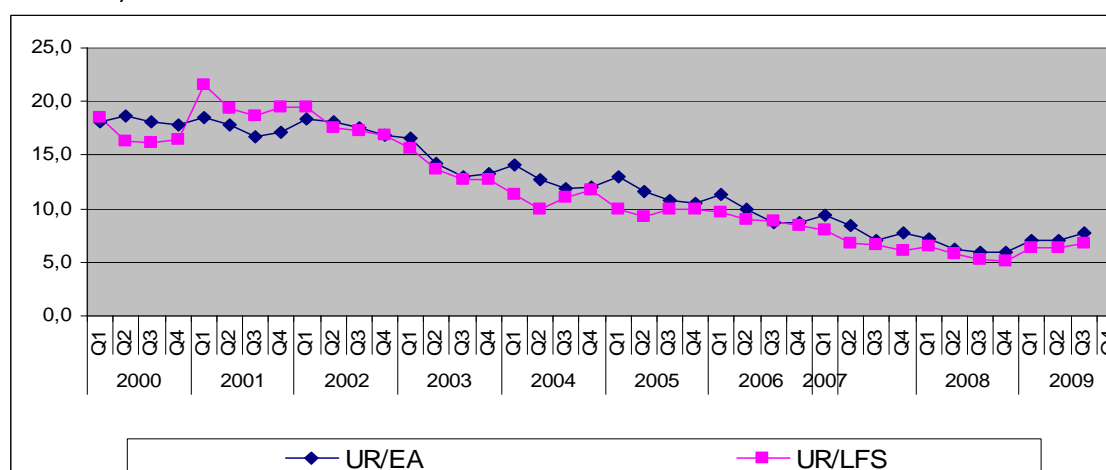
Source: Eurostat

Such trends also holds true for youth unemployment: while a sharp increase in unemployment rate has been observed for both the two categories of least educated young workers, a further spike has been recorded in the first quarter of 2010. In particular, the youth population in the lower secondary education category seem to be unable to recover from the crisis-related job losses, with the already high unemployment rate for this category (>25%) now skyrocketing above 40% (Q1,Q2 2010).

Unemployment composition

As pointed out above, the country went back to the unemployment rate levels of the mid 2007. The information coming from both the NSI (LFS) and the Employment agency clearly show further labour market deterioration; interestingly, figures recorded from the two sources (administrative and LFS data) for the nine months of 2009 are almost overlapping (Figure 2.3). This suggests that sources of undeclared work are also cut off in the course of the crisis.

Figure 2.3: Comparison of unemployment rates from administrative data and LFS (in % of the labour force)



Source: NSI Unemployment rate according to the LFS and administrative data of the EA.

As described before, the LFS unemployment rate increased by 1.2 percentage points between 2008 and 2009 to 6.8%, but in the last quarter of 2009 it already reached 7.9 per cent and even 10.2 per cent in the first quarter of 2010; however, data for the second and third quarters of 2010 display a slight decline of the unemployment rate to 10 and 9.5 per cent respectively. The raise

of unemployment rate was higher for men (by 1.5 percentage points) than for women (by 0.8 percentage points). The youth unemployment rate (15-24) was 16.2% in 2009. The registered unemployment rate increased by 1.3 percentage points between 2008 and 2009 to 7.6 per cent but further increased to 10.3 per cent in February 2010. Since then it has been declining to 9.2 per cent in July 2010. In terms of distribution by duration, the number of unemployed for less than a year rose by 39.6% compared to 2008 and achieved 134.6 thousand, representing 56.6% of all unemployed; the number of long-term unemployed was quite stable at about 3 percent. Moreover, unemployment continues to have a clear regional dimension, with lowest level found in Sofia City (3.9 percent) while the highest rate could be found in the North-east part (table 2.6). This of course reflects to a certain extent the sector specialization of some regions and towns (such as metallurgy, chemical industry, coal mining, machine industry, but also suggests that the territorial mobility of the Bulgarian workforce is very low in the country. In the majority of regions, unemployment rate has grown in 2009 compared to the previous year. Finally, unemployment has a strong ethnic dimension, in particular for the Roma minority group⁷.

Table 2.6: Unemployment, employment and LFP rates by regions, 2009

Statistical regions	Unemployment rates 64	Employment rates 64	LFP rates	
	Total	Total	Total	Female
Total	6.9	62.6	67.2	62.5
North-West	8.1	57.5	62.6	59.7
North Central	8.4	57.9	63.3	57.5
North-East	10.5	59.2	66.2	59.9
South-East	6.7	61.2	65.6	59.1
South-West	4.2	70.4	73.4	70
South Central	7.3	60.5	65.3	60.6
Urban	5.8	65.6	69.6	
Rural	10.3	53.9	60.1	
<i>Sofia</i>	<i>3.9</i>	<i>73.3</i>	<i>76.3</i>	<i>72.8</i>

Source: Labor Force Survey (2009) National statistical institute

Labour demand

The economic and financial crisis has had a tangible effect on the demand for labour, while the labour offices have observed a trend towards a decrease in the number of announced vacancies. The labour demand in the period January 2009-September 2009 has decreased by 2.4% compared to the same period in 2008. This is due to the decreased number of announced vacancies under the promotional measures under the E Pact – with 6 486 or 58.9% less related to the decreased planned funding for jobs; the decrease in the primary labour market – with 2 180 (1,9%). The employment promotion programmes however have contributed to an increase of 6,9% or 4 237 jobs more, due to new programmes and new jobs under the programme “From Social Assistance to Employment”. The seasonal factor is influencing the labour market dynamics. Unqualified labour was still on demand due to the increase of jobs funded under the employment promotion programmes – see table 2.7.

⁷ Members of the Roma ethnic groups face major employment barriers, possibly due to skill and education deficits. The Roma did not for example benefit from the improved labour market conditions in Bulgaria between 2003 and 2008; their unemployment rate in 2007 was about 36 percent, compared with 7 percent for the country at the whole.

Table 2.7. Announced vacancies

Indicators	January-September 2008		January-September 2009	
	Numbers	%	Numbers	%
Announced vacancies, Including:	188400	100,0	183971	100,0
1. In the primary labour market	116267	61,7	114087	62,0
2. Measures under the Employment Promotion Act	11003	5,8	4517	2,5
3. Under employment programmes	61130	32,5	65367	35,5

Source: NEA

Other Labour Market Challenges

Existing labour market challenges are magnified by Bulgaria's steadily declining and ageing population. The benign environment for job creation has changed, as the global economic crisis affected labour demand in Bulgaria. Growth in sectors that have been the engine of job creation until now—construction, industry, real estate, and trade—has declined. This has been driving up unemployment since late 2008, although the demand for highly skilled workers is likely to remain strong. Indeed, despite the crisis, there continue to be many available vacancies that remain unfilled. While much of the upsurge in unemployment is therefore cyclical, there is a strong structural element to unemployment and underemployment, much of which appears to be driven by skill mismatches. Moreover, the negative impact of the crisis on the Bulgarian labour market is enhanced by the existence of additional factors such as the return of more and more Bulgarian emigrants from the countries where they worked until recently (Spain, Italy, UK, etc.).

Moreover, having in mind the lagging-behind crisis in Bulgaria and its later-on influence on labour markets (as a common rule) there are arguments about unemployment rate eventually reaching higher two-digit values in the first half of 2010. The state budget is based on projections that the unemployment rate in 2010 would be 11.4 %. The trade unions and the employers' organizations argue however that given the number of the discouraged unemployed and the returning emigrants the real level of unemployment is already and is going to be much higher (table 2.8). The budget prognosis for 2010 for an average level of 11.4 percent suggests that the officially registered unemployment rate will exceed 13.7 percent by the end of this year. By considering the non-registered permanently unemployed and discouraged people, as well as the growing influx of labour migration towards the country, the real unemployment rate in December 2010 is expected to reach a critical point in social tolerance (19-20 percent depending on the structure evaluation of the economic active people).

Table 2.8: Part-time employees and discouraged unemployed in Bulgaria

			2003	2005	2007	2008	2009
Part-time work	Part-time employment rate (%)	Male	1.7	1.6	1.2	1.9	
		Female	2.7	2.4	2.1	2.7	
		Total	2.2	2	1.6	2.3	1.6
Discouraged workers	(Thousands)	Total	434.5	344.5	205.4	151.9	186.4
		Male	230.1	181.4	108.6	77	97.1
		Female	204.4	163.1	96.8	74.9	89.3
		15-64	431	341.5	201.1	149.9	184.2
		15-24	105.1	76.4	44.7	33.6	41.9
		25-34	95.6	71.8	34.6	27.3	33.1
		35-44	82.6	71.1	40.4	34.2	42.3
		45-54	99.3	77.7	44.4	30.8	40.6
		55 and over	52	47.4	41.3	26	28.4

Source: Labor Force Survey(2009) from National statistical institute, KILM for Long term unemployment and part- time work data

4. Impact on the social protection system

Bulgaria provides a comprehensive coverage of social protection by means of social insurance, social assistance and other social welfare benefits. To analyse the impact of the global crisis on the social protection system, this section focuses on the unemployment insurance, pension system, and social assistance programmes for low income households. Table 3.1 summarizes the key macroeconomic indicators and social security indicators in 2008 and 2009. Table 3.2 presents the social security contribution rates by different benefit branch for the period 2006-10.

Table 3.1. Key social security indicators, 2008-09

Indicators	2008	2009				2009
		Q1	Q2	Q3	Q4	
GDP (in BGN millions)	66,728	13,961	16,322	18,056	17,917	66,256
Inflation (%)	12.3	..	..	..	..	2.8
Average salary (BGN, monthly)	524	563	588	583	625	..
Registered unemployed (in persons)	233,719	247,813	264,309	290,526	321,272	280,980
Unemployment rate (%)	6.31	6.69	7.14	7.84	8.87	7.59
Number of insured persons in NSSI (in thousands)	2,865	2,835	2,807	2,766	..	..
Average insurable income (BGN, monthly)	500.56	540.18	555.11	551.10	..	..
Revenues from social security contributions (in BGN millions)	4,198	901	934	901	969	3,732
Transfers and subsidies from the state budget (in BGN millions)	2,237	783	544	792	1,755	3,874
Expenditure on social security benefits (in BGN millions)	6,451	1,713	1,846	2,032	2,053	7,644
Number of pensioners (in thousands)	2,215	2,197	2,190	2,188	2,189	2,193
Expenditure on pensions (in BGN millions)	5,597	1,453	1,581	1,720	1,727	6,480
Number of persons receiving unemployment benefits	61,367	106,577	110,506	113,029	..	..
Expenditure on unemployment benefits (in BGN millions)	99	42	57	68	72	238
Number of beneficiaries of sickness benefits (in thousands)	2,267	581	521	495	..	..
Expenditure on sickness benefits (in BGN millions)	278	83	82	89	94	348
Expenditure on maternity benefits (in BGN)	197,814	69,735	60,433	84,533	86,224	300,925
Expenditure on child care benefits (in BGN)	129,012	35,082	30,145	30,179	32,184	127,588
Average pension (BGN, monthly)	208.97	218.56	238.47	259.90	261.04	244.46
Social pension (BGN, monthly)	80.17	92.53	92.53	100.86	100.86	96.70
Minimum old-age pension (BGN, monthly)	108.17	124.84	124.84	136.08	136.08	130.46
Maximum pension (BGN, monthly)	490.00	490.00	700.00	700.00	700.00	647.50
Dependency ratio (%)	77.28	77.54	78.14	79.17	..	..

Source: NSSI

Table 3.2. Social security contribution rates by branch, 2006-10

Contribution rates	From 01.01.2006	From 01.01.2007	From 01.10.2007	From 01.01.2008	From 01.01.2009
1. Pension					
Category III:					
a) persons born before 1.1.1960.	23%	23%	22%	22%	18%
b) persons born after 31.12.1959.	19%	18%	17%	17%	13%
Category I and II:					
a) persons born before 1.1.1960.	26%	26%	25%	25%	21%
b) persons born after 31.12.1959.	22%	21%	20%	20%	16%
Military personnel, investigators and other special laws:					
a) persons born before 1.1.1960.	26%	26%	25%	25%	21%
b) persons born after 31.12.1959.	22%	21%	20%	20%	16%
2. Sickness and maternity	3.5%	3.5%	3.5%	3.5%	3.5%
3. Employment injury and occupational disease (by economic activities)	0.4–1.1%	0.4–1.1%	0.4–1.1%	0.4–1.1%	0.4–1.1%
4. Unemployment	3%	3%	1%	1%	1%
5. Teachers' Pension Fund	4.3%	4.3%	4.3%	4.3%	4.3%
6. "Guaranteed receivables of workers and employers"	0.5%	0.5%	0.5%	0.5%	0.1%
7. Supplementary pension insurance:					
– Universal Pension Fund	4%	5%	5%	5%	5%
– Professional Pension Fund:					
Category I	12%	12%	12%	12%	12%
Category II	7%	7%	7%	7%	7%
8. Health Insurance	6%	6%	6%	6%	6%

Unemployment insurance

In Bulgaria, the unemployment insurance is administered by the National Social Security Institute (NSSI). The unemployment benefit is payable to an unemployed person who is insured at least nine months over a 15 months period prior to unemployment. In October 2007, the contribution for unemployment insurance was decreased from 3% to 1% of the insurable wages. Table 3.3 summarizes key performance indicators of the unemployment insurance in Bulgaria. The following observations are made:

- The number of the insured persons increased from 2006 to 2008. Since then it has been decreasing.
- The number of the registered unemployed decreased in 2008 but returned to the 2007-level in 2009 and increased by 30% in the first half of 2010.
- Accordingly, the number of beneficiaries of the unemployment insurance almost doubled from 67,431 (29% of the registered unemployed) in 2008 to 121,034 (43% of the registered unemployed) in 2009, and continues to increase in the first half of 2010.
- The average monthly amount of unemployment benefit increased by 34% from 123 BGN in 2008 to 164 BGN in 2009. The average unemployment benefit in 2009 is equivalent to 68% of the minimum wage or 78% of the poverty line.
- As a consequence of increase in both the number of beneficiaries and the average benefit, the expenditure on the unemployment benefit increased by 2.4 times from 99.4 million BGN in 2008 to 238.2 million BGN in 2009. The spending of the unemployment benefits remains at a still high level in the first half of 2010.

After attaining its peak at 10.2% in February 2010, the unemployment rate has been decreasing. In April 2010, the number of the registered unemployed stood at 368,000. Of these, 110,904 were receiving the unemployed benefits and about 110,000 were receiving social assistance benefits and vocational training. In total, these beneficiaries account for more than 60% of the unemployed persons. The recent substantial increase in the unemployment benefits demonstrates that the existing unemployment insurance scheme responded to the crisis as an automatic stabilizer of the Bulgarian economy. In addition to the high demand for benefits, the contribution income of the unemployment insurance was reduced due to the reduced number of the insured persons and the reduction of the contribution rate since October 2007. As a result of the combined effects of these measures, the unemployment insurance fund is expected to produce a deficit in the order of BGN 40 thousand in 2009.

Table 3.3. Key statistics of the unemployment insurance, 2006-10

	2006	2007	2008	2009	2010 Q1-Q2
Insured persons of unemployment fund (A)	2,065,539 (51%)	2,443,252 (49%)	2,483,975 (50%)	2,396,571 (50%)	2,260,096 (51%)
Registered unemployed persons (B)	356,054 (57%)	286,980 (60%)	233,719 (62%)	280,980 (58%)	364,564 (54%)
(B)/(A)	17%	12%	9%	12%	16%
Registered unemployed persons receiving unemployment benefit (C)	70,014 (60%)	65,072 (62%)	67,481 (63%)	121,034 (54%)	146,738 (51%)
(C)/(B)	20%	23%	29%	43%	40%
Expenditure on unemployment benefits (in BGN thousands)	88,981	86,084	99,373	238,245	155,483
Average monthly unemployment benefits (in BGN thousands)	106	110	123	164	177

Source: NSSI

Note: The percentage in brackets shows the share of women.

Overview of the Bulgarian pension system

In 2000 the Bulgarian pension system went through a major structural reform. As a result, the Bulgarian pension system has been reorganized into the following three-tier structure.

- The State Pension System provides defined-benefit pensions financed from the social security contributions. Around 2.8 million workers are covered by the State Pension System. The National Social Security Institute (NSSI) is the administrative agency of the state social insurance. Since 2006, the National Revenue Agency has been in charge of the collection of social security contributions.
- As a result of the 2000 reform, two types of mandatory supplementary pension have been implemented. First, the employees and self-employed born in 1960 or later must become members of Universal Pension Funds (UPFs). Second, employees of labour categories I and II (i.e. workers under heavy and hazardous conditions, representing about 4% of the employees) must, regardless of their age, join Professional Pension Funds (PPFs) in addition to the Universal Pension Funds. Both UPFs and PPFs are independent legal entities managed by private pension insurance companies (PICs) regulated by the Financial Supervision Commission (FSC). The contributions to the mandatory supplementary pension schemes are collected by the National Revenue Agency as a part of the total social security contribution and transferred to the respective pension insurance companies.
- In addition, any individuals can join voluntary supplementary pension funds (VPFs) on a voluntary basis. In 2007 occupational pension schemes based on collective bargaining agreements was introduced. The following tables summarize basic statistics of the supplementary pension funds.

