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# THE SOCIAL DIMENSION IN SELECTED CANDIDATE COUNTRIES IN THE BALKANS: COUNTRY REPORT ON BULGARIA

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## 1. Executive Summary

A long period of economic mismanagement and political instability in the early 1990s delayed Bulgaria's transition from a planned to a market economy by nearly a decade compared with other countries from Central and Eastern Europe. Since 1997, the wide-ranging structural reform programme has encompassed liberalisation in the agricultural and energy sectors, the privatisation of enterprises and reform of the social sector. Thus, following negative real GDP growth in 1996 and 1997, the economy began to grow and continued to do so in the period afterwards.

The Bulgarian economy is dominated by services, with positive growth rates in nominal and real terms as well as the contraction in the agricultural sector being the key contributing factors. The gross value added by agriculture as a share of the total has had a clear downward trend since 1998. The restitution of agricultural land from cooperative to individual ownership was very slow and was not sufficient to make progress in this sector; therefore the parcelled land and the lack of capital are major obstacles. An improved business environment has attracted more foreign investment, which has represented 9% of GDP per annum on average for the period between 2000 and 2005. Yet the process of registering a business in Bulgaria is still too complicated and the country lags behind its rivals in attracting investment and offering a favourable business environment.

During the last five years, the Bulgarian economy has experienced fast credit growth, which, combined with the widening current account deficit, has raised concerns about the vulnerability of the economy and its banking system. The Bulgarian central bank implemented a restrictive policy aimed at decelerating credit expansion. Consolidated general government expenditures have been steadily growing by 9.5% per annum since 1999 and reached about 40% of GDP in the period 2000-2005. In the same period, public social expenditures (e.g. on health, social security and welfare) exceeded GDP growth, with their share rising from 15.6% of GDP in 2000 to 17.4% in 2005.

Growth in GDP was based on strong domestic demand, particularly private consumption and investment fuelled by strong credit growth, which caused imports to surge. The engine of sustainable development, however, is the growth of total factor productivity. More specifically, one should take into consideration labour productivity, which shows clearly positive dynamics Bulgaria. Nevertheless, despite these encouraging developments, the labour market continues to face problems, such as discrepancies between labour productivity and wages, along with low activity rates. Furthermore, the labour market has yet to move towards achieving the targets of the EU's Lisbon strategy. The labour productivity gap in Bulgaria has been widening in the last few years. The slowdown is associated with low-productivity jobs generated by the public sector. Although the growth in labour productivity recovered to around 4% in recent years, in 2005 it remained at 32.6% of the EU average. In the period 2001-2005, the employment rate reached 56% for the population aged 15-64, although this figure was still far less than the EU level (63.8%). Gender differences are less pronounced compared with the EU average (with 71.3% of men and 56.3% of women employed). The unemployment rate, which had been persistently high in the period around 2002, began a downward trend and in 2005 reached its lowest level for the last 10 years. Unemployment largely depends on the educational level of jobseekers. In 2005, the unemployment rate among individuals with primary or lower education was 35.1%, which represents a rather high proportion of poorly educated people, i.e. there is a problem in terms of the skills gap and a large excess supply of low qualified labour.

A characteristic feature of unemployment in Bulgaria is its long-term duration. In the 10 years leading up to 2005, more than half of the share of unemployed persons had been jobless for

more than a year (60% in 2005). The long duration of unemployment and the persistence of factors affecting the accessibility to jobs by some groups are the greatest threats to the labour market. The negative repercussions impact not only poverty and social assistance, but also the whole social protection system. The main challenge of social policy is to prevent the exclusion of the unemployed from contributory benefits, such as pensions and healthcare. Significant differences can be observed in the levels of employment among different regions, e.g. those populated by ethnic minorities such as Roma or Turks tend to have higher unemployment, which is associated with low education levels and lack of skills. Another specific issue concerning the employment situation in Bulgaria is flexibility, which is considered a weak point in the country's labour market.