Table 3.4 Members in supplementary pension funds by sex, 31.12.2009

	Men	Women	Both sexes
Universal Pension Funds	1,502,614	1,432,310	2,934,924
Professional Pension Funds	193,496	33,433	226,929
Voluntary Pension Funds	349,276	249,060	598,336
Occupational Pension funds	1,682	3,087	4,769

Source: Financial Supervision Commission

Table 3.5 Statistics of voluntary pension funds in Bulgaria, 2005-07

	2005	2006	2007
Number of pension funds	8	8	9
Number of members	551,943	567,772	594,718
Turnover (in BNG thousands)	99,736	105,210	157,368
Expenditure on pensions (in BNG	33,940	54,359	53,435
Total investments of pension funds (in	401,949	493,844	655,880
Production value - thousand levs	7687	8076	15448

Source: NSI, Structural Business Statistics, Voluntary pension funds

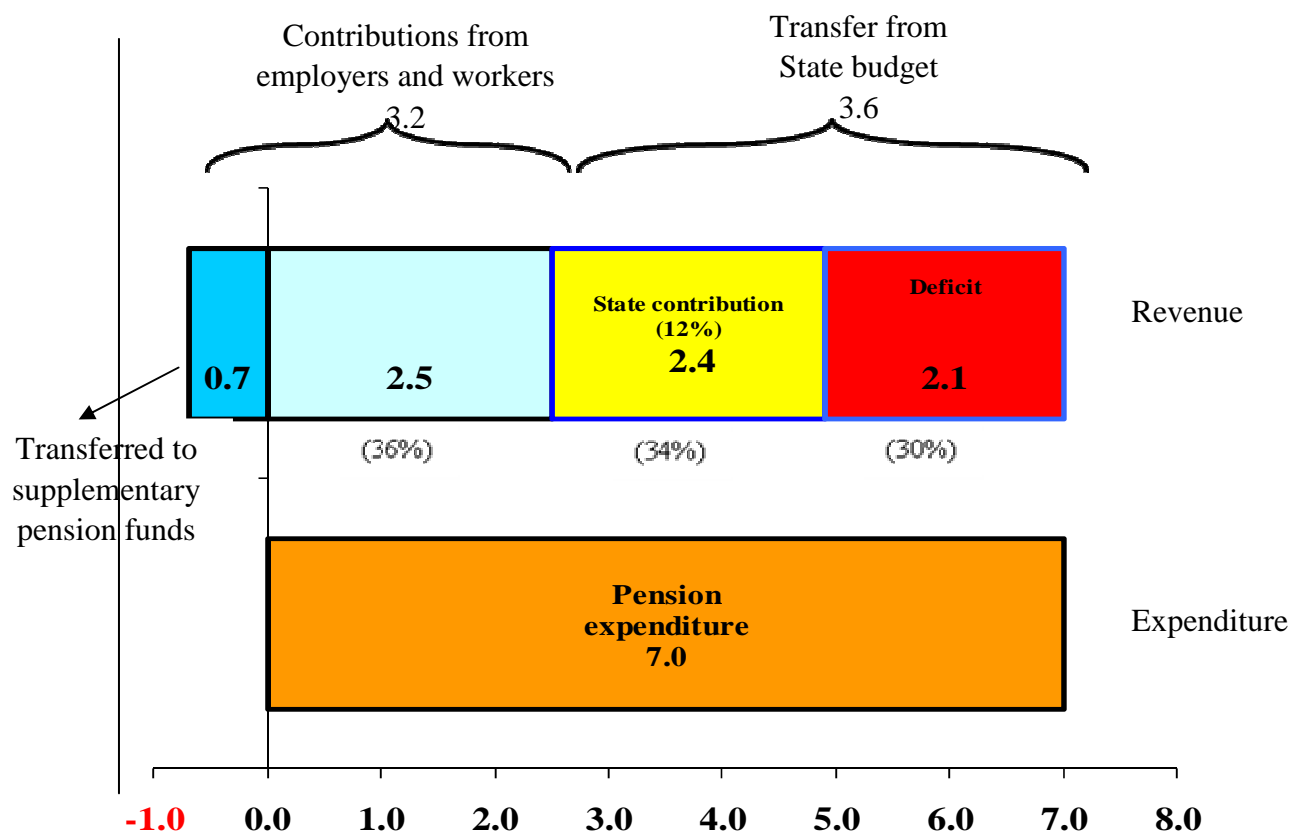
Impact on the financing of the State Pension

In Bulgaria, the State Pension System takes a dominant share amongst all the social security systems in terms of beneficiaries and spending. In 2010, the NSSI pays pensions to 2.2 million pensioners and its expenditure is estimated at 7 billion BGN, which accounts for nearly 90% of the total social security expenditure. During the process of transition to the market economy in the 1990s, the financial situation of the pension system deteriorated significantly due to the provision of retirement, early retirement and invalidity pensions to a large number of retrenched workers. For the last decade the social security fund has been producing a deficit every year and the deficit has been covered by the transfer from the state budget.

As an immediate consequence of the global crisis, the decreased employment rate and irregular and delayed payment of salaries further aggravated the financial situation of the State Pension System. However, the issue of pension financing should be considered from a longer term perspective in view of the long-term characteristics of the pension system. In this respect, it should be noted that the Government has recently implemented the following measures on the pension system.

- On the revenue side, the rate of social security contributions levied to employers and employees has been gradually reduced, in order to enhance the competitiveness of Bulgarian companies. In October 2007, the total contribution rate of mandatory pensions (for workers in labour category III) was decreased from 23% to 22% (at the same time, the contribution rate for unemployment insurance was reduced from 3% to 1%). Furthermore, in January 2009, the total mandatory pension contribution rate was further reduced to 18%. To compensate the gap in the financing, a State contribution of 12% has been introduced.
- On the expenditure side, the benefit level has been increased in various ways. In 2007, the pensions in payment were indexed twice by 10% each in July and in October. In July 2008, the pensions were indexed by 10.35%, as compared to the originally planned 9.5% increase. In October 2008, all contributory pensions which had been awarded under the former pension system were recalculated on the basis of the 2007-level average insurance wage, which resulted in 5.8% increase in the average pension. In 2009, after the 9% indexation in July, the accrual rate in the pension formula was increased from 1% to 1.1% for each year of insurance period. At the end of the year, additional lump sum of 100 BGN was paid in 2007 and 150 BGN in 2008. As a result, in 2009 the average pension attained a level of 56.3% of the average net salary and 44.1% of the average gross salary, as compared to 51.1% and 39.8%, respectively, in 2000.

Figure 3.1. Illustration of revenue and expenditure of the Bulgarian State Pension Fund, 2010 (in BGN billions)



Source: ILO's calculations based on NSSI data

As a consequence, the deficit in the State Pension Fund has widened to a considerable magnitude. Figure 3.1 depicts the structure of revenue and expenditure of the Bulgarian State Pension Fund in 2010. The following observations will emerge:

- The total amount of pension contributions collected from employers and workers is estimated at 3.2 billion BGN. Of this amount, 0.7 billion BGN is diverted to mandatory supplementary pension funds. Hence, the remaining 2.5 billion BGN is remitted to the State Pension Fund.
- The State contribution⁸, which has been introduced since 2009, amounts to 2.4 billion BGN. However, the pension expenditure still exceeds the total contributions from the State, employers and workers by 2.1 billion BGN.
- The contributions to the State Pension Fund cover only 36% of its benefit expenditure (excluding the administrative expenses). On the contrary, the State budget covers 64% of the expenditure of the State Pension Fund consisting the State contribution (34% of the pension expenditure) and the spending for covering the deficit (30% of the pension expenditure).

This analysis indicates that the Bulgarian State Pension Fund is not self-financing by the contributions from employers and workers and it relies heavily on the transfer from the State budget in the form of State contributions or in the form of deficit covering. Currently the total amount of

⁸ If the low coverage of the pension insurance persists, the Government contributions to the insured workers may become more distortive. On the other hand, the low pension system coverage may result in more number of elderly without pension, which in turn will lead to demand of social assistance for the poor elderly.

the State budget transfer to the State Pension Fund is estimated to be more than 5% of GDP. The State spending on the pensions has put additional pressure on the financial authority of Bulgaria who aim to comply with the EU criteria in Bulgaria's pursuit to the accession to the Euro zone.

Furthermore, the Bulgarian pension system involves a concern with long-term sustainability in the context of severe population ageing which will accelerate from 2020. Unless steps are taken now to rectify the financial basis of the pension system, the fiscal gap is expected to grow in the future.

Impact on the investment of private pension funds

Privately managed pension funds have been adversely affected by the decline in the stock market. Most private pension funds invested in stocks at 25% maximum limit of the total portfolio which were highly concentrated in Bulgarian shares. Global deleveraging by foreign institutional investors led to a withdrawal of their holdings from the Sofia stock exchange, leading to a sharp fall in stock market prices. The total net assets of the voluntary pension funds declined by 29 percent in 2008, while their investment in stock shrunk by over 53 percent. Bulgarian private pension insurance funds recorded negative rates of return in 2008, prompting bottom yields at -10.5 per cent for Universal Pension Funds and -12 per cent for occupational pension schemes. The Financial Supervision Commission (FSC) reported that the average rate of return of Universal Pension Funds was -7.5% in 2008. The FSC noted that pension insurers have recorded positive rates of return in 2009, averaging almost 8 per cent for all three types of insurance funds.

The crisis affected different types of pension schemes in different ways. Furthermore, the effects of the crisis were felt differently by different generations. As summarized in Table 3.6, the most affected are the workers who are close to retirement, those with long periods of membership in the funded pension schemes, and in particular those whose investment portfolio is heavily exposed to riskier assets such as stocks. In the case of mandatory supplementary pension schemes in Bulgaria, the number of worst affected group was rather limited as most of the members were younger than 50 years of age and thus in the accumulation phase of their retirement savings. However, this experience of the crisis revealed the sensitivity of pension levels in fully-funded defined-contribution schemes with respect to the financial market volatility and the way its consequences had to be borne by workers.

Table 3.6: Effects of the crisis on pension schemes by different groups

	Younger/prime-age	People near to retirement	Retirees
Strongly affected		Individuals in mature, private DC schemes Especially: i) where exposure to riskier assets is greater; and ii) where people are required to annuitize their balance at retirement	Retirees who did not annuitize their DC balances at retirement Especially those with greater exposure to riskier assets
Moderately affected		Individuals in mature, private DB schemes Public, PAYG systems with deficits	Retirees in plans with automatic benefit adjustments (e.g. conditional indexation, balancing mechanisms,
Less affected	Most individuals in this group	Individuals with recently established private DC schemes	Retirees who annuitized DC balances before the crisis Most retirees with DB private pensions or public, PAYG benefits

Source: OECD, Pensions at a Glance 2009: Retirement-income systems in OECD countries.

Impact on the social assistance programmes

In Bulgaria there has been a relatively constant number of the poor ranging between 1.1 and 1.2 million. It is estimated that 21% of the population lived in poverty in 2008. The economic crisis increased the need for social assistance for low income Bulgarian households. The global crisis has also affected remittances from Bulgarians working abroad, which constitute almost 7% of the

household consumption. Overall poverty is estimated to increase by up to 25% by end-2010 (between 2008 and end-2010, an additional 182,000 people are estimated to live below the poverty line to reach a total number of poor of 922,000), while the number of extreme poor could increase by 14% and exceed 400,000 people at the end of 2010. The increase in extreme poverty is particularly sensitive to remittances, since the remittances constitute 30 % of the household consumption and 35% of the income of families that depend on them.⁹ In Bulgaria, the main social assistance benefits are the Guaranteed Minimum Income (GMI) and the Heating Allowance (HA)¹⁰. These programmes provide cash benefits to the poor and vulnerable households whose income fell below a certain minimum income level. The minimum income level is established every year by the Council of Ministers as the cost of a basket of essential food. Its level is lower than the minimum wage, social pension or the minimum unemployment benefit.

The GMI programme is means-tested. The eligibility depends on the income and assets of the household, family size, health and employment status, age, and other requirements stipulated in the Social Assistance Act. The amount of the minimum income is determined by age, family size, composition, and other circumstances. The GMI benefit is calculated as the difference between the adjusted minimum income and the actual income of the beneficiary household in the previous month of the application.

The 2007 NSI household survey data show that a large portion of the GMI programme resources reached the poor and vulnerable population and ethnic minorities, particularly the Roma who account for almost 75 percent of the GMI beneficiaries. Despite the efficiency in benefit targeting, these programmes have rather limited impact on the poverty reduction due to the low benefit levels and their coverage of the poor.¹¹ Based on the data of 2008, the estimated poverty incidence rate in the absence of any social transfer was 43.5%. This was substantially decreased to 18.3% as a result of income transfer by the pension system, and it was further reduced to 14.4% by taking into account the other social transfers.

Bulgaria spends about 1.3 % of the GDP on social welfare programmes, compared to the OECD countries average of 2.5% and the ECA countries average of 1.7%. The targeted social assistance programmes and child care benefits account for about 80% of Bulgaria's spending on social welfare programmes.

In recent years, the government has tightened the eligibility conditions for these social assistance benefits to let the beneficiaries seek a job more actively. From July 2006, the maximum duration of GMI benefits for an able-bodied working age beneficiary was reduced to 18 months. The beneficiaries cannot re-apply for the benefit within 12 months of the expiry of the GMI benefit, although they can enrol in employment training programmes. This measure has been strictly enforced since January 2008, resulting in a substantial drop in the number of beneficiaries from around 60,000 to below 50,000 in just two months. Moreover, the maximum duration of GMI benefits was further reduced to 12 months from July 2008. Following the recent observation by the European Committee of Social Rights that the tightening of eligibility conditions for social assistance is in violation of the European Social Charter, the Government has amended the legislation. However, the amendment will only come into force in 2011.

⁹ Reference could possibly be made to the source of these figures. World bank, 2008, *Bulgaria; Living conditions before and after EU accession*

¹⁰ Other related benefits and programmes are as follows:

- (1) child care benefits through Monthly Benefits for Families with Children (MBFC), maternity leave, birth grants for uninsured households and other related support schemes under the Law on Family Support for Children;
- (2) cash benefits for people with disability through Monthly Supplement for Social Integration (MSSI), which provides supplement to disability pension and supports the social integration of persons with disability;
- (3) Social welfare system also provides social care services in institutions and supports for communities and families.

¹¹ World bank, *Social Assistance Programmes: Cost, Coverage, Targeting and Poverty Impact*, September 2009, p. 2

A survey conducted by the NSI in April 2008 shows that only 15% of GMI beneficiaries found formal employment while 70% of the surveyed beneficiaries remained unemployed 3 months after GMI benefits expired, and almost 15% worked in the informal sector, as self-employed, or in temporary employment. About 27% of the former GMI beneficiaries responded that they had not looked for any jobs after losing GMI support. The main reasons quoted include: lack of qualification (almost 60% of the GMI beneficiaries had primary education or lower), low pay offered, family reasons (child care), long distance to the offered job place from the residence. The survey results also pointed out insufficient support from employment offices: many former GMI beneficiaries reported that they were not properly informed of job opportunities and were not promptly offered participation in the subsidized employment or training programmes, despite early registration and preparation of individual action plans.

As indicated in Table 3.7 below, the budget of the GMI programme has been kept unchanged in nominal terms since 2006. Further, the actual spending has been declining rapidly in particular in 2008 when the above-explained change in GMI eligibility was introduced. It should also be noted that the payment of BGN 50 million planned for Heating Assistance (HA) in 2009 was deferred to 2010.

Table 3.7: GMI budget and expenditure, 2006-09 (in BNG thousands)

Year	2006	2007	2008	2009
Budget	85,850	85,850	85,850	85,850
Actual	83,480	65,759	38,217	

Source: Social Assistance Agency

In addition, concerns have been expressed as the budget for 2010 reduced the funds allocated for active labour market policy from BGN 165.6 million to BGN 65 million. This drastic reduction will have a negative impact on the implementation of the National Programme "From Social Assistance to Employment" which provides 22,000 target persons with a subsidized employment combined with social assistance benefits. Due to the budget reduction in 2010, the programme can enrol only up to 7,000 workers per month.

Poverty line

Bulgaria introduced an official poverty line in 2007. Since October 2009, the National Council for Tripartite Cooperation (NCTC) has adopted a new poverty line of BGN 211 (about €108) per month. Table 3.8 below presents the amounts of the poverty line for the period 2007-10.

Since 2007 the relative method of poverty monitoring adopted by Eurostat has been used to determine the poverty line by the Council of Ministers. In this method, the poverty line is set at 60% of the median equivalent income based on the classification of the households according to the total net income per equivalent unit. The poverty incidence rate in Bulgaria does not deviate significantly from the average of the EU Member States. However there is a considerable difference in the poverty line as measured in Euro. For example, the poverty line in Bulgaria in Euro terms is 2.8 times lower than the average of EU-12 countries and 13 times lower than the average of EU-15 countries. When measured in purchasing power parity (PPP) terms, the difference in the poverty line narrows considerably. In PPP terms, the poverty line in Bulgaria is two times lower than the EU-12 average and about 5 times lower than the EU-15 average.

Recently there has been a debate on the possible introduction of a mechanism to link the poverty line with the minimum wage or the indexation of the social security benefits. The government is committed to improve the methodology of determining the poverty line and to

develop an appropriate mechanism to adjust the poverty line. However, the current crisis offers grounds for postponing any decisions on these issues until the recovery of the economy.¹²

Table 3.8. Total household income by source, 2008 and 2009

Sources	December 2008			December 2009		
	Percentage (%)	Average per household (BNG)	Average per capita (BNG)	Percentage (%)	Average per household (BNG)	Average per capita (BNG)
Total income	100.0	925.28	376.23	100.0	812.90	331.62
Total gross income	96.4	892.31	362.83	95.0	772.58	315.17
Wages and salaries	44.6	412.98	167.92	49.5	402.02	164.00
Other earnings	8.7	80.22	32.62	5.7	46.35	18.91
Self-employment income	5.9	54.95	22.34	7.1	57.69	23.54
Property income	0.7	6.79	2.76	0.9	7.41	3.02
Pensions	20.0	185.35	75.37	27.4	222.42	90.73
Unemployment benefits	0.2	1.59	0.65	0.6	4.81	1.96
Family allowances	0.5	4.87	1.98	1.0	7.88	3.21
Other social benefits	14.8	136.95	55.69	2.3	18.73	7.64
Regular inter-household transfers	0.9	8.60	3.50	0.6	5.27	2.15
Receipt sale	0.5	4.33	1.76	1.0	8.24	3.36
Miscellaneous	3.1	28.64	11.65	3.9	32.08	13.09
Drawn savings	X	19.29	7.84	X	23.65	9.65
Loans and credits	X	10.37	4.22	X	8.14	3.32

NSI Published on 15.02.2010

5. Impact on wages and working conditions¹³

Wage growth slowing down

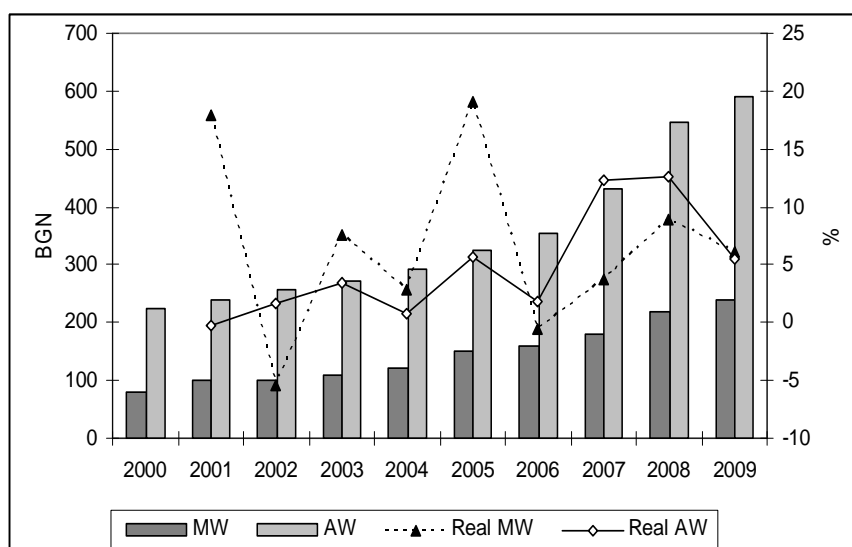
Not surprisingly wage trends have been reflecting the economic context. The growth in average wage was rather impressive in the pre-crisis period characterized by strong economic growth. The average annual nominal gross wage increase in the period 2004–2007 amounted to 12.1%. This was due to a sharp labour force shortage – especially of qualified workers – but also by the continuing practice of annual negotiation of minimum social security thresholds and the first-ever social partner agreement on a national pay increase index in the private sector in 2007.

Since the crisis did not hit Bulgaria before the end of 2008, wages continued to experience high growth in 2008 but started to be affected in 2009. Despite the economic and labour market deterioration wages in nominal and real terms continued to grow in 2009 but at much lower rate. In nominal term the average wage rose by 8.4% in 2009, compared to the rather high rates in 2007 (12.5 per cent) and 2008 (22.2 per cent).

¹² Analysis of the Economic and Social Council: "Tackling Poverty in Bulgaria", p.10

¹³ Written on the basis of the national report written by Vassil Tzanov in D.Vaughan-Whitehead (Ed.), *Work Inequalities in the Crisis – Evidence from Europe*, Forthcoming (2011), ILO in cooperation with Edward Elgar.

Figure 4.1. Nominal and Real Wage Dynamics, 2000-2009



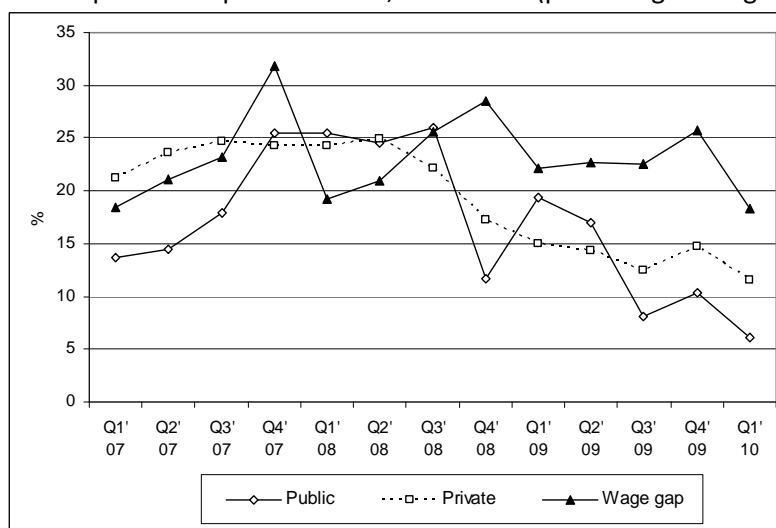
Source: NSI.

In real terms average wages also increased in 2009 by 5.5 per cent compared to 12.6 per cent in 2008. The crisis thus started to affect average wages in 2009 and the situation was expected to further deteriorate on the wage front in 2010.

A differentiated effect in the public and the private sector

Undoubtedly the wage impact of the crisis was not the same for public sector and private sector employees. While the average wage in the public sector remains traditionally higher than the one in the private sector, by 30 per cent at the end of 2007, the crisis led to a serious fall of the average wage growth among public sector employees due to the wage cuts introduced in the budgetary sector in 2009. This process further strengthened in 2010 (figure 4.2). As a result the wage gap between the public and private sectors was reduced from 30 to 18 per cent between late 2007 and early 2010 (Figure 4.2).

Figure 4.2. Wages in the public and private sector, 2007-2010 (percentage change Q1/Q1-4)



Source: NSI

While employment adjustments have been more severe for men because it has mainly concerned sectors dominated by males like construction and industry, women have somehow been

also affected by the crisis through its impact on wage levels. Newest data show that not only the gender pay gap is persisting in Bulgaria, which was estimated to be nearly of 16 per cent in 2010,¹⁴ the effects of the crisis on wage negotiations may further aggravate the situation. In fact wage-fixing decentralization and the promotion of individualised pay observed in the country reflects a move away from more collectively negotiated arrangements that contributed to reduce the wage gap. Individualisation has also been associated with reduced transparency – bonuses and performance pay – that are often detrimental to the female labour force.

Minimum wage and increasing low pay

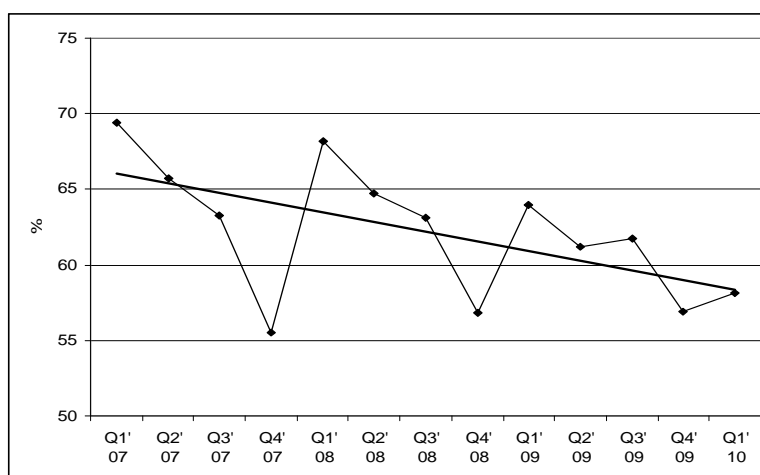
The minimum wage is determined by the Council of Ministers after consultations with the social partners in the NCTC. There is no differentiation between different groups of workers in this respect. In the period between 2003 and 2007 the minimum wage increased by 50 per cent in nominal terms and by 23 per cent in real terms. From the 1st of January 2009 the minimum wage was set at BGN 240 (about € 120), representing an increase of 8 per cent compared to 2008.¹⁵ In the course of 2009 the trade unions requested an additional increase of the minimum wage but the government considered that this would limit the employment opportunities of most vulnerable workers – that is low-qualified workers, young people without professional experience or persons employed in the sectors most affected by the current economic crisis. The trade union CITUB declared its disagreement with the approach taken by the government to freeze the minimum wage. The employers' organizations fully supported the government's decision to freeze the statutory minimum wage under the argument that this was a reasonable measure in light of the economic crisis and the risk of additional job losses. During the discussions at the NCTC meeting in October 2009, government representatives declared their willingness to adopt a more flexible income policy in case of an improvement in the economic situation.

However the minimum wage remained frozen for the whole period of 2009 and 2010, as well as wages in the public sector. As a result this led to an increasing gap between the minimum wage and the low pay threshold generally defined as being 60 per cent of the median wage. The low pay threshold raised by 9.9% but the minimum wage remained unchanged through the entire period. As a result the ratio of "MW/LP" experienced a downward trend (figure 4.3). This means that the pressure at the bottom of wage distribution increased during the crisis, and that the number of low-paid workers rapidly increased. Almost 2/3 of women are employed in low paid branches.

¹⁴ Data provided by CITUB on the occasion of the 8th March 2010 based on NSI average annual wages and salaries data of employees under employment contract

¹⁵ In practice, a starting level that is higher than the minimum wage is negotiated at sector and company levels. For example, in the new metalworking branch collective agreement (January 2009) the minimum wage was set at BGN 350 (€179). In recent years, there has been a clear tendency whereby a decreasing proportion of full-time employees are receiving the minimum wage, with the share dropping from 16% in 2005 to 12.4% in 2007.

Figure 4.3. Dynamics of the ratio “MW/LP”, 2007-2010



As a result both the minimum wage and the average wage have lost ground compared to the subsistence minimum as shown in the table below.

Table 4.1. The minimum wage and the average wage compared to the poverty line, 2007-10

	2007	2008	2009	2010
Official poverty line (in BGN)	152	166	194	211
MW (in BGN)	180	220	240	240
Average wage (in BGN)	430	524	578*	600**
MW /official poverty line (%)	118.4	132.5	123.7	113.7
MW /average wage (%)	41.9	42.0	41.5	40.0

Notes: €1 = BGN 1.96.

*For the first nine months of 2009.

**Estimates for the first nine months of 2010.

Source: ISTUR

The same conclusions can be drawn from data on the working poor. Although the percentage working poor had slightly decreased since 2005, it started to increase rapidly between 2008 and 2009 (see table 4.2). The restrictive wages and incomes policy announced in 2010 could further contribute to increase the number of working poor in the country.

Table 4.2. Percentage of working poor, 2004-2009 (%)

2004	2005	2006	2007	2008	2009
6.8	5.9	5.5	5.0	5.0	5.7

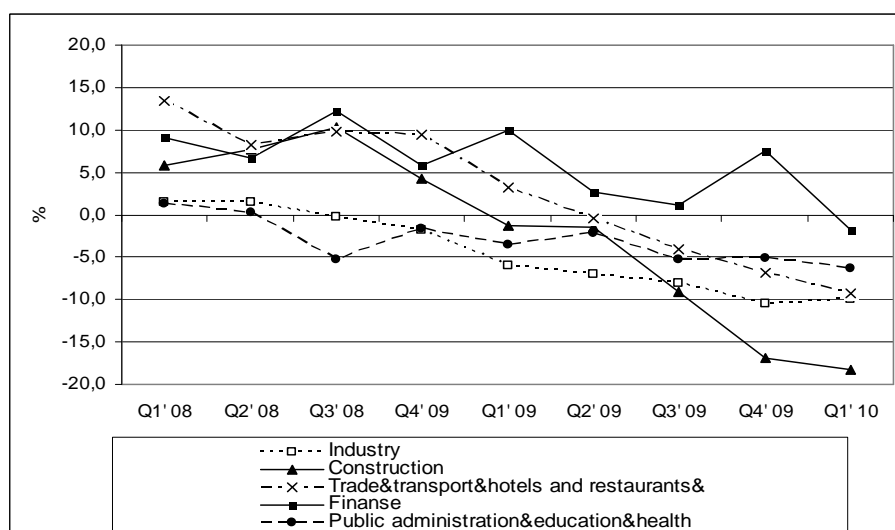
Source: NSI.

Effects on other working conditions

The impact of the recession was not only limited to employment and wages. It also affected all other working conditions as working time, health and safety working places, social protection, and social dialogue. One major effect was the reduction of working time. While the total number of working hours dropped by 0.5% in the first quarter of 2009, at the beginning of 2010 they shrank by 7.5%. Such reduction of working time was not equally distributed across economic sectors. The higher reduction was observed in those sectors most affected by the recession such as construction and manufacturing. In construction during the second half of 2009 and in the first quarter of 2010 hours worked decreased over 15% each quarter. Hours worked in industry also declined by approximately 10 per cent quarterly after mid-2009. The lowest decrease of working time was registered in services (trade, transport, hotels and restaurants) where the total number of hours worked declined by 5 per cent each quarter after mid-2009. The financial and business services was

an exception where working time continued to increase over the past several years; only in the first quarter of 2010 there was a reduction by 1.8%.

Figure 4.4. Quarterly changes of hours worked in selected economic sectors, 2008-2010 (percentage change Q1/Q1-4)



Source: National Accounts, NSI.

Apart from working time, the crisis also affected other working conditions. High unemployment during the recession had a direct negative impact on the balance between work and family responsibilities. The lack of regular work influenced family plans and most of them spent all their free time on job searching. This had for impact to shorten the working time devoted to the family. The crisis also had effects on the investment in human capital. While during the recession the government continued to implement the training programs launched in the previous years and introduced new ones, the new budgetary restrictions sharply reduced the coverage of these programs. The number of unemployed engaged in vocational training declined by 16,053 persons (by about 3 times) in the period 2008-2009. Further reduction was also expected in 2010. This considerable contraction of the vocational training coverage suggests that the restrictive budgetary policy of the government may not be fully adapted to the increasing needs for supporting those who lost their job and who would require re-qualifications to get a new job. Initial evidence and case studies suggest that enterprises also cut their internal training programs (Tzanov, 2011). This is a context in which already less than 30 per cent of enterprises offered vocational training (Atanasova, 2010).

6. Impact on labour standards, including freedom of association and the right to collective bargaining

The last years have been dedicated to harmonizing Bulgarian labour law with the European directives or framework agreements in relation to the accession. This is the main reason for the increased interest of the Bulgarian constituents in temporary work agencies, telework and home work. The social partners have expressed interest in cooperation with the ILO on these topics. Some International financial institutions and the employees argue for greater flexibility in the labour market. The crisis can have negative impact on the application of the international labour standards, as unemployment increases quickly, there could be more violations of the labour law and negligence of the standards; there could be trade off between flexibility and security under the surge for competitiveness based on low labour costs and the pressing need for cut of expenses for social protection. Several attempts were made to change the Labour Code and bylaws, increasing the

duration of part time work imposed by the employer due to decrease of work from 3 to 6 months, which actually happened at the end of 2009. Other examples are related to settling the issue of unused paid leave by workers/employers in the respective year as to avoid payment compensating the unused leave.

The Government is discussing the option to introduce ban on strikes for teachers upon recommendation of the Commission of protection against discrimination in Bulgaria. The recommendation has been made on the occasion of a case submitted by parents' group against the teachers' trade unions in Bulgaria claiming that students have been discriminated by strike action in public schools as compared to private schools where there was no strike. The Bulgarian trade unions brought the issue to the Committee on Freedom of Association which found that Decision No. 205 of 2 October 2008 which had been issued by an independent national body could not dispense the Government of its international obligations. It recalled that education was not an essential service in the strict sense of the term, but added that minimum services could be established in the education sector, in full consultation with the social partners, in cases of strikes of long duration. The Committee expected that the Government, when implementing the recommendation, would take into account the principles of freedom of association and ensure that the workers' and employers' organizations concerned were fully consulted with respect to any eventual changes to the Settlement of Collective Labour Disputes Act that might bear on issues relating to freedom of association and collective bargaining.

Impact on social dialogue and industrial relations

As in many countries in Central and Eastern Europe and beyond, the global economic crisis, which had taken tripartite partners by surprise, appears to have disrupted to a certain extent the system of industrial relations in Bulgaria. The relationship between government and social partners deteriorated rapidly after the crisis started to hit Bulgarian economy in the last quarter of 2008. Indeed, the government did not initiate meaningful consultations with social partners on the ways and means to address the consequences of the crisis and to accelerate recovery. It thought that the impact of the crisis on the Bulgarian economy would be limited on the one hand, and that it could manage it on its own through the use of the budget surplus and some defensive measures such as freeze of wages in the public service and cuts in public expenditures on the other.

Existing institutions for social dialogue such as the National Council for Tripartite Cooperation and the Economic and Social Council¹⁶ had hardly been mobilised effectively in order to involve the social partners in the shaping of a collective response to the crisis. As a result, the two main confederations of trade unions, namely the Confederation of Independent Trade Unions of Bulgaria (CITUB) and the Confederation of Trade Unions of Bulgaria (Podkrepa), withdrew from the National Council for Tripartite Cooperation (NCTC) in November 2008, on the grounds that the Government was acting unilaterally in such matters as a pay freeze in public services (planned as of 1 July 2009), in violation of the National Pact on Economic and Social Development (National Pact), which was then in force.

In the beginning of 2009, the two workers' organizations filed a complaint against five decrees of the government before the Supreme Administrative Court (SAC) for non observance of

¹⁶ The National Council for Tripartite Cooperation is a tripartite institution composed of 14 members representing the government, employers' and workers' organisations; it was established in 1992; The Economic and Social Council is a multipartite institution made up of 36 members representing employers, workers as well as other groups of civil society; it was set up in 2004.

the procedure of consultation of the social partners provided for in the labour code¹⁷ and of the provisions of the National Pact¹⁸. The SAC has upheld the claim against the government decree that changed the calculation and payment of financial compensation for unemployment¹⁹. Since then and until the nomination of a new coalition government in July 2009, the consultations between the government and social partners were limited and have taken place only through informal contacts. Nevertheless, an agreement on the implementation of reduced working time was concluded between the tripartite partners²⁰.

*In 2008–2009, a substantial level of industrial action occurred, although the activities were not only related to the effects of the economic downturn. Most of the strike activity was related to the potential closure of the Bulgarian steel mill **Kremikovtzi AD** – one of the biggest mills in southeastern Europe. Industrial action also occurred in a number of companies in the metalworking industry, due to the employers’ intention to reduce wage levels and implement redundancies. The activities mainly involved demonstrations and protest meetings. In addition, national protest demonstrations were organised by the two main trade union confederations, namely CITUB and Podkrepa, on 16 and 26 June 2009, just before the elections. Through these actions, the two unions organisations sought to voice workers’ concerns about the crisis as well as to table proposals for the next government. Protests for unpaid wages were organized by railway workers in Sofia and Gorna Oriahovitz; by workers in the ore processing factories, in paper producing factories, in the shipyard of Rousse, etc²¹*

However, it should be emphasized that there are no official statistics in Bulgaria on industrial disputes, that is the number of strikes, work days lost and the number of workers concerned²². This gap suggests that the level of labour disputes could prove higher in the country due to the economic downturn. In 2010, the ongoing problems facing some sectors of activity and the increase in unemployment could provoke more conflicts between the employers and trade unions, along with greater tensions in industrial relations than in previous years. In Bulgaria, sectoral social dialogue and collective bargaining plays an increasing role since 2003–2004. There are currently 32 collective agreements in force at sector level. In the sectors most hit by the crisis such as wood and paper, metal, clothing and construction, the negotiations between unions and employers focused mainly on working time related issues notably the promotion of short-time work at enterprise level in order to save jobs and promote enterprise adaptability. In some companies, amendments to existing collective agreements have been negotiated to provide social protection to the workers made redundant.

Despite the economic crisis, the trade unions have insisted that they will be calling for higher wages in the new wave of negotiations in sectors and companies that have not been as adversely affected thus far by the global economic downturn, such as the pharmaceutical, food and tobacco industries. The impact of the crisis on the trade unions has not been that distinct thus far. Mergers

¹⁷ In Bulgaria the consultation of social partners by the government in the process of passing legislation in the sphere of social security relations and living standards issues had been explicitly made mandatory by legislation (Labour Code, article 3.2).

¹⁸ Lyuben Tomev “Renewed role for National Council for Tripartite Cooperation”, 2009, Eurofound, available at: <http://www.eurofound.europa.eu/eiro/2009/07/articles/BG09070391.htm>.

²⁰ Ribarova, E. “Impact of economic crisis on social partners and social dialogue”; available at: <http://www.eurofound.europa.eu/eiro/2009/07/articles/bg0907029i.htm>

²¹ Ribarova, E, op.cit.

²² Bulgaria: industrial relations profile; available at http://www.eurofound.europa.eu/eiro/country/bulgaria_4.htm.

between the trade unions have been promoted since the late 1990s among affiliates of CITUB, but until now the results have been a long way off the original aims. While some mergers have occurred, a number of splits in national trade union confederations have also been observed. In 2008, a number of splits occurred among trade unions in sectors such as communications and construction. These splits were attributed to the need for clearer identification and better protection of the interests of trade union members. In some cases, the changes were also provoked by management interference in trade union activities, with the aim of establishing more suitable trade union structures²³. In general, trade union membership and the unions' financial resources have continued to diminish, particularly since the large number of redundancies observed in the last year as a result of the economic crisis. On the employer's side, while some new organizations have appeared, no substantial splits have occurred between them since those that took place in the early 2000s. In addition, many employers are still members of more than one employer organization, as this is not forbidden by law. However, the fragmentation of employers' organizations, in particular those representing SMEs, appears to be weakening their position on the social dialogue scene. The consolidation process mainly initiated by the larger organizations in order to strengthen employers' voice could lead to a strengthened partnership or mergers of employers' organizations in the future²⁴.

Part II: Description of crisis response and recovery policies

A. Accelerating employment creation, jobs recovery and sustaining enterprises

1. Measures to boost effective demand: monetary and fiscal policies, social stabilizers

The government stimulus package has been subject to very tight constraints through the EU accession agreement and compliance with the CBA

The 2009 budget did not foresee any fiscal stimulus measures. This was in compliance with the 90% rule set in the 2009 State Budget Law²⁵. There was a strong commitment to strict macroeconomic policies, and a prudent fiscal stance in compliance with the CBA. A number of policy measures were set out by the previous and current political regimes. However the net result of these measures has been to reign in expenditures given falling revenues, to keep the commitment to a budget balance.

Major budgeted crisis measures have included²⁶:

- Salary and pension increases in government sectors approximating 1.3% GDP , but salaries frozen since early 2009
- Increased capital spending of 0.1% GDP
- Lowered pension contributions
- Deposit guarantees of up to EU 50,000
- Increased revenue measures including raising excise taxes
- Limiting expenditures through downsizing administration, freezing public wages, and shifting public investment towards more absorption of EU funding
- Maintaining the commitment to join ERM II

²³ Ribarova, E. (op. Cit.).

²⁴ See http://www.eurofound.europa.eu/eiro/country/bulgaria_3.htm.

²⁵ Loubkanova and Markova 2010, op cit.

²⁶ Measures specific to labour markets and social protection are examined in the sections below.