A long-term tendency towards a decline in the size of the population and changes in its structure (a fall in the share of working-age persons) is observed. The ethnic structure of the population has its specific characteristics – with the Bulgarian Roma (comprising 4.7% of the population in 2001) and Bulgarian Turks (9.5%) forming large minority groups. The demographic replacement rate fell from 120% in 1995 to 118% in 2005, and in rural areas there is not even the simple replacement of the working-age population. The population in villages is shrinking despite the fact that the intensity of internal migration, i.e. the ratio between the total number of migrants and the average population, is relatively limited. An important constraint on mobility is the high percentage of home ownership. But there are significant differences in access to some goods and services for the urban and rural populations, which is one of the factors behind internal migration from villages to the city. An estimated 1.2% of the Bulgarian population migrated externally in 2004, although the majority of these emigrants intend to return to Bulgaria. Most of them hope to earn money abroad and then to become self-employed upon their return to Bulgaria.

A low fertility rate can be explained by the fragmented family policies that should otherwise empower parents and help them to meet their responsibilities (e.g. social security, childcare services and taxation). Family counselling and support services, however, are not being developed. Tax relief for children was introduced for first time by the Personal Income Tax Act in 2006, and depending on the number of children, it leads to a reduced taxable income for one of the parents. Indeed, family policy has been conducted within the narrow framework of prudent fiscal policy.

Access to education is among the most important characteristics determining the social status of the population. In spite of the measures taken to adapt the system to the needs of the labour market, a stable trend towards decreasing the coverage, particularly for early school drop-outs, has emerged in recent years. On the one hand, school attendance is one of the government's concerns – especially for ethnic minority children and those living in village settlements. A particular worry is the fact that fewer rural children complete their secondary education compared with urban children. In a majority of the villages, there are no secondary education schools, nor is there adequate transport to the nearest city. On the other hand, the quality of education is also important. Data on educational results as registered by international surveys indicate a worsening in the quality of Bulgarian education along with the previously mentioned differences in the level of education by place of residence. Additionally, it is crucial for the quality of human resources to develop access to lifelong learning. These issues have to be tackled as a high priority, taking into account the unfavourable demographic trends that have been subject to adverse turns during the last decade.

As a result of sound macroeconomic policies and deep structural reforms, increased growth and low inflation have contributed to increased per capita income and higher standards of living. Nevertheless, the real income of Bulgarian residents is still less than one-third of the average among the EU member states. Therefore, improving the efficiency of the economy is necessary to ensure that the forthcoming EU accession will rapidly narrow the gap and result in sustained improvements in living standards. The number of poor Bulgarians is a relatively permanent figure (about 1.1 to 1.2 million persons). *Ceteris paribus* the poor in 2005 were comparatively less poor than in 1995, keeping in mind the growing poverty threshold. The findings of international research reveal that the relative share of the poor in Bulgaria is generally the same as in the EU member states. That being said, the distinctions are substantial when it comes to the poverty threshold. The poverty threshold for Bulgaria is 2.8 times lower than in the 10 new EU member states and 13 times lower in comparison with the 15 old EU member states. The profile of poverty in the cities and that in the villages is also substantially different. While urban poverty has a pronounced monetary nature, poverty in the villages relates to access to the labour market, education, healthcare and other social services. There are persistent 'poverty niches' of groups who did not experience any benefit from the economic recovery. The poverty rate among those with no education is nearly four times as high as the average rate and ten times higher compared with those with secondary education. Among the minority populations, the risk of being poor relative to the overall Bulgarian population is ten times greater for the Roma and four times higher for the Bulgarian Turks.

The structure of home ownership reveals an extremely high relative share of private ownership – 85% compared with 66% for the 10 new member states and 42% for the EU-25 as a whole. The quality of the housing stock, however, is lower compared with the EU-25. The lower standards are related to the fact that the dwellings are old and poorly maintained (quality construction with modern technologies and insulation materials has only been underway in the past five to six years). Furthermore, there are not sufficient funds to make housing environments more pleasant. As a result, the degree of satisfaction with housing among Bulgarians is among the least in Europe.

Finally, one of the more acute problems facing Bulgarian society is the large extent of corruption. The radical shift in economic and political life opened opportunities for corrupt practices in all spheres of society. The presence of corruption is often a manifestation of a lack of respect on the part of the perpetrators (usually a private citizen or firm) and those who are corrupted (typically a public official or politician) for the rules that govern their transaction and hence represents a failure of governance. The business sector perceives corruption as Bulgaria's most acute problem, while citizens rank corruption in third place, preceded by unemployment and poverty.