The net budgetary result of these measures can be gauged by Table A.1.1. In 2007 and 2008 the government budget was in surplus by about 3% of GDP. Revenues fell from 40% of GDP in 2008 to 37% in 2009. Expenditures actually fell from 38% of GDP in 2008 to 37% in 2009²⁷. Hence a budget deficit was run in 2009 of about 1% of GDP. This budget deficit was therefore not the result of any significant anticyclical policy measures undertaken for the crisis. It merely resulted from falling revenues due to the crisis.

Table A.1.1. Bulgaria fiscal indicators (% of GDP)

	2005	2006	2007	2008	2009	2010	2011
Consolidated state budget revenue	42.1	40.6	42.6	40.9	36.5	36.8	36.2
Consolidated state budget expenditure	39	37	39.1	38	37.7	38.2	36.2
Consolidated state budget balance	3.1	3.5	3.5	3	-0.8	-1.5	0

Source: Economist Intelligence Unit, May 2010

Hence the impact of the stimulus on GDP growth and employment has been extremely limited as yet

The impact of the stimulus on GDP growth, and the main drivers of growth on both the supply side and the demand side has been limited. Hence the impact on employment has also been limited as yet. Table A.1.2 traces the impact of the crisis on GDP and the drivers of GDP by quarter. The table shows that the nominal value of GDP was actually hit in Q1 2009, falling from Lev 17 billion in Q4 2008 to Lev 16 billion in Q1 2009. By Q1 2010, GDP was still at Lev 16 billion. So the GDP had not recovered from the impact of the crisis, after five quarters.

Table A.1.2. GDP components, quarterly 2007-2010

	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Gross Domestic Product													
GDP (Millions of national currency, seasonally adjusted)	13267.3	13705.1	14353.1	15059.2	15780.5	16398.4	16999.2	17328.2	16411.3	16609.8	16563.5	16635.9	16595.6
GDP components (% of GDP)													
Household consumption expenditure	76.9	69.0	64.7	68.2	77.2	67.7	63.7	66.4	74.0	64.0	60.8	64.7	68.3
Govt. Expenditure	15.4	15.5	13.1	20.1	15.1	15.6	13.2	20.8	16.5	17.9	14.1	16.2	17
Gross fixed capital formation	28.3	28.7	27.0	34.4	30.4	34.8	30.7	36.9	25.9	29.2	20.0	24.7	22.6
Exports of goods and services	63.3	67.7	68.9	54.7	65.3	67.5	67.2	44.3	48.5	48.5	57.1	45.3	51.9
Imports of goods and services	92.2	87.8	80.9	83.5	93.1	94.2	79.4	70.6	65.5	60.6	53.1	53.5	60.4
Changes in inventories*	8.3	6.9	7.1	6.1	5.0	8.6	4.6	2.3	0.7	1.0	1.1	2.6	0.7

*and acquisitions less disposals of valuables

Source: Eurostat

The reason for the GDP being unable to recover was that the supply and demand drivers of growth had not been influenced by policy sufficiently either, to be able to recover. On the demand side the share of consumption in GDP fell from 74% in Q1 2009, to 64% in Q2 2009, and had still not recovered significantly by Q1 2010. Hence a domestic demand depression continued. The other major driver of demand, exports, fell from 67% of GDP in Q3 2008 to 44% in Q4 2008, and had still

²⁷ Note that this definition of state budget expenditure in Table 7 varies from government final consumption expenditure given in Table 1, hence the values vary.

only recovered to 52% of GDP by Q1 2010. With such a depression of demand, the supply side driver of GDP has just kept falling all the while. Table A.1.2 shows that Gross Fixed Capital Formation had peaked at 37% of GDP in Q4 2008. Since then it has gone into declining trend, with a Q1 2010 level of only 23%. The resultant inability of the drivers of GDP to recover, has had a worse impact on the labour market. Table A.1.3 shows that employment peaked at 3.4 million in Q3 2008. Since then it has fallen steadily, down to 2.9 million in Q1 2010. Hence the unemployment rate which had fallen to 5.1% in Q4 2008 has doubled to 10.2% by Q1 2010. Unemployment has increased by 163,000 over 5 quarters. In addition the discouraged worker effect has reduced the labour force participation rate from 68% of the population in Q3 2009 to 66% in Q1 2010, which makes it clear that another growth model is needed to revive growth and employment.

Table A.1.3. Bulgaria labour market indicators, quarterly (2007-2010)

	Age	Sex	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3	2009 Q4	2010 Q1
Employment to population ratio, by age, group and sex															
Emp to pop ratio	15+	Both sexes	59.7	61.6	62.7	62.9	62.6	63.9	65.0	64.3	62.6	63.3	63.1	61.2	58.8
Emp to pop ratio	15+	Male	64.1	65.5	66.8	67.4	66.9	68.4	69.6	69.2	67.1	67.7	67.4	65.3	62.3
Emp to pop ratio	15+	Female	55.4	57.7	58.6	58.5	58.4	59.5	60.4	59.6	58.3	59.0	58.9	57.2	55.3
Employment (000's), by age group and sex															
Employment (000's)	15+	Both sexes	3099.2	3212.1	3265.6	3258.1	3238.6	3315.7	3360.3	3310.3	3214.0	3249.2	3231.7	3124.4	2969.1
Employment (000's)	15+	Male	1642.0	1694.1	1730.6	1735.3	1713.1	1756.8	1786.9	1765.1	1703.9	1721.1	1712.6	1657.2	1561.5
Employment (000's)	15+	Female	1457.2	1518.1	1535.0	1522.7	1525.5	1558.9	1573.4	1545.2	1510.1	1528.0	1519.0	1467.2	1407.6
Labour Force Participation Rates, by age group and sex															
LFPR	15+	Both sexes	64.9	66.1	67.2	67.1	67.0	67.9	68.5	67.8	66.9	67.6	67.7	66.5	65.5
LFPR	15+	Male	69.4	70.3	71.2	71.5	71.5	72.5	73.3	72.8	71.8	72.3	72.4	71.4	69.9
LFPR	15+	Female	60.5	62.0	63.3	62.7	62.6	63.3	63.8	62.8	62.2	63.0	63.0	61.7	61.1
Total unemployed, by sex															
Unemployed (000s)	15+	Both sexes	271.3	236.8	234.2	214.1	227.3	206.1	184.4	176.1	220.3	221.2	233.4	271.7	339
Unemployed (000s)	15+	Male	137.3	124.3	112.9	104.8	117.7	105.9	96.8	92.9	120.4	116.2	126.6	154.1	192
Unemployed (000s)	15+	Female	134	112.6	121.3	109.4	109.5	100.2	87.6	83.2	99.9	105.1	106.8	117.6	147.1
Unemployment rate (%), by sex															
Unemployment rate	15+	Both sexes	8.0	6.9	6.7	6.2	6.6	5.9	5.2	5.1	6.4	6.4	6.7	8.0	10.2
Unemployment rate	15+	Male	7.7	6.8	6.1	5.7	6.4	5.7	5.1	5.0	6.6	6.3	6.9	8.5	10.9
Unemployment rate	15+	Female	8.4	6.9	7.3	6.7	6.7	6.0	5.3	5.1	6.2	6.4	6.6	7.4	9.5

Source: Eurostat

2. Investment in infrastructure

Improving international and internal road transport

Bulgaria's roads are of critical importance to link the country with the rest of the European Union, which is Bulgaria's main trade partner. Several European road corridors cross Bulgaria and carry the vast majority of all trade and transit within Bulgaria. In addition, internal road transport is especially important for Bulgaria because of the country's geographic and economic features. Only 30 percent of the country's population lives in large and medium size cities. The rest of the population live mainly in small towns (40 percent) or in rural areas (30 percent), often separated by sparsely populated mountainous areas, and therefore depend very much on road transport for their livelihood. Economic activities are also widely spread over the territory with activities such as tourism and agriculture as potential sources of growth.

Bulgaria has developed over the past few decades a good road network of over 37,000 km that reaches all communities, including 19,000 km classified as national republican roads. While the road infrastructure has coped reasonably well during the transition period in the past 10 to 15 years, it is now feared that the quality of the road infrastructure as well as its capacity on certain sections are hindering the efficient movement of goods and people and may be depriving Bulgaria from an important source of aggregate productivity gains. Surveys have shown that only one-third of the national road network is in good condition (see table A.2.1). Furthermore, a considerable portion of the core national road network still needs to be upgraded to European technical and safety standards.

With the growth in motorization, poor road safety has become an increasing issue in Bulgaria. Each year nearly 1,000 people die and around 10,000 are injured in road accidents, and some may be disabled for the rest of their lives. With close to 125 road crash deaths per 1 million inhabitants, Bulgaria is approximately two to two and a half times above the best performing EU Member States and 10 to 12 percent above the EU average.

Table A.2.1: Bulgaria's National Road Network and its Condition (2005)

Road Class	Length (km)	Good (percent)	Fair (percent)	Poor (percent)
Motorways	394	70	27	3
Class I	2,969	51	19	30
Class II	4,021	37	29	34
Class III	11,735	28	33	39
Total (Average)	19,119	34	30	36

*Note: More than 21,000 kilometres of local or municipal roads are not included.

Investments in roads have largely concentrated on roads that serve international transport on the main European corridors. These investments were undertaken under the "Transit Roads" programme supported by the European Investment Bank (EUR 380 million), and the fifth phase of this programme is currently underway. In the period between 2007 and 2013 (EUR 350 million), European Union cohesion funds is providing more financing for European corridors under the Sectoral Operational Programme for Transport (SOPT). The Second Trade and Transport Facilitation Project (TTFSE II) funded by a WB loan and the Bulgarian Government has as purpose to facilitate trade by raising the capacity, efficiency and quality of services of selected European Union border crossings with particular focus on the Trans-European Transport Network. The WB-funded Road Infrastructure Rehabilitation Project complements Transit Roads Programme and SOPT by focusing on improvement and modernization of about 450 kilometres of selected Class II and III roads, and some Class I roads. The objective of the project is to reduce road transport costs by improving the condition and quality of the road network during the first years of European Union accession. While the importance of

modernizing Bulgaria's Class I roads is unquestioned, limits on the Government's capital expenditures have put the rehabilitation of Class II and III roads on a lower priority. Broad-based economic growth, and equitable sharing of benefits from it, is no lesser a goal of EU integration than serving international traffic. The lower tier road networks provide access to land and directly influence the daily social life for 70 percent of the population who live in the rural areas or in small towns. The poor condition of Class II and III roads, and some Class I roads frustrates balanced economic development and widespread sharing of benefits from economic growth. With a total length of over 15,000 km, the lower level road network has a significant effect on regional development particularly on manufacturing, service industries, tourism, agriculture, and also on the cost of social services and personal contacts. The Road Infrastructure Rehabilitation Project not only provides financing for road rehabilitation works, but also includes technical support components aimed at improving the technical and institutional capacity in Bulgaria to manage the road network. The European Investment Bank is also providing loans to improve urban road transport (Sofia Metro Project EUR 105 million, Sofia Municipal Infrastructure Euro 43.5 million) and for funding small and medium-sized companies in the construction sector that employ most of the people in the country (EUR 50 million).

Water Supply and Sewerage

As a full-fledged EU member state Bulgaria has aligned its legislation with the EU Directives on Environment. One of the goals of the Bulgaria's National Strategy on Environment (2005-2014) is "to provide good quality and sufficient quantity of water for various purposes." Master Plans for Water Supply and Sewerage systems in the country are being developed that will help identify the needs in each utility and to provide recommendations for meeting technical requirements of EU directives. The Master Plans are expected also to lead to investments (funded by EU and other sources) that will help Bulgaria fully implement the EU directives in the water and wastewater sector and facilitate country's economic and social integration with the EU. In total, investment upgrades for the water and waste water sector amount to €6.9 billion and those for the solid waste management to €0.5 billion, well beyond the government's financing capacity.

The government of Bulgaria is implementing the Municipal Infrastructure Development Project (2010 – 2015), funded by the WB (total amount: Euro 81 million) which has as main objective to provide uninterrupted supply of water to communities in selected project areas. It will also assist municipalities to improve investment planning capacity including the preparation of forty-eight regional Master Plans for Water Supply and Sewerage systems. The project supports the achievement of the objectives of the National Strategy for Water Supply and Sewerage Management and Development, which foresees as priority investments for completing eight water supply dams that were under construction but stopped due to lack of funds. Three of the eight dams – Luda Yana, Neikovtsi, and Plovdivtsi – are included in this project, and the fourth (Studena) is included for rehabilitation needed to ensure security of supply.

Support to municipalities and SMEs

The European Investment Bank (EIB) has lend EUR 70 million for projects mounted by small and medium-sized enterprises (SMEs) and municipalities in Bulgaria in the sectors of energy, health, education and social housing infrastructure, as well as for innovative undertakings developing the knowledge-based society. The EIB funds will also support projects in the areas of industry and services, including tourism. In addition the Municipal Finance Facility promotes municipal investments mostly concerning the building, upgrading and refurbishing of small municipal infrastructure and provides for grants of 7.5% of the EIB loan amount for the final beneficiaries. Financing leasing projects of SMEs is included.

3 & 4 Employment retention and active labour market measures

Bulgaria implemented a vast range of measures to counteract the negative effects of the economic crisis. Until 2007, the active labour market policies (ALMPs) main goal was on preventing long term unemployment and drop-outs from the labour market by increasing employability; hence it has targeted the most vulnerable groups of unemployed, such as long-term unemployed; unqualified young people; persons with a low educational level, or without qualification and education; disabled; unemployed persons aged over 50 years. This was combined together with an activation strategy through significant cuts in income support of unemployed and inactive (working age) persons and access to a wide range of active labour market programmes such as jobs subsidies or adult training and skills upgrading of employed workers (Table A.3.1). But more recently, and following the global financial crisis, the Government has revised its labour market policy, limiting previous efforts to provide subsidized employment to unskilled jobless people. Instead large resources have been allocated to vocational training, career counselling and internship programmes.

The anti-crisis programme was implemented in the second quarter of 2009. These measures supplemented the existing NEAP 2009 and the programmes, carried out under the "HRD OP". Their main objectives included: shorter working hours schemes compensating the loss of labour income; incentives for employers to maintain employment; encouraging measures for hiring people from the risk groups; creating new jobs and training and vocational qualification under the programmes included in the NEAP, as well as those financing is based on presented projects under "HRD OP".

Table A.3.1 Labour market policies responses

	<i>Data as percentage of GDP</i>					<i>Data as percentage of total labour market policies expenditures</i>				
	2004	2005	2006	2007	2008	2004	2005	2006	2007	2008
LM services	0.07	0.07		0.05	0.05	8.91	10.03	9.51	10.53	11.25
	1	2	0.06	4	3					
Training		0.06	0.04	0.04	0.03					
Job rot. & sharing	0.06	6	5	1	5	7.53	9.19	7.13	7.99	7.43
	0.02	0.04	0.04	0.04	0.04					
E incentives	4	1	5	4	3	3.01	5.71	7.13	8.58	9.13
Supported E & rehab	0.00	0.00	0.00	0.00	0.00					
	8	9	8	6	6	1	1.25	1.27	1.17	1.27
Direct job creation	0.36		0.28	0.21	0.17					
	4	0.31	6	1	3	45.67	43.18	45.32	41.13	36.73
Start-up incentives	0.00	0.00	0.00	0.00	0.00					
	9	7	5	4	5	1.13	0.97	0.79	0.78	1.06
income support	0.26	0.21	0.18	0.15	0.15					
Early retirement	1	3	2	3	6	32.75	29.67	28.84	29.82	33.12
	0.53	0.50	0.44		0.31					
ALMP	6	5	9	0.36	5	67.25	70.33	71.16	70.18	66.88
	0.26	0.21	0.18	0.15	0.15					
PLMP	1	3	2	3	6	32.75	29.67	28.84	29.82	33.12
	0.79	0.71		0.51	0.47					
Total LMP	6	7	0.63	2	2	100	100	100	100	100

Source: Eurostat

Regional development programmes and programmes for increasing competitiveness in depressed regions have also been launched: ninety million BGL have so far been allocated for these schemes which are mainly financed from the European Social Fund (under the “Human Resources Development” operational programme, HRD OP) and supplemented from the State Budget.

Among those measures having specific provisions to help young unemployed, one can mention:

- A new apprenticeship programme (of duration of 12 months at maximum) where people with low education qualification and early school leavers receive an allowance, while the companies hiring them receive subsidies covering salaries and contributions.
- A new work placement programme in public administrations (funded by HRD OP) where university graduates unable to find jobs could be hired. In September 2010, the HRD OP also launched the scheme “Creation of employment for youth through provision of opportunities for internships”. The scheme provides opportunities for 15 000 registered unemployed young people under 29 years of age with no professional experience, who have graduated secondary school or hold university degree to receive guidance and intermediary services. 90 percent of them (13 500 persons) will have the opportunity to participate in an internship in the field of their profession. This scheme will facilitate the transition from education to employment and at the same time lead to acquisition of professional experience necessary for obtaining jobs offered by employers. BGN 35 million from the HRD OP budget have been provided for the implementation of the scheme.
- A revision of the rules regulating part time work through the Ministerial Decree 44\2009, allowing companies to double the time they can use part-time workers in the case of reduced volumes of work and apply for subsidies (EU funded) for introducing partial employment (special funding can be provided for training young workers), expected number of trained people was over 62,000.

The net impact or the outreach of such measures is not easily quantifiable. There are no specific monitoring data publicly available for what concerns the new work placement programme in public administrations. As for the revision of the rules on part time work and the related compensation, 19485 employees have received compensation for part-time work in 2009 and 531 employers have benefited from this measure. However, it is not certain the share of youth among the beneficiaries. Conversely, for what concerns the implementation of the “HRD OP” labeled “Integration of vulnerable groups on the labour market” by ENA the following treatment indicators for 2009 show that:

- The grant scheme “Increasing employment of young people through their sustainable integration into the labour market in Bulgaria” is being disbursed, for a total amount is BGN 15 million.
- During 2009, training needs assessment under the project has covered 5921 unemployed youths from the target group and 4263 employers from the target regions.
- Motivation to participate in the project has been carried out for 6184 young people.
- Applications stating an intention to participate in the training have been submitted by 9396 youths.
- By the end of 2009, the HRD OP Monitoring Committee had approved the selection criteria of 12 operations for the total amount of BGN 798 million²⁸.
- As of March 2010, other interventions undertaken within the framework of the HRD OP, and designed as anti-crisis measures benefitted unemployed workers. Specifically, under the “I can” chapter, more than 12 000 vouchers for further education of employed workers were dispatched (out of 36 000 applications). The second phase of this scheme was to start in September 2010, with about 14 000 new applications were received within one month. 436 working places were announced by employers under the “Development” scheme. Finally, for the “Adaptation” scheme, 150 applications were received from employers for workers on part-time employment²⁹.

²⁸ Under the Adaptation scheme of the Human Resources Development Operational Programme persons who have worked short-time have been granted monthly scholarships of up to €68 (BGN 132) to enrol for five months’ vocational training. Under the contracts in force as of the end of 2009, some 21974 employees were included in trainings for the acquisition and improvement of vocational qualification and key competencies for the labour market. Data about the youth share of such employees are not available.

²⁹ See www.eufunds.bg/document/738. Implementation of the Structural funds in Bulgaria Monthly brief, March 2010 and August/September 2010.