## 2. Introduction

Bulgaria is a country in south-eastern Europe, bordered by the Black Sea to the east, Greece and Turkey to the south, Serbia, Montenegro and the Republic of Macedonia to the west, and Romania to the north, mostly along the Danube River. The country covers an area of 110,994 km<sup>2</sup> and has a population of 7.97 million. The capital city Sofia is situated in the Western part of the country, at the foot of the Vitosha Mountains and has a population of 1,122,300. The territory of the Republic of Bulgaria is divided into 28 provinces (see *Figure 1*), each headed by a provincial governor appointed by the government (NUTS III). In addition, there are 263 municipalities.

*Figure 1. Map of Bulgaria*



According to the 2001 census (NSI, 2001), Bulgaria's population is mainly ethnic Bulgarian (83.9%), with two sizable minorities: Turks (9.4%) and Roma (4.7%). The official language is Bulgarian, which is a member of the Slavic languages and the alphabet is Cyrillic. Bulgaria has had almost the slowest population growth of any country in the world since 1950. In fact, population growth has been negative since the late 1980s owing to emigration (of Turks and, later, Bulgarians).

Today, Bulgaria is a parliamentary republic. The National Assembly is a one-chamber parliament with 240 members who are directly elected every four years (the last elections took place in June 2005). The current governmental coalition is made up of the Bulgarian Socialist Party (BSP), National Movement Simeon II (NMS) and the Movement for Rights and Freedoms (representing mainly the Turkish minority). The head of state is the president, who is directly elected for a five-year term with the right to one re-election. The president is unable to initiate legislation, but s/he can return a bill for further debate, although parliament can overturn the president's veto with a simple majority vote. The Council of Ministers (20 ministers) is the executive state body and directs the domestic and foreign policy of the country. The prime minister is nominated by the largest parliamentary group and is given a mandate by the president to form a cabinet.

Bulgaria's economy contracted dramatically after the political and economic changes in 1989 and with the loss of the market of the Council for Mutual Economic Assistance (COMECON) member states, to which the Bulgarian economy had been closely tied. The standard of living fell by about 40%, but it regained pre-1990 levels in June 2004. In addition, UN sanctions against Yugoslavia and Iraq took a heavy toll on the Bulgarian economy. The first signs of

recovery emerged in 1994 when the GDP grew and inflation fell. During 1996, however, the economy collapsed owing to lack of international economic support and an unstable banking system. Since 1997, the country has been on a path to recovery, with GDP growing at a rate of 4-5%, increasing FDI, macroeconomic stability and EU membership set for 2007.

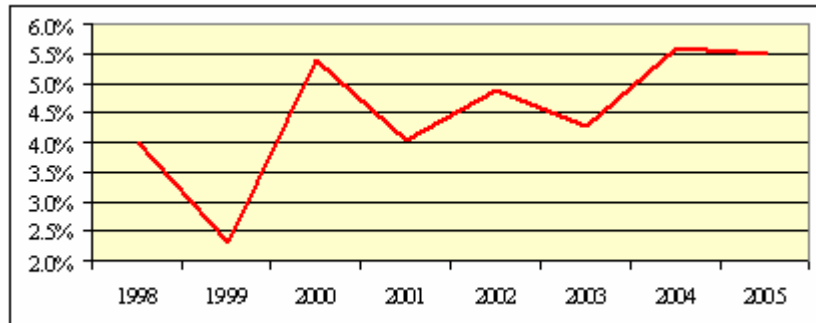
Subsections of this report cover the following socio-economic aspects of the country's development: general economic trends, the labour market, structural reforms, demography, living conditions, tax/benefit systems, governance structures and specific issues.

### 3. General economic trends

#### 3.1 Macroeconomic developments

A long period of economic mismanagement and political instability in the early 1990s delayed Bulgaria's transition from a planned economy to a market economy by nearly a decade, leading to the severe financial crisis in 1996-1997. The introduction of a Currency Board Arrangement (CBA) in July 1997, and the subsequent implementation of sound macroeconomic and structural policies succeeded in restoring growth, abating inflation and improving public and investors' confidence. The wide-ranging structural reforms programme encompassed liberalisation in agriculture and energy, the privatisation of the enterprise sector and reform of the social sector (World Bank, 2002). Therefore, following negative real GDP growth in 1996 and 1997, the economy began to grow and continued to do so in the period afterwards (*Figure 2*).

*Figure 2. GDP real growth in Bulgaria, 1998-2005*



*Source:* National Statistical Institute (NSI) of Bulgaria.

Real GDP growth was 4.5% on average from 1998 to 2005 (Table 1) and was based on strong domestic demand, in particular private consumption and investment fuelled by strong credit growth, which caused imports to surge.

The higher demand has led to the growth of consumption, which has been increasing its share of GDP from 82.9% in 1998 to 88.6% in 2005. The development of investment measured by gross fixed capital formation is similar. From 13% of GDP in 1998, it reached 23.8% in 2005. Despite this upward development, the average share of overall investment during the period was relatively low at about 18% of GDP, which is well below the levels in new member states of the EU.

*Table 1. General economic indicators in Bulgaria*

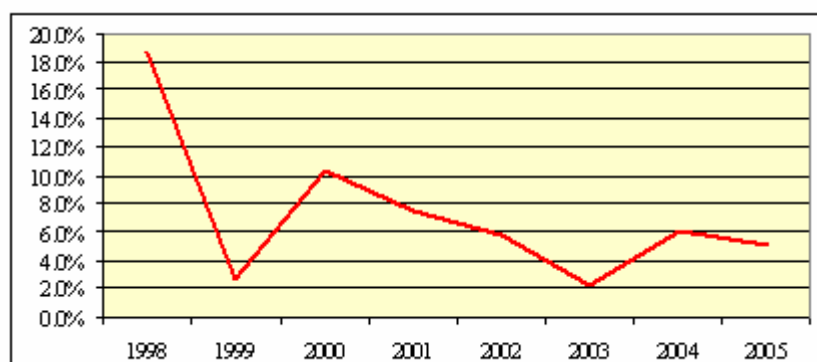
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Real GDP growth rate %	-9.4	-5.4	3.9	2.3	5.4	4.1	4.9	4.5	5.6	5.5
Inflation rate			18.7	2.6	10.3	7.4	5.8	2.3	6.1	5
General gov't debt		105.1	79.6	79.3	73.6	66.2	54	46.3	38.8	
Current account balance	0.2	5.2	-0.4	-5.1	-5.5	-7.3	-5.6	-8.5		
FDI net flow		375	479	747	1114	895	954	1239	2247	1856
Unemployment rate					16.4	19.5	18.1	13.7	12	10.1
Gross wages and salaries (annual % change)		-32	7.3	43.7	1.3	7.8	9.9	11.6	8.7	10.3
Private consumption (annual % change)		-9.6	4	8.8	5.7	4.4	3.6	6.6	5	6.8

*Note:* Since 1 July 1997, the Bulgarian national currency (lev) has been fixed to the euro at 1.95.

*Source:* Eurostat.

As a result of sound macroeconomic policies and deep structural reforms, per capita income and standards of living increased: per capita income at purchasing power standard (PPS) rose from \$5,502 in 1998 to \$8,260 in 2004 (World Bank, 2005). Although the GDP per capita and at PPS has risen, the relative level of these indicators is still low compared with the EU-25 average of \$26,497 in 2004. Nevertheless, the convergence process is slow and the real income of Bulgarian residents is still less than one-third of the average in EU member states. Given Bulgaria's large income gap with the EU-25, improving the efficiency of the economy is necessary to ensure that its forthcoming EU accession will rapidly narrow the gap and result in sustained improvements in living standards.

The rate of inflation is determined largely by the presence of the CBA. Through the CBA, the Bulgarian lev is irreversibly fixed to the euro at 1.95 lev per euro. The CBA provides relative price stability by using an automatic mechanism for reserve money issuance, which is entirely determined by domestic currency demand. Central bank credit to the government is forbidden and the refinancing of commercial banks is strictly limited. Of course, the fixed exchange rate means that external shocks such as higher oil prices are directly imported into the country and there is risk of an increase in the domestic price level. Since 1998, the average annual inflation was well below 10% annually (*Figure 3*).

*Figure 3. CPI Inflation 1998-2005*

*Source:* NSI.