Table A.3.2: Employment promotion and Training measures, March 2010

	Number of persons included	Number of persons employed
Employment promotion programmes – total	2 783	34 587
Programmes	2 713	25 283
From Social Assistance to Employment	1196	14746
Personal assistants to disabled persons	166	3133
Assistance for retirement		1180
Career start	3	372
Employment and training of people with permanent disability	12	2542
Melpomena	3	129
Programme " <i>Interest free credit for people with disabilities</i> "	20	
Regional and branch programmes for training and employment	329	325
Project for young people who have dropped out of school		2
Supporting maternity		1313
Activation of inactive persons		102
Esculape		130
Family centers for children		
New possibility for employment"	46	175
Other programmes implemented through partnership with the labour offices	418	1134
Payment of supplements to the remuneration of persons who accepted part time	508	
Project" Re socialization of prisoners through vocational training and education"	12	
Measures	70	9304
For unemployed persons aged up to 29	15	1376
For unemployed young persons with permanent disabilities or war invalids, as well as for social institution leavers		96
For territorial mobility of unemployed	1	
For apprenticeship of unemployed		2
For starting own business	12	
For the five new jobs opened by employers-microenterprises	8	579
For part-time work	17	1264
For persons with permanent disability	2	832
For single parents and/or mothers with children up to 3 years	2	576
For mothers(adopters)with children 3- 5-years	2	324
For unemployed, served their sentence in prison		13
For unemployed over 50 years	9	1294
For persons aged 50- 64 with occupational pension for early retirement		8
For long term unemployed	2	360
For persons undergoing apprenticeship		181
For daily organized transport for employees and workers		2399

Source: National employment agency

Green jobs

Stimulating green jobs' employment was included as a specific measure in the active labour market policies. There is however a concern of postponing its effective implementation, because of recent need of *ad-hoc* reactions against the increasing unemployment. Through the period 2008 – 2009, the MLSP started a national programme for rehabilitating and protecting forests and improving environmental conditions in the country. The programme was not combined with training the employed and that was its weak point. It ended in 2009 and no other similar initiatives have been provided for in the 2010 plan. The only link in the plan to the green economy is the requirement for the elaboration of regulation for the creation of green working places. There are other programmes

for temporary employment in community work which is important for protecting the environment, improving the social infrastructure in populated areas, renovating buildings to improve their energy efficiency, the transportation and treatment of household waste and more. These are initiated largely because of their social significance for providing a transition for low-skilled workers to employment.

Small and medium sized enterprises

The Bulgarian Development Bank (BDB) was established after the adoption of a special law by the Parliament of the Republic of Bulgaria in April 2008³⁰. Credit lines are available for small and medium size enterprises and farmers as part of a package called “Market Flexibility” which was developed to minimise the global financial crisis impact on the Bulgarian economy. The resource received and absorbed by the commercial banks from the BDB amounted to BGN 455 million. 80 million of which are credit lines for funding farmers while the remaining amount has been granted for investment funding of small and medium enterprises (the commercial sector remains the most credited one).

In December 2009 the National Guarantee Fund³¹ and the SG Expressbank signed an agreement for a guarantee line of or 5 millions BGN. The Agreement intends to facilitate the access of Bulgarian SMEs to bank funding through additional credit guarantees. The Fund will cover up to 50% of the credit risk and the other 50% will be covered by the SG Expressbank. The National Guarantee Fund offers two guarantee programmes. The first will issue guarantees to small and medium enterprises for investment credits; emerging and existing companies, active for more than a year, will be able to apply for these. The second guarantee programme is intended for export-oriented companies, wishing to draw a turnover credit.

Following negotiations between the Ministry of economy, energy and tourism and the European Investment Fund (EIF) over the JEREMIE³² initiative, additional resources (EUR 200 millions) would be available for companies but not before early 2011.

Assessment of Labour Market Policies responses

As many other European countries, Bulgaria has introduced and implemented anti-crisis measures to alleviate the negative impact of the crisis on the labour markets. According to the European Commission, around seventeen measures have been launched in Bulgaria to support the labour market and purchasing power of households³³. These measures have focused on reinforcing activation policy through significant cuts in income support of unemployed and inactive persons (of working age) and through providing access to a wide range of active labour market programmes (ALMP) as described above. Also important efforts have been made to keep people in employment and maintain existing jobs, notably through short time working schemes and support to SMEs.

Generally, one key issue here relates to the interactions and consistency of all various measures: how they articulate together in terms of principles, criteria and targeted population; and weigh up the relative costs and benefits of the various policies. This is particularly critical in times of tight resources constraint. The actual impact of the different measures has been mixed. For a start, the National Employment Agency (NEA) reported that the total spending in national currency on activation programmes (programmes, measures and vocational training) dropped by 4.4% between

³⁰ The financial institution is a successor of the Encouragement Bank. The mission of the Bulgarian development bank is to support the development of the Bulgarian economy by promoting export and supporting the implementation of the economic policy of the government in terms of micro, small and medium sized enterprises.

³¹ The National Guarantee Fund is the Bulgarian Development bank affiliate. It was founded in 2008. The experience of guarantee funds from Germany, France and Austria, etc was used in the establishment of the Fund and the development of the guarantee schemes. SG Expressbank was the tenth credit institution to sign a guarantee agreement with the NGF.

³² JEREMIE : Joint European Resources for Micro to Medium Enterprises, is an initiative from the European Commission EC together with the European Investment bank (EIB) and the European Investment fund (EIF) to promote increased access to finance for the development of micro, small and medium-sized enterprises in the EU.

³³ EU, 2009

2008 and 2009³⁴. However, the number of beneficiaries in 2009 slightly exceeded that of 2008 (114,230 versus 112,228), indicating that with fewer resources more beneficiaries were supported. Furthermore among the total number of beneficiaries, 69975 secured employment, an increase of 4.7% with respect to the previous year. This apparently positive impact is not confirmed if one further breaks down the figures under consideration. Indeed, the same data show a marked decline in the number of unemployed youth (<29 years) who benefitted from specific activation “measures” (6148 versus 1954)³⁵ between 2008 and 2009. This trend is quite incomprehensible, considering the contemporaneous marked increase in youth unemployment rate. A partial explanation could be found in the decreased labour force participation rate of young people. Indeed, the participation rate for 15-24 years old decreased from 30.1 to 29.5 and for 25 to 29 years old and from 80.1 to 77.3).

The NEA also reports that in 2009, 40341 unemployed youth aged under 29 (or 19.2% of the total) have found employment through government provided job brokering and that of the 8973 unemployed people who joint vocational training courses in 2009, young people aged up to 29 represent more than one quarter of them (26.4%)³⁶. Moreover, in 2009 2852 students have participated in group activities for vocational guidance and active behavior on the labour market.

Of considerable importance, in light of the overall skill level situation of unemployed youth is the fact that the NEA has chosen to prioritize vacancies for low-skilled labour. Indeed, the share of vacancies for unemployed people without qualification and with low education remains high, although in 2009 almost no change was reported (from 78.8% to 79%)³⁷. This is possibly related to the fact that the unemployed with elementary or lower education represented 29.3% of the total unemployed addressing the national employment services and the unemployed illiterate people were the 5.1 % of the total.

For what concerns the rest of the activities of the NEA and of the employment centres there are no data (publicly available) quantifying the number of beneficiaries by age.

Moreover, some important general principles should be pointed too: activation strategies for example, become less effective when labour demand is weak and less vacancies are available. It may even, in a context of shortage of jobs and still persisting skill mismatches, have limited effect on reducing unemployment and inactivity but rather contribute to a further increase in poverty. The collapse of job openings and hiring is a substantial challenge and longer term driver of unemployment. In recognition of this situation, the OECD has recently recommended to shift some of the focus on a “work-first” approach to activation to a “training-first” strategy, particularly for those at risk of long-term unemployment (OECD 2009b). Another challenge relates to the short-time schemes. This scheme should help sustain labour demand and reduce labour costs for employers without having to resort to dismissing workers. This measure is typically limited to a specific period as it is can become quite an expensive scheme. Moreover it should not prevent any necessary job reallocation in the longer run (since job reallocation and voluntary labour turnover are likely to contribute to higher labour productivity levels). Another important pillar of the crisis response has consisted in maintaining labour demand through job creation and business support. These are critical responses; it is however important that those labour market measures have not only quantitative, but also qualitative aspects, and that the focus on the promotion of employment is not traded against the quality of employment. Finally, the implemented labour market policies should support the required structural changes in Bulgaria. Important imbalances do exist on the labour market and should be addressed: regional imbalances in terms of labour market outcomes, strong disparities in terms of average income per capita, etc. Finally, the important size of the informal

³⁴ Ministry of Labour and Social Policy(2009): Yearbook (p. 14)

³⁵ See: http://www.az.government.bg/eng/internal_en.asp?CatID=15/07&WA=NumCharts/ActivePolicy.htm

³⁶ Ibid (p. 19)

³⁷ Ibid (p. 12)

economy remains a challenge for economic and social outcomes producing severe distortions in the labour market and social security deficits.

5. Special youth employment measures

Bulgaria implemented a vast range of measures to counteract the negative effects of the economic crisis. Some of them had specific provisions to help youth, other were targeted to the general labour force. Among the first set, one can mention:

- A new apprenticeship programme (of duration of 12 months at maximum) where people with low education qualification and early school leavers receive an allowance, while the companies hiring them receive subsidies covering salaries and contributions.
- A new work placement programme in public administrations (funded by Operational Programme Human Resources Development, OPHRD) where university graduates unable to find jobs could be hired. This complements the previously existing OPHRD programme on “Integration of vulnerable groups on the labour market” which already had some specific provisions for young people and the OPHRD “Adaptation scheme”. In September 2010, the OPHRD also launched the scheme “Creation of employment for youth through provision of opportunities for internships”. The scheme provides opportunities for 15 000 registered unemployed young people under 29 years of age with no professional experience, who have graduated secondary school or hold university degree to receive guidance and intermediary services. 90 percent of them (13 500 persons) will have the opportunity to participate in an internship in the field of their profession. This scheme will facilitate the transition from education to employment and at the same time lead to acquisition of professional experience necessary for obtaining jobs offered by employers. BGN 35 million from the HRD OP budget have been provided for the implementation of the scheme.
- A revision of the rules regulating part time work through the Ministerial Decree 44\2009, allowing companies to double the time they can use part-time workers in the case of reduced volumes of work and apply for subsidies (EU funded) for introducing partial employment (special funding can be provided for training young workers), expected number of trained people was over 62,000.

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³⁹ See www.eufunds.bg/document/738. Implementation of the Structural funds in Bulgaria Monthly brief, March 2010 and August/September 2010.

Among the second set are programmes introducing public subsidies, job brokering programmes, activation policies and public works, benefiting the whole set of unemployed workers. Moreover, Bulgaria has in place a relatively extended programme of social safety net, including a Guaranteed Minimum Income (GMI). In order to benefit from the latter, the State requires beneficiaries to register as unemployed with local labor offices and participate in activation activities⁴⁰.

The actual impact of these measures has been mixed. For a start, the National Employment Agency (NEA) reported that the total spending in national currency on activation programmes (programmes, measures and vocational training) dropped by 4.4% between 2008 and 2009⁴¹. However, the number of beneficiaries in 2009 slightly exceeded that of 2008 (114,230 vs 112,228), indicating that with fewer resources more beneficiaries were supported. Furthermore among the total number of beneficiaries, 69975 secured employment, an increase of 4.7% with respect to the previous year. This apparently positive impact is not confirmed if one further breaks down the figures under consideration. Indeed, the same data show a marked decline in the number of unemployed youth (<29 years) who benefitted from specific activation “measures”(6148 vs 1954)⁴² between 2008 and 2009. This trend is quite incomprehensible, considering the contemporaneous marked increase in youth unemployment rate. A partial explanation could be found in the decreased labour force participation rate of young people. Indeed, the participation rate for 15-24 years old decreased from 30.1 to 29.5 and for 25 to 29 years old and from 80.1 to 77.3).

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6. Other targeted programs e.g. public employment guarantee schemes, emergency public works, and other direct job creation schemes

The most important project in this field is the Social Investment and Employment Promotion Project (SIEP), which started in 2003 (WB loan amount of 50 million USD) and extended in 2007,

⁴⁰ World Bank (2009) “*Bulgaria: Social Assistance Programs: Cost, Coverage, Targeting and Poverty Impact*”. On page 25, it reports that in 2007, close to three quarters of all GMI beneficiaries were registered with the state employment office, more than one in 10 trained by the employment office were offered a job, and 90 percent of them accepted—a much better acceptance rate than for non- GMI beneficiaries.

⁴¹ Ministry of Labour and Social Policy(2009): Yearbook (p. 14)

⁴² See: http://www.az.government.bg/eng/internal_en.asp?CatID=15/07&WA=NumCharts/ActivePolicy.htm

⁴³ Ibid (p. 19)

⁴⁴ Ibid (p. 12)

called SIEP Supplement for 19.3 million USD. The SIEP project has two basic components that include:

- Community Infrastructure for Development Initiative (CIDI)
- Bulgarian Labour Market Initiative (BALMI)

The overall objective of the project was to improve the standard of living of people who are locked in persisting “pockets” of poverty in Bulgaria, concentrated regionally, among the long-term unemployed, and among specific ethnic minorities (Roma, Turkish). Because these targeted vulnerable groups suffer from multiple disadvantages (e.g. exclusion, weak social capital, poor access to markets and basic services, low employment, low income), the project complements the existing, relatively good social protection system by offering a range of instruments, all focused on building the assets, individual and communal, of poor and vulnerable people living in these pockets. The project has helped small communities in several ways:

- By rehabilitating small but important social infrastructure, helping strengthen community initiative and bring lacking services to the poor;
- By providing appropriate labour market programmes to directly support the creation of jobs and the transition of the unemployed towards permanent jobs;

Main achievements of the project are:

- i) funding of more than 320 municipal micro-projects and 50 community micro-projects;
- ii) close to 670,000 people have benefited from the small social infrastructure improvements and services on municipal and community level through 327 demand-driven subprojects;
- iii) more than 935,000 worker-days of temporary and permanent work have been created;
- iv) 1,600 of the people employed under the infrastructure micro-projects were long-term unemployed.

Under the active labour market component 13,000 people have received employment-related services or have been placed into jobs.

Bulgaria has also developed a special programme for European Union (EU) financing, called Operational Programme for Human Resources Development, tackling labour market and human capacity development issues. Preparing projects and activities eligible for financing under this programme has been one of the country's priorities over the last few years. This initiative's model has been used directly by the Employment Agency to prepare and boost capacity of central and local level for subsequent implementation of the EU programme.

7. Support to public and private enterprises (including cooperatives) and micro-entrepreneurs

Special measures for SMEs, micro-enterprises, and cooperatives;

Micro, small and medium size enterprises (MSM) in Bulgaria play not only a key role in generating overall employment but they are also the main driving force as suppliers of goods and services in the most dynamic sectors, particularly in tourism. Their importance as a source of domestic demand and employment is likely to increase as government driven demand is constrained by the need to limit the budget deficit. However, the dynamism of these enterprises is confronted with a limited capacity to define and implement policy support and encouragement measures for the development of entrepreneurship and SME development. This situation is particularly clear vis-à-vis a poor consideration concerning skills, business training and overall improvement of the low levels of

productivity of the enterprise base of Bulgaria. Some work has already been done, for example, through the Bulgarian Association which provides business support for SMEs.

Although Bulgaria has been able to deal with the impact of the crisis from its macroeconomic stand (e.g. large reserves, low inflation, good levels of FDI), the impact of the global crisis on MSMEs has been important as demand conditions have contracted and the country is not as competitive vis-à-vis regional and global competitors. Supporting MSMEs also means that the major infrastructural constraints (physical, institutional, communication) and productive transformation need to be addressed in a context of external shocks and increasing regional and global uncertainty. Enterprise support measures thus need to be also related to other important structural changes. The pressure on MSMEs has also come from more restrictive credit condition as the lower demand influenced that the credit growth slowed significantly, in a context where cross-border funding came to a near halt and banks had to rely on domestic deposit mobilization. The banking sector, however, remains liquid and well capitalized.

In Bulgaria's case policy interventions to support the MSME sector are essential instruments for employment and economic growth goals. Such policy interventions to support the MSME sector need to be focused particularly in connection with changes in the business environment; sector specific reforms; strengthening business practices; promoting partnership; and integrating enterprises to a wider regional (EU) market. The significant gap in standards and productivity levels represent a major challenge.

More specific measures can be adopted whereby the business environment can be significantly improved through measures such as fiscal treatment of incentives; availability of market information; dealing with corruption; foreign exchange availability; and promotion of basic communication and internet infrastructure such as connection, access and electronic forms of payment. Beyond these measures, more attention is also needed on different sector opportunities and problems.

Despite important improvements that were obtained through Bulgaria's Convergence Program 2009-12 for streamlining of business regulations and its enforcement, as noted before, the global downturn is demonstrating the imperative that Bulgarian enterprises improve competitiveness and adaptability including through the improvement of the quality of the regulatory framework and strengthening innovation and technology absorption. This also necessitates regulatory and administrative reforms, improving skills of the labor force and measures to promote innovation.

Sectors such as agribusiness still require major interventions to improve hygienic and quality standards, particularly sanitary and phytosanitary issues. In the natural resources area, enterprises need major assistance to comply with a wide range of standards particularly for the modernization of mining. In manufacturing, enterprises in areas such as pulp and paper require major investment for technological improvement and environmental standards. In real estate and tourism, there are major needs to reinforce a proper competition framework under which enterprises behave in the marketplace and improve productivity. In the Financial Sector, credit lines for SMEs have been established but the sources of funding need to be diversified to deal with long-term sustainability but important improvements are reported on organizing other sources of funding for enterprises. Although important public banks (Bulgarian Development Bank-BDB) have been established to extend lines of credit to SMEs, there are also important limitations to reach clients, compliance with basic requirements, changing the mindset of commercial banks, opaque means of communication, etc.

8. Support job creation across sectors of the economy, especially in agriculture, rural infrastructure and industry

Not applicable in this immediate context.

B. Building social protection systems and protecting people

A. Social protection system

Unemployment insurance

In general, the primary policy response in times of increased unemployment should consist of macroeconomic policies and labour market and training policies. Nevertheless, there is a need for unemployment protection policies to avoid the situation where the economic crisis leads to an unacceptable level of unemployment hardship while the macroeconomic and labour market policies take time to come to fruition.

In Bulgaria, the existing unemployment insurance scheme has in fact played an indispensable role in mitigating the immediate consequences of unemployment, acting as a built-in stabilizer of the national economy. However, it should be noted that the essential role of unemployment insurance is to provide income security against the risk of temporary loss of income due to unemployment, and that it cannot offer a complete solution to the social and economic consequences of long-term unemployment.

Pension reform

The Bulgarian pension system is facing an imminent financial challenge and a long-term concern with sustainability in the face of a rapidly ageing population. A large part of the current deficit of the State Pension Fund is caused by the gradual decrease in the contribution rates and the successive discretionary increases in the benefit level in recent years. The economic crisis further aggravated the problem. Although the pension policy needs to take into account the current economic circumstances, it should be based on a long-term perspective in view of the characteristics of the pension system.

In these circumstances, the government created a Consultative Council on Pension Reform consisting of a small number of experts to discuss the pension reform to be implemented in 2012 or later. The Consultative Council has formulated the following four Options to restore the financial balance of the State Pension Fund.

- Under Option 1, it is proposed to extend by 3 years the length of service necessary to be eligible for the old-age pension without changing the current normal retirement age (currently 63 years for men and 60 years for women). The required length of service will be 40 years for men (currently 37 years) and 37 years for women (currently 34 years). The proposed date of implementation is 1 July 2011.
- Under Option 2, from 2012 the normal retirement age of women (currently 60 years) is raised by 4 month every year until it reaches the level of men (63 years). Then, the normal retirement age of both sexes will be raised to 65 years of age by 2018.
- Under Option 3, both men and women will be entitled to the pension rights at 65 years of age with 15 years contributory period. Transitional provisions for early retirement pension are set out to allow for continuous switchover from the current provisions.
- Under Option 4, it is proposed to increase the normal retirement age of women (currently 60 years) with that of men (currently 63 years). This measure is combined with various cost containment measures of the existing provisions.

The experts of the Consultative Council are of the view that Option 1 would be the most acceptable and feasible option. However, faced with the multifaceted consequences of the crisis, the pension reform agenda seems to be deadlocked at the moment. The following observations are made regarding the four Options formulated by the Consultative Council.

- First, the proposed measures in the above four Options concern the change in the qualifying conditions which affect the newly retired workers. It should also be noted that changing the method of pension indexation is widely adopted in many countries to restore the long-term financial solvency. As explained earlier, Bulgaria recently implemented several

discretionary pension indexations. It is suggested that Bulgaria should establish a firm rule of pension indexation and safeguard the Fund from politically-motivated, frequent, *ad hoc* amendments.

- Second, none of the four Options propose the increase in the contribution rate. A simple calculation shows that an additional increase of 10.5 percentage-points (hence, the total pension contribution of 28.5%) would be necessary to eliminate the deficit assuming that the State will continue to pay 12% contribution. In comparison with other countries in Central and Eastern Europe, Bulgaria still has a potential room for fiscal space in the contribution on the payroll, although the effects of higher contribution rate on the international competitiveness and on the distributive aspects need to be carefully assessed.
- Third, extending the coverage of pension system through improved law compliance and efficient contribution collections is also crucial for reducing the persons without pension protection in the future and for improving the balance of the pension funds in the short to medium run.

The dilemma facing the Bulgarian pension system is how to improve the long-term sustainability of the system in the face of rapidly ageing population, while at the same time ensuring adequate level of benefit and the mechanism to safeguard its value. In this regard, it should be noted that Bulgaria has ratified the ILO Social Security Minimum Standard Convention No. 102 since 2008.

Generally, the financial deficit can be eliminated either by increasing the revenue or by reducing the expenditure or combination of both. Therefore, any measures to restore the stability of the system would likely to ask all the relevant stakeholders to share such burdens either by paying more contributions or receiving less benefit. Since the pension reform inevitably affects the conflicting interests of the tripartite stakeholders, the reform process should seek for building national consensus on the package of measures which are acceptable by all the stakeholders. In addition, the sustainability of public pension schemes critically depends on whether the working generation is committed to pay contributions for the elderly generation. Thus, the proposed reform should be supported by the future contributing generations. Pension is a long-term system, and pension reform is a long-term process. Implementation of reform measures requires a sufficiently long transition period to avoid abrupt changes in the lifetime plans of workers close to retirement. In addition, the demographic dependency is projected to deteriorate steeply from around 2020. Therefore, it is crucial that policy makers should take proactive steps to implement the reform measures to ensure the long-term viability of the system.

Social assistance

In terms of cushioning the adverse impacts of the global crisis, the social assistance has played a residual role, providing income support and other benefits to the population who are not covered by the social insurance. In addition, social assistance programmes are aimed at alleviating existing envelopes of poverty and social exclusion. Despite their increased demand in times of crisis, the social assistance programmes face a challenge in securing a sufficient budget to provide adequate income protection for the poor. Such restrictions of social assistance programmes are not fully consistent with the labour market policy. First, due to its low level, GMI may not act as a disincentive to look for employment. Barriers to employment lie elsewhere, such as low skills and mobility of jobseekers, and limited employment opportunities. Second, Bulgaria imposed a limitation on the period of GMI benefits, contrary to many EU member states which have taken a discretionary approach on benefit sanctions to enforce cooperation of the job seeker and an agreed gateway towards sustainable employment. This is considered essential for the activation of highly disadvantaged individuals, in particular the Roma, given that the majority of GMI beneficiaries are Roma and often with very limited skills and no formal employment history. Third, there is a lack of institutional coordination as the employment services remain entirely separate from the social assistance administration. The Bulgarian experience presents a challenge on how to design an effective social protection policy which supports robust employment recovery, given the limited and reduced resource allocation.

In 2010 the World Bank Social Inclusion Project (SIP) is planned to start. It aims to promote social inclusion through increasing the school readiness of children younger than seven years of age, targeting low-income and marginalized families including children with disability and other special

needs. Under its integrated social and childcare services component, the project offers municipalities community-based projects on services and infrastructure investment. It provides a set of integrated social and childcare services for parents and children from marginalized groups and children with disability. Under the capacity-building component, the project provides capacity-building activities at the central and municipal level to support the design and pilot launch of a national school readiness programme. European Social Fund (ESF) funding will be available finance the large part of local capacity-building activities. This component also supports project auditing and construction works inspection for municipal sub-projects.

B. Wages policies

What role of wage issues in the Policy responses to the crisis?

As described earlier in this report major decisions on the wage front were taken in 2009. While trade unions requested minimum wage increases the government took the decision to freeze the minimum wage considering the adverse economic and employment context. At the same time the decision to limit public expenditure and budget deficits led the government to plan cuts in wages in the public sector in 2009, a policy that was announced to continue in 2010-2011.

The tripartite process carried out early 2010 and which led to the conclusion in March of an agreement on a series of 60 policy measures gave a new opportunity to the three sides to discuss wages and incomes policy. It should be remembered that Bulgaria enjoys a tradition of tripartite discussions notably on incomes policy that led in the past (early 2000s with the ILO assistance) to the conclusion of a pact on wages and incomes policy. The new agreement on the list of measures touches wage issues from different aspects.

First it highlights the priority to eradicate the phenomenon of non-payment -or delays in the payment- of wages. Measure 50 is aimed in particular to launch a systematic collection of information about unpaid salaries by activity, region, and national level that could ultimately improve all actors' capacity to carry out more focused and more adapted action to address the issue. The authorities themselves are requested to ensure the payment of delayed wages and insurance contributions among their subcontractors and suppliers (Measure 26).

A slight improvement of the sums paid under the procedure of protection of workers' claims in case of employers' bankruptcy have also been decided (measure 55). Undoubtedly one key provision on wages represents the agreement on the establishment of a mechanism for raising the minimum wage as of July 1, 2010 that would reflect both economic and social parameters (Measure 36). This was particularly important considering the difficulty to reach any agreement on a minimum wage rise and the final decision by the government to freeze the minimum wage in the previous months. At the same time the willingness to more extensively use the possibility by the Minister of Labour to extend collective agreements to all enterprises of the respective sector represents an important step forward that could further boost wage progression despite a general context of progressive decline in trade unionisation and in the coverage of collective bargaining (Measure 51)

However despite the above two measures no much progress seems to have been done on the wage front. The minimum wage was not increased in July 2010 something that may further aggravate the increase in low paid workers already identified in 2009. The process of extending the coverage of collective agreements to all companies of the sector has also remained poorly used in 2010. Moreover the overall framework of reduction of public expenditure that is included in this list of measures will continue to influence wage progression, either through cuts in wages in specific targeted sectors of public administration such as education and social care (Measure 19), or through the removal of non-monetary benefits such as allocations for clothing previously distributed to some state-owned and municipal enterprises (Measure 20). We shall discuss in the next section how the above measures could be compatible with the type of economic recovery that seems to be needed in

Bulgaria, and to the development, in the long term, of a more balanced and sustainable economic model.

C. Strengthening respect for international labour standards

Bulgaria has one of the highest ratifications record of ILO Conventions with a total of 99 ratified Conventions of which 80 are in force. All fundamental conventions have been ratified as well as all governance Conventions, but the Labour Inspection (Agriculture) Convention, 1969.

The commitment showed by Bulgaria with respect to the implementation of international labour standards is confirmed by the fact that 18 new ratifications were registered since 2000:

Convention	Ratification date
C102 Social Security (Minimum Standards) Convention, 1952	14:07:2008
C122 Employment Policy Convention, 1964	09:06:2008
C146 Seafarers' Annual Leave with Pay Convention, 1976	12.06.2003
C147 Merchant Shipping (Minimum Standards) Convention, 1976 (and its Protocol)	24:02:2003
C156 Workers with Family Responsibilities Convention, 1981	03:04:2006
C163 Seafarers' Welfare Convention, 1987	01:03:2004
C164 Health Protection and Medical Care (Seafarers) Convention, 1987	24:03:2005
C166 Repatriation of Seafarers Convention (Revised), 1987	30:07:2003
C173 Protection of Workers' Claims (Employer's Insolvency) Convention, 1992	28:09:2004
C177 Home Work Convention, 1996	17:07:2009
C178 Labour Inspection (Seafarers) Convention, 1996	09:06:2005
C179 Recruitment and Placement of Seafarers Convention, 1996	12:06:2003
C180 Seafarers' Hours of Work and the Manning of Ships Convention, 1996	24:02:2003
C181 Private Employment Agencies Convention, 1997	24:03:2005
C182 Worst Forms of Child Labour Convention, 1999	28:07:2000
C183 Maternity Protection Convention, 2000	06:12:2001
MLC Maritime Labour Convention, 2006	12:04:2010
P147 Protocol of 1996 to the Merchant Shipping (Minimum Standards) Convention, 1976	09:06:2005

In the last twenty years, Bulgaria has also been actively cooperating with the ILO in the field of international labour standards, including in the field of freedom of association, collective

bargaining, discrimination in employment, child labour, maritime labour, social security, etc. In the period 2000-2008 Bulgaria has participated in several projects related to the ILO Declaration from 1998 and has received advice on the issues of collective bargaining, mediation and arbitration in cases of industrial disputes; on the right to strike, regulation of discrimination, on reconciling work with family responsibilities on social security, etc. Bulgaria has been included in the sub-regional programme against child labour of IPEC for almost six years and the activities were finalised at the end of 2009. The importance the Government of Bulgaria attributes to maritime transport and its dedication to increasing maritime safety and improving the performance of the international fleet was underlined through the Government's hosting of the first Regional Seminar for European countries in the Bulgarian marine capital, Varna, in September 2006, seven months after the adoption of the MLC, 2006. In February 2010, Bulgaria became the second Member State of the European Union to ratify the newly adopted Maritime Labour Convention, also referred to as the fourth pillar of the international regulatory regime for quality shipping. Bulgaria played a very active role in the process of developing the MLC, 2006 and its ratification was a new testimony of the country's continued commitment to the ILO's objectives and in particular its standards-related activities.

Also, the recent ratification in 2008 of the Social Security (minimum standards) Convention, 1952 (No. 102) also demonstrates the country's determination to guarantee the internationally accepted minimum standards in the field of social security. Whereas countries ratifying Convention No. 102 are bound to apply the protection provided by the Convention to at least three branches of social security, Bulgaria has accepted seven of the nine branches of social security, namely those relating to medical care, sickness benefits, old age benefit, employment injury benefit, family benefit, maternity benefit and survivors' benefit. By establishing the basic principles and legal framework regulating social security, Convention No. 102 sets a minimum level of protection to be guaranteed and provides for the general responsibility of the State with respect to the provision of social security benefits and the sound administration of the social security system. In August 2006, the Government requested and hosted an ILO tripartite seminar on the ratification of Convention No. 102. In May and July 2010, the Government requested and hosted ILO technical assistance missions from aimed at providing guidance on the drafting of the first detailed report on the application of Convention No. 102. The ratification of Convention no. 102 represents an important safeguard against regressive legislative measures used as a means to struggle against the effects of the economic and social crisis. While the economic crisis has caused major changes to be made to the Social Insurance Code concerning, inter alia, unemployment compensation and sick leave, a rapid overview of reforms made recently shows that the legislative amendments appear to have been made in consultation with the social partners taking into account the provisions of Convention No. 102. For example, according to a recent amendment, the first three days of sick leave will, from now on, be paid by the employer and the remainder borne by the National Social Security Institute which does not contradict the relevant provision of the Convention. Although the Part of convention No. 102 dealing with unemployment benefits has not been accepted, the amendments introduced with respect to unemployment benefits aimed at restoring fairness by introducing a basic insurance principle – correlation between the amount of compensation and the size of contributions, which also is in line with Convention No. 102's philosophy. Also, upon agreeing in March 2010 with the social partners on the content of the anti-crisis package of measures, the government gave up its initial plan to increase health contributions and value-added tax (VAT), as well as the introduction of taxation measures for the pensions of working pensioners. The challenges in the area of social security however remain numerous and include : improving the collection of social security contributions by effectively combating tax and social security evasion; improving access to medical care as well as access to medical services of the poor or socially vulnerable persons who have lost entitlement to social assistance; raising the minimum levels of the unemployment benefit, old-age benefit, survivors' benefit, employment injury benefit and invalidity benefit; improving the level and coverage of social assistance. Also, the ongoing pension reform represents a challenge as it would need to be seen against the minimum standards established by Convention No. 102.

The last years have been dedicated to harmonizing Bulgarian labour law with the European directives or framework agreements in relation to the accession. This is the main reason for the increased interest of the Bulgarian constituents in temporary work agencies, telework and home work. The social partners have expressed interest in cooperation with the ILO on these topics

According to the Committee of Experts on the Application of Conventions and Recommendations (CEACR) a number of improvements may be made in order to give effect to ratified ILO standards with, where appropriate, the technical co-operation of the ILO ⁴⁵:

- *freedom of association and collective bargaining* ((1)Measures to amend the Civil Servant Act to ensure the right to strike and the right to collective bargaining of public servants who cannot be considered as exercising authority in the name of the State; (2) measures to amend the Collective Labour Disputes Settlement Act in conformity with freedom of association principles; (3) measures to amend the Railway Transport Act so as to ensure that the extent of minimum service should be defined with the participation of the workers' and employers' organizations (4) (measures needed to ensure adequate protection against **acts of interference** by employers' organizations; (5) amend the Labour Code so as to eliminate the **requirement imposed on organizations to be affiliated with a national organization** in order to be able to conclude sectoral and branch level agreements).

- *discrimination in employment and equal pay*: (Assessment of the gender pay gap: measures taken or envisaged to address the increase in the gender pay gap in the public sector and on measures taken to address gender pay differentials in economic sectors where they are particularly pronounced; Objective job evaluation: measures taken or envisaged to promote the development and use of methods for the objective evaluation of jobs, free from gender bias).

- *child labour*: (measures for preventing and eliminating the commercial sexual exploitation of children, the impact of measures taken on protecting street children and child beggars from the worst forms of child labour and the results achieved).

- *hours of work (C1 and C30)* (measures requested to amend the Labour Code which permits exceptions to the general standard of eight hours a day and 48 hours a week (current conditions go beyond those prescribed by the Convention representing a real risk of abuse and a major threat for the worker's health and welfare).

- *occupational safety and health (C120)* (high number of OSH violations recorded in the country and the need for measures to establish sufficiently dissuasive penalties for violations of the OSH legislation).

In addition, the newly adopted ILO instruments in the field of OSH, working hours, termination of employment have not yet been ratified while the level of industrial accidents has been considered excessively high by the European Committee on Social Rights under the supervision of the Revised European Social Charter.

⁴⁵ CEACR: Individual Observation concerning Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87) Bulgaria (ratification: 1959) Published: 2010; CEACR: Individual Observation concerning Right to Organise and Collective Bargaining Convention, 1949 (No. 98) Bulgaria (ratification: 1959) Published: 2010; CEACR: Individual Observation concerning Discrimination (Employment and Occupation) Convention, 1958 (No. 111) Bulgaria (ratification: 1960) Published: 2010 CEACR: Individual Observation concerning Worst Forms of Child Labour Convention, 1999 (No. 182) Bulgaria (ratification: 2000) Published: 2009; CEACR: Individual Observation concerning Convention No. 100, Equal Remuneration, 1951 Bulgaria (ratification: 1955) Published: 2005

D. Social dialogue: bargaining collectively, strengthening labour administration and inspection, identifying priorities, stimulating action

After the formation of a new coalition government in July 2009, the social partners have asked for the establishment of a tripartite commission to monitor the economic and social developments in the country and to discuss fresh anti crisis measures. Also, they requested the re-activation of the branch social dialogue in order to work out branch-specific measures.

The new government responded positively and established a tripartite working group within the NCTC in order to examine new measures to address the consequences of the crisis. It invited CITUB and Podkrepa to return to the social dialogue table. At the same time, the new Deputy Prime Minister and Minister of Finance, Simeon Djankov instructed line ministers to initiate dialogue with branch unions and employers' organizations in order to address the challenges facing individual sectors and industries. These confidence-building moves prompted CITUB and Podkrepa to return to the NCTC, and tripartite cooperation resumed.

The revival of the role of the National Council for Tripartite Cooperation

On 5 August 2009, the members of the NCTC held their first meeting chaired by the Deputy Prime Minister, after several months of interruption. The tripartite partners identified three priority areas for action, namely to save jobs, maintain the financial stability of Bulgaria's social security systems and promote an effective use of public funds. They agreed to develop a joint anti-crisis package and to start working immediately on implementing the package, which spans until the end of 2010. During that meeting, at the proposal of the Minister of Labour and Social Policy, Totyo Mladenov, and with the consent of the social partners, a decision was made to cancel the plan proposed by the former government⁴⁶ meant to subsidize holidays for 5,000 pensioners and to redeploy the resources to provide food and income support to vulnerable groups of society hit by the economic crisis.

The government has agreed to the possibility of some income increases in mid 2010, should there be enough resources in the budget. Also, at the request of the unions, it accepted to postpone temporarily the implementation of the plan to reform the pensions. In addition, it revised its intention regarding the rapid reduction of employers' contributions to the insurance funds, owing to the strong latter's financial deficit.

In February 2010, representatives from CITUB and Podkrepa expressed their discontent with the implementation of the government's anti-crisis programme and asked the two other parties to start new negotiations on a more effective anti-crisis package. Meanwhile, both confederations initiated negotiations with the leadership of the country's six representative employer organizations on an anti crisis package.

The social partners managed to reach consensus on almost all measures proposed by both parties. In mid March, they submitted a package of 50 short-term anti-crisis measures to the government and called for negotiations in the National Council for Tripartite Cooperation (NCTC). The tripartite negotiations started on 23 March. More than 90 measures were tabled for discussion: 43 of them were proposed by the government and 50 by the social partners. The lengthy and heated

⁴⁶ Ensuring possibilities for active ageing, participation of pensioners in the social life and prevention of their social inclusion.

discussions ended in an 'Agreement on the anti-crisis package containing 59 plus1 measures', which was signed by all three parties on 30 March⁴⁷.

The package agreed upon contains measures aimed at promoting employment and enterprise sustainability, supporting households income and consolidating the state budget through reduction of expenditure and the generation of new income (see the complete list of measures in annex 1). The measures concerning employment promotion and households income support were agreed mainly due to pressure from the trade unions, although the employers largely supported them. The representatives of the government and social partners hailed the excellent cooperation and partnership between them, which made the compromise possible. For example, the government renounced to its plan to increase contributions to the health fund and the value added tax⁴⁸.

Several measures in the package agreed upon by tripartite partners have been implemented so far, with others pending. The trade unions confederations requested the government to undertake a joint review of the implementation plan of the package of anti crisis measures in September 2010. There has been no such a review so far.