In 2005, the extensive flood damage suffered by the road infrastructure and farmland exerted an upward pressure on price inflation and on food prices in particular, owing to the downbeat expectations as to the 2006 year's yields, crop quality and, last but not least, possible price speculations. Furthermore, the consumer price level is expected to further increase because of the dynamics in crude oil prices. Consumer price inflation is expected to run at 4.71% on a yearly average (2005). Inflation forecasts for 2006 depend heavily on the tax policies of the government, especially the schedule to be applied to the higher excise duty rates on some goods enjoying a rather large weight in the consumer basket, e.g. tobacco products and fuels. The increases in indirect taxes at the beginning of 2006 added to inflationary pressures. The government decided to sharply raise excise duties on cigarettes one year earlier than initially scheduled, arguing that it intended to harmonise indirect taxes with minimum levels in the EU early on to create better conditions for further nominal convergence after accession to the EU. This strategy seems reasonable, but it also introduced some added risk of further price increases. At the end of 2006 inflation is expected to amount to 5.2%, whereas prices are expected to step up by 6.26% on a year earlier (Agency for Economic Analysis and Forecasting, 2006).

Foreign direct investment (FDI) dynamics have been uneven since 1997, partly because of the political cycle and slowdown in privatisation in election years (e.g. 2001 and 2005). Still, owing to improved business conditions the average volume of FDI for the period between 2000 and 2005 has been almost 9% of GDP annually<sup>1</sup> and thus over the past couple of years FDI has, as rule, fully covered the current account deficit, now making up for about 70% of the 2005 deficit. The expectations are that 2006 FDI inflows will offset about 90% of the deficit.

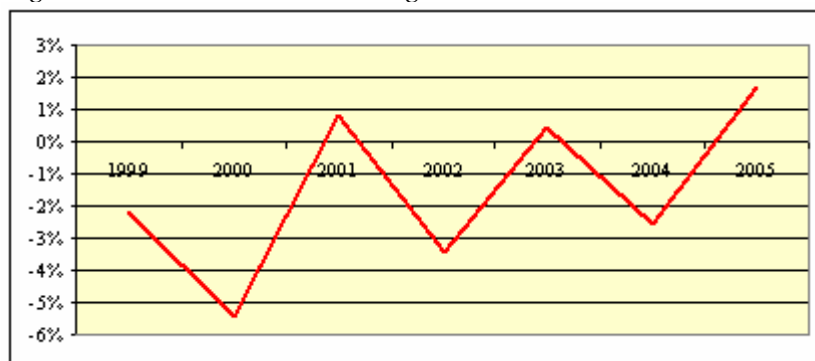
The engine of sustainable development is the growth of total factor productivity (TFP). The accumulation of capital stock is at an early stage and factors of production are underutilised. More specifically, one should take into consideration labour productivity, which shows clearly positive dynamics Bulgaria. Its level is still too low: about one-third compared with the average EU-25 level.<sup>2</sup> Because of the Currency Board Arrangement (CBA) and fiscal discipline, productivity growth is a key factor in the amount of nominal wages and their growth (*Figure 4*). Since 2002, the government has tried to force the private sector to increase wages by raising wages in the public sector, as well as the minimum wage. Changes in the tax system resulted in higher budget revenues, thus allowing governments to raise wages in the public sector as well as maintain surpluses in the consolidated budget. The only visible consequence is that, according to Bulgaria's National Statistical Institute (NSI), the wage gap between the public and private sectors has widened.

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<sup>1</sup> Based on authors' calculations using BNB and NSI data.

<sup>2</sup> Derived from Eurostat data.

Figure 4. Real unit labour cost growth



Source: Eurostat.

The major macroeconomic problem – the current account deficit – is deepening, thus raising concerns about overall financial stability. In 2005, the share of energy resources in imports increased sharply; the share of investment goods was also up, which means that the trade deficit is caused not just by the rise in consumption but also by increased investment activities and should therefore not be judged as an entirely negative development (CED, 2005)

The positive overall development Bulgaria has witnessed in recent years will be preserved in 2006 as well, with GDP growth expected at about 5.5%. Unlike 2005, export dynamics are expected to be the basis for growth. Investment in fixed capital is expected to grow by about 13% in 2006, while reserve changes will contribute negatively to investment growth – having witnessed a significant accumulation in 2005 (Ministry of Finance, 2006). Clearly 2006 will sustain the strong performance of the economy of the past few years. GDP growth is to run at about 5.5% in real terms due mainly to the rapid development of the external sector. Relative to a year earlier, exports are to grow faster in real terms, whereas imports are to step down. As a result, the contribution of net exports is to improve from -3.0 percentage points to a solid -1.0 point. It should be also noted that final consumption (4.1 percentage points) is expected to make a robust contribution to 2006 GDP growth, slowing down, however, relative to 2005. This will be due to the year-on-year decrease in government spending as well as the slower growth in household consumption. The high consumption of the last few years, as triggered mostly by the boosted bank lending, will squeeze the growth potential of the aggregate indicator. Similar considerations lie at the core of the assumptions as to a lower real investment growth (of slightly over 9%) in 2006 compared with the preceding years (Agency for Economic Analysis and Forecasting, 2006).