The active role of social partners

The social partners played an active role in the current context of economic crisis. Not only did they contribute to the formulation of the tripartite response to the crisis, but initiated bipartite negotiations and consultations at all levels, with interesting outcomes. For example, on 16 June 2010, four representative employers' organisations and the two main trade union confederations (CITUB and Podkrepa) concluded an agreement on the regulation of home-based work. The main issues addressed in the agreement include the definition of home-based work, the forms of contract, working time, labour discipline and working conditions. At the same time, social partners in the Bulgarian textiles and leather industry renewed their collective agreement in April 2010. The agreement concluded between both sides of industry maintained a pact on wages and jobs despite the prevailing context of economic recession. Agreements at company level have also been registered –for instance the social plan agreed upon at Carlsberg Bulgaria- during the same period, demonstrating the vitality of bipartite social dialogue in Bulgaria in a context of economic hardship.

Return of tensions between the government and social partners

The impact of the economic crisis on the financial balance of pension and social funds and the influence of austerity policies being implemented across Europe have prompted the government to initiate the amendment of the social security code and the reform of the health care system. The first reform, which had been put on hold earlier at the request of the trade unions, would include the rising of the retirement age⁴⁹. The government move triggered union anger, prompting the unions to plan national protests on 7 October 2010. The unions also called on the government to initiate negotiations in order to reach a consensus on the planned reforms as in 1999 when tripartite partners reached a compromise on the reform of pensions that lead to a reduction of public pension spending⁵⁰. On their part, employers' organisations are in favour of the government plans regarding pension reform.

⁴⁷ The 60th measure proposed by the government related to the payment of the first three days of sick leave. At present, employees receive 100% of the regular daily payment for the first day of sick leave from the employer. From the second day onwards, they get 80%, but the sum is covered by the National Social Security Institute (NSSI). It was proposed that the employer would pay for the first two days and that the third day would be at the expense of the employee. Trade unions opposed this proposal, claiming that it violates the social rights of employees. However, the Minister of Finance, Simeon Dyankov, stated that the cabinet would use the right to unilaterally add the measure to the package.

⁴⁸ Daskalova, N. (op. Cit.).

⁴⁹ The proposal of the government aims *inter alia* at rising the legal retirement age for women from 34 to 37 and for men from 37 to 40.

⁵⁰ Ghellab, Y. (2008) "Social dialogue on pension reform in South Eastern Europe: A survey of the social partners"; DIALOGUE Paper No. 20, November.

It is not clear whether the government will reach out to the trade unions and will engage in a dialogue with them in order to reach a consensus on the planned reforms of the pension and health care system. The sustainability of social dialogue in Bulgaria, which gained momentum since the new coalition came to power in July 2009, will depend to a great extent on the way the government will handle the reform of pensions through social dialogue and tripartite cooperation or unilaterally. Also, the success of the implementation of the anti crisis measures agreed upon in March 2010 will depend on whether social dialogue will keep moving forward in the country.

Strengthening the capacity of labour administration and labour inspection

In the last two years the NEA has continued its work to improve the quality of the employment services it provides. The NEA has been involved in the organization of more than 30 job fairs - specialized and universal, on which a direct contact was established between the unemployed and the employers, and they were encouraged to participate more actively on the primary labour market. The employees of the NEA and the local labour offices have been trained to implement the employment policies, for improving the work organization and offering services of high quality, for enhancing the capacity of the employees to implement OP HRD and services through EURES.

The General Labour Inspectorate is made up of 491 staff, of which 381 are labour inspectors with higher education. Wages are low, however efforts have been made to improve the skills and training of the inspectors- in IT, planning, anti-corruption practices, holding dialogue with the social partners, implementation of the European Acquis Communautaire, etc.

The NEA and the General Labour Inspectorate are among the few state bodies that are not facing staff reductions as a result of the growing presence of these institutions in this period of crisis.

However some problems persist, such as the shortage of labour inspection staff compared to the burden entrusted to them (a big amount of administrative tasks) , the inadequacy of the implementation of certain legal provisions in certain areas and industrial activities and difficulties arising out of the current structural and legal changes Inspectors have to supervise procedures relating to cases of mass dismissal, the application of the Employment Promotion Act, the use of funds granted under employment programmes, compliance with the law on job placement services and the employment of young workers. In addition, supervision of the registration of employment contracts, previously performed by the National Insurance Institute, has been transferred to the labour inspectorates, which are also in charge of issuing authorizations and permits and registering collective agreements. Moreover inspectors wages are low, and there are some lack of knowledge on planning, holding dialogue with the social partners, and implementation of the European Acquis Communautaire, etc.

Part III: Policy Recommendations for shaping a fair and sustainable globalization

1. Macroeconomic policy for growth and employment, trade and industrial policies by stimulating domestic and external demand

Policy to counter the crisis in any country is bound to be fraught. In Bulgaria it has been tightly bound by several parameters, which makes recovery challenging.

One parameter has been that the anticyclical stimulus measures pursued in Bulgaria to counter the impact of the crisis have been extremely limited. These policy measures have been constrained by the terms of the EU accession agreement and the CBA strictures. A balanced if not surplus budget appears de rigour. Hence the policy measures have been really designed to counter falling revenues with

matching expenditures to keep a lid on the budget deficit. So the size of the stimulus is not really appreciable as any significant share of GDP.

A second parameter has been that the pre crisis growth model appears to have been supply driven. The major driver of growth was the large capital inflows that poured in after the accession to the EU agreement was reached. Accounting for some 30% of GDP at their peak, this FDI drove Gross Fixed Capital Formation to peak at a third of GDP. Unfortunately, the high inflows also displaced domestic savings rather than adding to them. Hence pre crisis growth became doubly dependent on the inflows.

A third parameter has been the complementary weakness on the demand side. The relatively stronger driver of growth on the demand side has been exports. However the share of exports in GDP growth had not risen by much. And indicators of productivity showed that the high investment levels had not been channelled into increasing competitiveness. In fact productivity and total factor productivity rates were higher before the surge in capital inflows. The high inflows were observed to be channelled significantly into property and construction rather than into more competitive tradables. Which makes reliance on an export led recovery more onerous.

A fourth parameter has been the demand side weakness due to domestic consumption. While the role of wages in this pre crisis growth model has been examined in more detail in a separate section, a weakness in wages has been observed to be manifested through a weakness in domestic consumption. Domestic consumption actually fell in the inflows led growth model. But the surge in inflows allowed a credit boom, which masked this weakness in consumption. And therefore but for the inflows, there would have been a demand depression in the economy.

The crisis has upset this growth model. The inflows have reversed with no recovering trend. Exports have plummeted, with a small recovering trend. Consumption has fallen with no appreciable recovery trend. Therefore gross fixed capital formation has gone into a declining trend. Therefore inflows certainly cannot be expected to lead the recovery. With domestic savings low, domestic investment cannot be expected to lead the recovery. With exports weakly increasing, exogenous demand cannot be expected to solely lead the recovery. With the EU accession and CBA given constraints on government expenditures, this can only be limited driver of GDP growth. Which implies that domestic demand has to be generated to help lead the recovery. If domestic demand has to be the lynchpin of the recovery model, this implies a critical role for wages and productivity. The social dialogue in the country shows that workers and employers are willing to consider this as a credible and doable policy option.

A more balanced and sustainable model for growth and employment

There has been a policy continuity between the pre crisis growth model and the crisis policy that is being used to recover from the huge exogenous impact. Hence crisis policy has been constrained within the four parameters outlined:

- (i) EU accession and CBA strictures on macro policy, leaving little policy space for demand management through fiscal and monetary policy
- (ii) Supply driven growth driven by high investment, in turn fuelled by high FDI, but falling domestic savings
- (iii) A complementary weaknesses on the demand side, in low export growth, based on weak competitiveness, in turn based on low productivity growth
- (iv) And another complementary weakness on the demand side in weak domestic consumption, reflecting a weakness in wages and social protection.

Each of these macro policy parameters has made the economy vulnerable to the exogenous shock of the global financial crisis, and to recovery from it. The EU access and CBA strictures have not allowed little policy space for domestic demand management to counter the exogenous shock of the credit crunch which has depressed domestic demand. The supply driven growth model would have been fine if based more on domestic savings, but being based more on FDI tailor made it to this

exogenous vulnerability, with no certainty of the timing or extent of outflow reversal. The demand side weakness of low export growth has not allowed a competitive clawing out of the crisis through exports because of underlying weaknesses in productivity. The demand side weakness of low growth in domestic consumption has not allowed a cushioning of the crisis, nor a climb out of it, because of the underlying weaknesses in wages and social protection.

Hence recovery from the crisis and return to growth of GDP and employment require a little more balance in each of these macro policy parameters. Indeed ILO's work for the G20 shows that the countries that had a better relationship between their GDP growth and their employment growth, in the long run had better balances: between employment growth and productivity growth, between wage growth and productivity growth, and between export growth and domestic consumption growth⁵¹.

Accordingly a little more balance is needed in each of these four macro policy parameters for recovery of GDP growth and employment in the short to medium term. This can be outlined here briefly, with more detailed specification waiting on tripartite agreement on these issues. Each of these policy parameters involves trade off between competing objectives. What is needed is a little more balance in the trade-off between these competing objectives. This balance can be illustrated.

Fiscal and Monetary policy

Accession to the EU and CBA structures have led to budgetary policy being tightly constrained. Fiscal policy has been concerned more with falling revenues as a result of the crisis, rather than raising government expenditures to compensate for falling aggregate demand. Hence anti cyclical policy has not really been possible. The trade-off here is between, on the one hand staying on the EU accession track and CBA strictures, which is clearly very important, and on the other hand acknowledging the depression in demand and the government's role in allowing compensatory fiscal policy by running a temporary fiscal deficit in this time of crisis.

In this respect the IMF itself, which once advocated inflation targeting at 2% per annum with accordingly tight policy on fiscal deficits, is now advocating a wider range of inflation targeting at 4% per annum with accordingly higher permissible fiscal deficits. Indeed the IMF's October World Economic Outlook now argues that a 1% reduction in expenditures can reduce GDP growth by 0.5% per annum, and raise unemployment by 0.3% per annum⁵².

There is further space in fiscal policy on the revenue side, which too has been weak in Bulgaria. Bulgaria's revenues have a higher reliance on indirect Value Added Taxes, whose burden lies on lower income groups and so are regressive, rather than direct taxes on income and wealth which are more progressive. A better ratio of direct to indirect taxation is needed. Raising the revenue base and yield has to be a medium term project, but again is much needed, to allow more expansionary fiscal policy when needed.

Supply driven growth fuelled by inflows

Supply driven growth, with high investment levels, is an arguable strategy, given the example par excellence of China. Nor do inflows hurt in raising the level of investment, as in the case of Bulgaria. So reliance on inflows to raise investment and growth is perfectly valid. Bulgaria's weakness comes from the inverse correlation of FDI to domestic savings. This becomes classic case of the Griffin Enos hypothesis of inflows substituting for savings, rather than being additive to them⁵³. With falling

⁵¹ ILO 2010, The Employment Intensity of Growth in the G20 Countries, with some Lessons for Jobs Recovery in the Short to Medium Term.

⁵² IMF, 2010, World Economic Outlook, October.

⁵³ Griffin K and Enos, 1972, World Development

domestic savings, the economy becomes extremely vulnerable to fluctuations in inflows. With perhaps a causal relationship with inflows driving down domestic savings, creates a structural imbalance in the macro economy.

With inflows reversed, and no certainty of the timing or extent of their return, makes the economy entirely dependent on domestic savings. Raising savings to reduce this dependence on inflows is clearly a medium to long run challenge. One variable which is critical to raise domestic savings, and indeed domestic investment, is bank spread. The bank spread is the difference between the rates bank's pay on savings deposits, and the rates they charge on their lending. Bank spread are raised to attract inflows, but work against domestic savings and domestic investment. If the spread is lowered, inflows may reduce, but domestic savings tend to rise with the increased incentive of a higher deposit rate, and domestic investment also tends to rise with the increased incentive of a lower lending rate.

Demand side export growth, competitiveness and industrial policy

While the Bulgarian growth model has been more supply led, on the demand side, exports have been the leading driver of growth. However export growth has not been very high. Competitiveness has been weak because productivity growth has been weak, particularly that of Total Factor Productivity. Raising exports has to be based on lowering Unit Labour Costs (ULCs) in two ways, through competitive devaluation, and raising productivity. Some of the world is getting caught up in competitive devaluation, with the falling Dollar, the undervalued Renimbi, and the weak Pound, but the Euro, Yen, Won, Baht and the Rupee have strengthened. For Bulgaria the EU accession track and the CBA strictures rule out external devaluation. An internal devaluation could be possible by lowering the real wage, but in a recession with raging unemployment and falling personal incomes, such a move would be indefensible because of its high cost for the individual as well as the aggregate economy. Which leaves productivity.

While productivity is certainly a variable which is only amenable in the medium term, and a function on human resource development, but it is arguably amenable to industrial policy. The pattern of investment has not led to stronger increases in productivity because it has been relatively less oriented towards manufacturing and tradeables, and relatively more oriented towards property assets, construction and non tradeables. The experience of East and South East Asia shows that industrial policy by targeting industries, can raise their productivity, lower their ULCs, and enhance their export competitiveness. Ha Joon Chang argues that while picking winners has not worked in many other parts of the world, the solution is simply to improve the batting average, through more meticulous choice in industrial policy⁵⁴. Clearly in the case of Bulgaria, a comprehensive review of industrial policy is called for to target sun rise sectors and green field investment.

The most promising way for Bulgaria to significantly increase its productivity and international competitiveness would be to access higher technology export sectors. Currently, most of Bulgaria's exports are in relatively low technology products. For example, textile and apparel account for almost 13% of Bulgaria's exports. This is a sector with strong competition from low-wage producers and limited potential for cost savings through productivity growth. Based on a classification of products by their research and development intensity done by Eurostat, Bulgaria has the lowest share - i.e. 32% - of high and medium high technology exports of all new EU members with available data. In comparison, this share is 64% for the Czech Republic, 77% for Hungary, and 59% for Slovenia. This does not necessarily imply that the research and development activities take place in these countries, but that they have managed to become part of global supply chains that produce high technology goods - for example cars - even if the R&D takes place elsewhere.

⁵⁴ Ha Joon Chang, 2010, Twenty five things they don't tell you about capitalism.

Availability of skilled workers and market access free of tariff and non-tariff barriers (see section III.8) are critical elements for integration into such value chains. The low technology content of Bulgaria's exports is even more surprising in relation to the fact that of the same sample of new EU member with data availability, Bulgaria has the third highest ratio of tertiary education in the labour force (24%, surpassed only by Estonia (33%) and Lithuania (29%). Thus, leveraging better on its high human capital could be a promising way for Bulgaria to enter new sectors with high productivity. In order to do this, constraints at both the supply and demand side of skills need to be identified and addressed. At the demand side, Bulgaria has the second lowest Research and Development expenditure of the new EU members; 0.49% of GDP, just slightly above Romania's 0.41% and way below Slovenia's 1.47%, according to Eurostat data. A careful review of the business environment should seek to identify and overcome obstacles that prevent Bulgarian firms from investing in new technology, training of workers, and creation of skilled jobs.

On the supply side, Bulgarian firms rank inadequate education as the third most binding business constraint after activities of the informal sector and political instability (World Bank Enterprise Survey). This means that unlike in most other countries in the same region and income group, inadequate workforce education is seen as a more serious constraint than common problems such as corruption, access to finance, or high taxes. Apparently, despite the high levels of formal educational attainment, there is a mismatch between the skills workers are equipped with by the current education system and the skills that are in demand by companies. A careful review of the available skills, the needs of businesses, and the institutional set up of the education system could help to identify these mismatches and develop policies to overcome them, including an adaptation of curricula and stronger dialogue between businesses and policy makers on education policies.

Demand side domestic consumption growth, wages and social protection

Domestic consumption has been the weakest driver of GDP growth in Bulgaria, with its share actually falling over the period of high growth leading up to the crisis. However domestic consumption by its nature, because of the high marginal propensity to consume in the typical household, should be a major driver growth. If it is not, domestic demand is weakened; the economy becomes relatively more dependent on external demand, and so more vulnerable to exogenous shocks like the current global crisis. So while both sources of aggregate demand are important to drive investment, GDP growth, and employment, an increase in the GDP growth rate should be based on a better balance between the increase in export demand and the increase in domestic consumption. This makes growth less vulnerable to either type of shock, exogenous or endogenous.

In the case of Bulgaria, if domestic consumption has been declining in its share of GDP over the last period of good growth, this has to be based on two broad factors, incomes and social protection. Since much of income comes from wages, wage income growth could be better. And social protection could also be better to cushion income shocks and protect the vulnerable.

Wage income is a function of the wage share, and productivity. The detailed examination of wages in this scan has shown that while real wages have been increasing in the run up to the crisis, relative to a consumption norm they have tended to flat line. Plus with the crisis, the average real wage has fallen. Productivity growth has also been observed to be weak.

Three policies on wages may then be called for.

One is a protection of the real wage to compensate for the fall during the crisis. This was a key factor in the recovery in the last big crisis – the Asian crisis, for raising depressed domestic demand and thereby aggregate demand, to compensate for the loss in export demand⁵⁵. This is fairly incontrovertible.

⁵⁵ ILO 1999, GB Paper on the Asian Crisis, March.

A second policy may wish to consider raising the real wage to raise domestic demand and thereby aggregate demand, to compensate for possible earlier weaknesses in real wage growth relative to a consumption norm. This is a debatable policy issue, but therefore all the more reason it should be publicly debated in the light of evidence on wages and productivity.

A third policy that could be useful is an income policy, which links any further real wage increases, that is after any compensatory increases agreed on by the first two policy recommendation, to productivity increases. An income policy has an additional merit beyond balancing wage and productivity increases, in working as an alternative to a devaluation policy. A devaluation policy would not be feasible for Bulgaria given the EU accession and CBA strictures. An incomes policy allows some control over ULCs and therefore competitiveness. And an incomes policy also protects domestic consumption. It is also therefore neutral in its bias between impact on exports and impact on domestic consumption. To be meaningful an income policy must be based on relatively even bargaining power across the institutions of social dialogue. Bulgaria clearly has these institutions of social dialogue in place to enable such a critical instrument of macro policy to work.

2. Labour market policies

Policy proposals and Recommendations on labour market policies

Generally, more funds should be allocated for labour market policies to support labour **market recovery**. **Moreover, government together with the social partners should pay close** attention to articulate the various components of labour market policies, employment protection, social protection schemes and other income protection schemes in order to insure synergy and coherence. It is at the utmost importance to define anti-crisis policies package (and not fragmented ones), based on interactions between the labour market institutional settings and labour market policy measures. The policy package should minimize of course the social costs of the job crisis without undermining labour market efficiency. This means that the policy challenge is to articulate key short-run policy options with longer-run ones: overcome the immediate challenges and long-term goals for strengthening productivity and competitiveness outcomes.

At the labour market, those measures should for example provide both flexibility and security in the labour market. These measures should be balanced however by the consideration that, especially in the current crisis situation, security should take precedence over flexibility. In this context, social partners and social dialogue should play a critical role in finding the balance. At the same time and as said before, a shift will be needed from crisis policy responses to more medium-term strategy: address key questions such as, for example, maintaining unemployment benefit income supports through a wide coverage, while ensuring effective labour supply, etc.

Stronger programmes should be enhanced for young people, to help them acquire quality vocational education and skills that are demanded in the labour market, to facilitate their transition from school to work and to give special attention to young people neither in education nor work. The main areas of intervention should: maintain short-term measures upholding the demand for young labour; temporary publicly subsidized part-time working hour schemes as well as the use of unemployment benefits and retraining to accelerate transitions from old to new jobs are the effective means to achieve this goal.

By the same token, it seems critical to invest more in training and education even in time of crisis. The skills the education system endows students with appear to be clearly insufficient with respect to the requirements of the labour market. Mismatches in demand for skilled labour cause vacancies to go unfilled and the low educational attainment is worrisome for the mid to long term competitiveness of the country. The education system as a whole needs to be adapted to the needs of the knowledge base economy, modernized and be organized according to the most modern criteria. For example, the New Skills for New Jobs initiative launched by the EC provides important guidelines to be followed in order to support at the same time existing high quality/high productivity jobs in the

traditional sectors as well as promoting employment in the high technology sectors, low carbon economy and green jobs. This will strengthen the possibility for economic growth, development of higher value-added production and activities. A shift in focus from “work-first” approach to “training-first” approach may be advisable in the job crisis situation.

The relevance of the vocational training system in terms of qualifications needs to be improved, and adapted to the demand from the private sector. The development of a National Qualifications Framework to recognize the qualifications of people trained through non-formal and informal education is also to be recommended. Other priority areas include the promotion of early childhood education and development particularly for children from Roma background (the most likely to drop out of public schools). Boosting school retention must also be given adequate means. Specific measures could put specifically target young girls and their families in the age of lower secondary school, while both sexes should be supported for what concerns upper secondary and tertiary schools

It is also very important to address the issue of mobility, in general, e.g. geographical and occupational: there should be for example, incentives for increasing voluntary mobility. This can be achieved through a good combination of flexibility and security, e.g. through a protective and fair labour market institutional setting, which connects labour market rights with incentives for mobility. In order to improve the regional imbalances and the skills shortage detected in certain sectors, it is also important to register properly (information banks) the existing available capacities at the sectoral and regional levels. Finally, ALMP has a critical role to play to maintain labour market connection of the most vulnerable groups and prevent long-term unemployed; as well as avoid high unemployment becomes persistent. As highlighted above, the main risk of staying unemployed is to become stigmatized and lose total contact with the labour markets. Here it is thus crucial to maintain young people in various schemes and programs, such as apprenticeships or training with the perspective of stepping into the labour market. More broadly, all vulnerable individuals in the labour market (such as short time, fixed-term contract workers, etc) but in particular those closed to a situation of social exclusion should get benefit from formula maintaining/providing some employability through on the job training or measures to remain in contact with the labour market. Hence, targeted activation policies for most disadvantaged youth, in particular the discouraged ones and those belonging to ethnic minorities, should be maintained or scaled up. Also, systematic monitoring and evaluation of ALMPs should be conducted, to improve their design, implementation, targeting and impact.

3. Policy proposals in social protection

Based on the analysis in I.3 and B.1, the following recommendations will emerge in the area of social protection.

(1) Pension system

It is of critical importance for the Bulgarian stakeholders to take necessary steps to restore the financial sustainability and the trust in the pension system in the time of crisis and beyond. At the same time, the pension system should provide an adequate benefit level which meets the requirement of the ILO Social Security (Minimum Standard) Convention No.102, which Bulgaria has ratified since 2008. The four Options formulated by the Consultative Council on Pension Reform should be the starting point for discussion. In addition to the measures proposed in these four options, considerations should be made on the method of pension indexation, the rate of contributions, and the extension of the contributors through improved law compliance and contribution collections. The comparative analysis of the financial impact of various reform measures would provide key information for a rational policy choice. In the reform process, the role of tripartite dialogue should be emphasized in order to find solutions based on a broad consensus. In particular, the voices of workers’ and employers’ organisations should be properly heard in the discussion of the

future pension policy. In addition, the proposed reform should be supported by the future generations who are asked to pay contributions to support their elderly generations.

In early November 2010, the tripartite stakeholders in Bulgaria have reached to a package of reform measures to be implemented over the next 25 years. The amendment law has gone through the first reading and further ILO assistance is envisaged in the phases leading to implementation. The reform measures consist of the following:

1. From 1 January 2011, increase the contribution rate by 1.8 %. Hence, the total pension contribution rate will be increased from the current 16% to 17.8%. (In addition, there is a 12% contribution subsidized from the government)
2. Improve the collection of contributions by introducing higher penalty for non-compliant employers and workers (Date of implementation 1 January 2011)
3. The early retirement pensions for workers in categories I and II (workers in severe and hazardous sectors) are continued to be paid from the State Pension Fund until the end of 2013. The balance in the individual accounts for these early retired workers will be transferred from the Professional Fund to the State Pension Fund. From 1 January 2014, the early retirement pensions in respect of workers in categories I and II will be paid from the Professional Fund.
4. From 1 January 2012, the insurance period required for pension (currently 37 years for men and 34 years for women) will be extended by 4 month every year until it reaches 40 years for men and 37 years for women by 2020. (For those who do not have sufficient insurance period may "purchase" the missing period up to 5 years)
5. Starting from 1 January 2021, the pensionable age (currently 63 years for men and 60 years for women) will be increased by 6 months per year until it reaches 65 years for men and 63 years for women. (Note that the difference in pensionable age between men and women is narrowed to 2 years)
6. The employers' contribution to the fund for guaranteed receivables of workers and employers (contribution rate is 0.1%) will be suspended from 2011 till 2013. (This is because the above fund has accumulated sufficient reserves)
7. From 1 January 2017, the accrual rate of pension formula will be increased from the current 1.1% per insurance year to 1.2%. (It is not clear whether this increment will be applied to the newly awarded pensions or all pensions in payment)
8. From 1 January 2017, the contribution rate for the Universal Fund (second pillar) will be increased from the current 5% to 7%.
9. From 1 January 2014, there is no maximum rate in the State Pension. Until the end of 2013, the current maximum pension of 700 BGN will be indexed in line with increase in the average insurable wage.
10. From 1 January 2012, the employers will pay only the first day of sickness benefit at 100% of the salary. (As a temporally measure in the crisis period, the employers were made responsible for the first three days of sickness benefit at the rate of 70% of the salary).
11. The indexation of pension will be frozen until 2013. It is not clear what indexation method will be applicable from 2014. (Some participants mentioned to the Swiss formula).

NSSI estimates that if the above measures are implemented, and assuming 12% of State contribution, the State Pension Fund will restore the financial balance by 2035.

(2) Unemployment insurance

In Bulgaria, during the global economic crisis, the existing unemployment insurance scheme has responded to the crisis and contributed to help stabilize the economy. However, the unemployment insurance is not a panacea for the problem of long-term unemployment, as the unemployment insurance fund is expected to have a large deficit in 2010. In view of the recent decreasing trend of the unemployment rate, in the remainder of 2010 and onwards, an effective coordination should be made between the social security policy to provide benefits for the unemployment hardship and the labour market policy to maintain and promote the employability of the unemployed workers and eventually send them back in the employment.

(3) Social assistance

Although the effectiveness of the crisis response of the social assistance programmes was rather limited due to limited resource allocation, the Bulgarian social assistance programmes have exhibited basic functions of poverty reduction and social inclusion. It is recommended that the government, in consultation with key stakeholder, design an adequate social assistance benefit structure and establish its financing mechanism so that social assistance can function as a basic Social Protection Floor for all members of the society.

4. Wage policies to reduce poverty and inequity, increase demand and contribute to economic stability

What wage policies for sustainable recovery?

The restrictive budgetary policy has strong negative effects on particular segments of the labour force –especially in the public sector– but also on overall working conditions.

At the same time it may limit the capacity of the Bulgarian to move toward economic recovery, while also limiting the scope of its economic model.

Priority 1. Tackling the persistent problem of low pay at the bottom of the labour market

The progressive increase in low paid workers, and the further deterioration of most vulnerable workers' wages during the financial crisis should lead the government to put in place a more active wage policy to sustain workers' wages and incomes at the bottom of the labour market. The first tool to be used is the minimum wage that should ensure a wage floor for all employees that would allow them to ensure minimum living standards. International evidence shows that not only the minimum wage is being increasingly used by national governments,⁵⁶ but that it has also been prominently used by a number of countries as a protective tool during the crisis.⁵⁷ This would thus require a more frequent adjustment of the minimum wage according to economic and social developments, a measure that figures in the list of measures agreed between the three sides, but which should be implemented and backed up by a more systematic process of minimum wage adjustments.

Priority 2. Going beyond wage moderation: the macro impact of wage progression (Competitive wage moderation versus wage-led growth)

Apart from the priority to better protect most vulnerable categories of workers at the bottom of the labour market, we can question the relevance of a wage policy directly aimed at implementing wage moderation. As discussed in the introductory chapter Bulgaria needs to base its economic development on a more balanced policy, not only boosted by exports but also founded on a strong demand and a sound domestic market. For this purpose a progressive increase in wages and living standards for all workers would definitely represent a major step. This could be implemented through collective bargaining to ensure that such wage increases are granted in accordance with economic and social developments.

Priority 3. Finally setting a close link between wages and productivity

Pay systems should also be reformed in order to progressively ensure that wages will better reflect enterprise's performance. Our assessment on wages has shown that there was a total disconnection between wages and productivity. While wages have clearly remained below productivity growth in the years before the crisis, wages have also not immediately reflected the economic crisis. The situation is expected to get even worse in the recovery years, with wages lagging well behind economic recovery. This assessment leads to an important policy conclusion: the need to set up wage-fixing mechanisms that would better reflect economic growth, not only through wage bargaining but also pay systems better related to profits and/or other measure of economic performance. Such link between wages and economic growth should also be discussed at macro level within the tripartite Council.

⁵⁶ *The Minimum Wage Revisited in the Enlarged EU*, by Daniel Vaughan-Whitehead, Edward Elgar, 2010.

⁵⁷ *Global Wage Report – 2010-2011*, Forthcoming (December 2010), ILO, Geneva.

Similarly in the public sector the current restrictive wage policy with cuts in wages and non wage-benefits could lead to a decline in public employees' motivation, and therefore to a potential fall in the overall quality of public services, involving the Bulgarian public sector in a 'low wages-low productivity' vicious circle.

Priority 4. Enhancing the role of wage bargaining and multi-level social dialogue

The development of collective bargaining is an essential process for ensuring that wages will play both their economic and social functions in Bulgaria. Measures to strengthen collective bargaining and social partners should be taken. Measures to extend the coverage of collective bargaining (such as the extension mechanisms envisaged in the 2010 list of policy measures) should also be implemented.

At the same time the coordinated and multi-level social dialogue on wages that was envisaged in Bulgaria in the early 2000s to ensure the coherence and interaction between wage bargaining at national, sectoral and enterprise level, should be put in practice and be progressively adapted to the new economic and social circumstances.

5. Policies for labour standards

The global economic and financial crisis has exacerbated the challenges with a view to the effective implementation of ratified international labour standards. For example, measures taken or envisaged by the Government to deregulate the labour market by favouring flexibility necessarily have an impact on the manner in which international labour standards are applied. In the crisis context but also beyond the crisis, one of the major challenges ahead of the Government will therefore be to ensure sound coordination and synergies between employment policy and social policy. In this perspective, the first reports on the application by Bulgaria of the Employment Policy Convention, 1964 (No. 122) and the Social Security (Minimum Standard) Convention, 1952 (No. 102) which are to be transmitted this year to the ILO supervisory bodies, need to be the occasion for the Government to demonstrate, in consultation with the social partners, how it intends to strike the balance between, on the one side, the objective to reach the objective of full, productive and freely chosen employment and, on the other side, the commitment to guarantee a minimum social security protection threshold.

The following non exhaustive selection of comments made by the supervisory bodies further demonstrates their increased relevance in the context of the adoption of anti-crisis measures :

- an increase in the duration of part time work or of working time would necessarily impact on the application of the Hours of Work (Industry) Convention, 1919 (No. 1) and the Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), as commented by the CEACR;
- measures called for by the ILO supervisory bodies to ensure, in accordance with the conventions on freedom of association and collective bargaining, protection against acts of interference by employees' and employers' organizations in each other's affairs are made even more necessary ;
- increased necessity for effective measures to prevent the payment of wages in kind as well as arbitrary deductions from wages and ensure the prompt settlement of outstanding wage payments, as observed under the Protection of Wages Convention, 1949 (No. 95).
- Other measures: necessity to reduce the number of OSH violations by establishing sufficiently dissuasive penalties (C120); need to address the increase in the gender pay gap (C111); etc...

In view of the high ratification record of international labour Conventions by Bulgaria, the national consultative authorities with participation of the social partners would need to be closely associated in the policy decision-making processes falling within the scope of ratified ILO Conventions. In particular, the authority established in conformity with ILO Convention No. 144, the National

Council for Tripartite Consultations, would need to be mobilized and consulted effectively on the questions arising out of reports to be made on the implementation of ratified ILO Conventions. In order to assess the potential impact of the reforms undertaken by the Government in response to the global financial, economic and social crisis, this body could initiate a study analyzing the impact of the crisis on the implementation of ratified ILO Conventions. Any technical questions related to ILO instruments arising in this context could be referred to the ILO for expert opinion and advice. The study, together with relevant statistical information, could then be officially transmitted to the ILO supervisory bodies.

6. Policies for social dialogue

The global economic crisis had shaken the system of industrial relations in Bulgaria which translated into a rapid deterioration of the relations between the government and social partners between fall 2008 and the summer 2009. As explained earlier, the main reason of the deterioration of the relations between tripartite partners was the lack of commitment of the former to engage the latter in the shaping of an effective tripartite answer to the crisis.

After the formation of a new coalition government in July 2009, the relations between government and social partners improved and social dialogue gained momentum, which translated into the conclusion of an ambitious anti crisis package in March 2010. While several measures have already been implemented many more are still pending implementation. The lack of an effective monitoring mechanism of the anti-crisis package implementation appears to be hampering somewhat the social dialogue process. Also, the announcement by the government of its willingness to proceed with the reform of pensions and health care has created tensions with the trade unions.

As Bulgaria is still facing a lot of challenges to promote a sustainable recovery centred on employment, protection of workers' rights and enterprise adaptability, it is crucial that the tripartite partners keep talking with each other in order to maintain social dialogue momentum. The experience of the ILO and of most European countries shows that there is no other credible alternative to social dialogue in dealing with the consequences of the crisis and promoting a sustainable recovery.

The priorities for the future would be the following:

Priority 1: keep the momentum of social dialogue going through the creation of a tripartite mechanism to monitor the implementation of the anti crisis package.

It is very important that the government involves the social partners in the monitoring of the implementation of the anti crisis measures agreed upon earlier. This will give a higher legitimacy to the decisions made as well as will facilitate their implementation at the work place level. A social dialogue institution such as the national council for tripartite cooperation should be playing a leading role in this respect.

Priority 2: initiate an open and frank social dialogue with social partners on the main parameters of the reform of pensions

Pension reform is an area which is of concern for both workers and employers. It calls for meaningful consultations with the social partners. For that to happen, there is a need for the provision of credible data and information to be made available to the social partners so that they can participate effectively in the tripartite discussion and hence influence the reform process. The social partners in

Bulgaria have proven in the past (in 1999) that they had the technical capacity in the field of pensions and the willingness to contribute actively to the design of the reform of pension schemes. Indeed, they played a very active role at that time.⁵⁸ Such an experience could prove very useful in the current discussion on pension reforms.

Similarly, it is important that the government reaches out to social partners as far as the reform of health system is concerned in view of the financial and practical implications it has for both sides of industry. In this way it will secure their support not only in the design but also in the implementation stage.

All in all, the government can benefit a lot from involving the social partners in the discussions on both pension and health reforms.

Priority 3: encourage bipartite social dialogue and collective bargaining between workers' and employers' organisations at branch and enterprise levels, in order to adjust crisis-related measures to the specific needs of individual branches and industries and enterprises.

Social partners played a very active role in the current context of global economic crisis. Not only they did participate actively in tripartite social dialogue but they also initiated bipartite negotiations which lead to interesting collective agreements at branch and enterprise levels as mentioned earlier. This promising trend must continue. The government should encourage that through inter alia extension mechanisms.

7. Policy coherence and cooperation between government ministries

The leadership of the Prime Minister's Office is a key factor in developing policy coherence and collaboration among the team of ministers. It should be borne in mind that one of the main goals of the government in the context of its membership of the European Union is to comply with the requirements of the Lisbon Treaty. Therefore, the Minister of Finance is intent on keeping the budget deficit at 3% at all costs. This policy has led to strict austerity measures that apply across all government ministries, including decreases in budgets and staff lay-offs. The result has been the slowing up of the reform programme in a number of sectors, for example health care, education, regional development, transport, culture, sports etc, which has in turn created tensions between the ministries

The challenge of making employment and decent work a central and accountable target of economic policies requires commitment and joint action. Coherence and coordination across several ministries and labour market institutions can be much stronger. Establishing an effective national monitoring mechanisms that integrate employment outcomes as indicators of achievement would facilitate better coherence and cooperation between government ministries.

8. Promote efficient and well-regulated trade, and markets that benefit all and avoid protectionism

Between 2002 and 2008, Bulgaria experienced rapid export growth at an average 8% pa in real terms. However, imports increased even faster, leading to a widening current account deficit that reached 24% of GDP in 2008. The crisis led to a drop in exports by around 10% in volume terms while imports slumped by 22%, substantially narrowing but not closing the current account deficit. Behind

⁵⁸ Ghellab, Y. (op. cit.)

re-exports of oil (13%), copper (11%) and clothing (9%) account for the largest share of Bulgaria's exports. By far Bulgaria's largest export destination is the EU, with 46% of export going to the 15 old EU members and another 14% to the 11 other new members that joined in or after 2004. Another important export destination is Turkey (9%). EU partners are also the main origin of Bulgaria's imports (38% from old, 12% from new EU members), followed by former Soviet countries (24%), from which Bulgaria imports most of its fossil fuels, as well as Turkey (6%) and China (5%).

Since its accession to the European Union in 2007, Bulgaria's trade policy is determined by the common external tariff of the EU for extra-European trade and the free circulation of goods within the EU. The largest share of imports which originates from other EU countries therefore enjoys duty free market access. With respect to imports from other trading partners, the EU's common trade policy applies, which is characterized by relatively low average MFN tariffs, preferential market access for Least Developed Countries and other preferential trading partners, and substantial distortions in agriculture with high protection and subsidies through the common agricultural policy.

Bulgaria scores the lowest value of all EU countries on the World Bank's Logistics Performance Index, indicating that transport and customs infrastructure pose a significant obstacle to trade. If these problems are not addressed, high transport cost will continue to undermine the competitiveness of Bulgaria's exports and delays in transportation pose a significant obstacle to integration of Bulgarian producers into global value chains where on time delivery is key. Thus investment in both hard (roads, railways, etc.) and soft (institutions and administrative procedures) infrastructure to facilitate trade remains a key priority. Finally, Bulgaria's exports are currently strongly concentrated on the EU and other neighbouring countries. The global crisis has demonstrated that excessive exposure to a few highly interlinked markets can be quite dangerous if demand drops in these markets. Furthermore, growth in key emerging market countries such as China, India, and Brazil has by far surpassed growth in Bulgaria's traditional markets in the past and will likely continue to do so. Bulgaria currently only has negligible exports to these markets, owing in part to its concentration in low technology manufacturing exports for which these countries have a comparative advantage themselves. However, in formulating a forward looking strategy for industrial upgrading and competitiveness as discussed in section III.1.iii, it would be useful to also consider sectors with export potential to high-growth non-traditional destinations.

9. Facilitate shifting to a low-carbon, environment-friendly economy that helps accelerate the jobs recovery, reduce social gaps and support development goals and realize decent work in the process

Not applicable in this immediate context.

10. Address informality to achieve transition to formal employment

Not applicable in this immediate context.