### 3.1.1 Macroeconomic policies and other indicators

According to the methodology of the Ministry of Finance,<sup>3</sup> the level of the GDP redistributed through the budget was about 43% in 2005. Since 2002, the incumbent and the previous governments have been raising this level: the total expenditures-to-GDP ratio is 40%, but the total revenue-to-GDP ratio is 43%, and resulting surpluses were accumulated in the fiscal reserve account. This development may not be positive from an economic point of view because the government takes more money than it actually needs for the services provided.

<sup>3</sup> The methodology has been elaborated in accordance with the IMF Manual on Government Finance Statistics (1986). Data are available online (at <http://www.minfin.bg/inpage.php?id=374&language=english>).

One possible option is to cut taxes without harming the fiscal sustainability while improving expenditure effectiveness and efficiency.<sup>4</sup>

Owing to conservative fiscal policies, public debt has been declining since 1997, but the government of 2001-2005 applied a rather active strategy of buying back Brady bonds and issued global and euro bonds. The effects of these operations were broadly disputed and there is little consensus on whether they positively affected the state budget.<sup>5</sup> The current government continued the debt reduction policy but ceased the active debt management. Its action consisted of buying back all outstanding Brady bonds in July 2005, early repurchases to the IMF obligations in late 2005 and early 2006 and pre-paid portions of World Bank loans. The public debt-to-GDP ratio went from 77.1% in 2000 down to 31.9% in 2005.

Because of the CBA, the Bulgarian National Bank (BNB) does not set the official or base interest rate and does not use it as a monetary policy tool; thus, it imports the European Central Bank's (ECB) policy, calculates and publishes data about reference interest rates based on the yields on uncollateralised deposits on the inter-bank money market. The three-month inter-bank offered interest rate is closely related to that in the eurozone, due to the strictly limited BNB lender-of-last resort functions. Thanks to capital account liberalisation, Bulgarian commercial banks have relatively easy access to refinancing from the European money market, influenced by the ECB.

During the last five years, the Bulgarian economy has experienced fast credit growth. More specifically, credit to households as a percentage of GDP rocketed from 2.3% in 2000 to 16.5% in 2005. The annual average growth of this indicator is 53.9%. The reason for this development is the very low initial base. On the other hand, the relatively low interest rates in the eurozone resulted in excess liquidity in this area. A relatively low economic growth rate in the EU-15 (two times lower than in Bulgaria since 2001) and the risk-adjusted returns in Bulgaria made it attractive for investors. The Bulgarian banking system, the intermediary in this process, has been almost completely privatised and according to the BNB, 88% of the banking industry is foreign-owned (BNB, 2006). The credit growth has been driven by successful macroeconomic stabilisation, robust growth and capital inflows. While financial deepening is both expected and welcome, the recent expansions appear to have been excessive, as evidenced by widening current account deficits. Policy responses have included attempts to both moderate credit growth and offset its impact on domestic demand, with mixed success thus far (Duenwald et al., 2005).

Containing credit growth remains a key challenge for the Bulgarian authorities and is the main issue in their discussions with the IMF. Since the beginning of 2004, the Bulgarian National Bank has adopted a series of primarily prudential and administrative measures to keep credit growth in check and succeeded in curbing credit growth to non-government non-banks from 47.7% year on year at the end of 2004 to 33.8% a year later. The measures to contain commercial banks' credit activity included tightening their reserve requirements and introducing ceilings for annual credit growth (introduced in April 2005) as well as making regulations on capital adequacy and risk exposures more stringent. In the context of the second review of the Stand-by Arrangement earlier this year, the BNB revised its credit growth projection and agreed to reduce credit expansion in 2006 to 17.5% for the full year (Austrian National Bank, 2006).

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<sup>4</sup> This policy is recommended by the World Bank (2005) and the International Monetary Fund (2006) as well as by independent observers.

<sup>5</sup> See Minassian (2005) for a comprehensive analysis of those operations.

Trade liberalisation and integration with the EU as well as the stable currency have led to growing flows of goods and services to Bulgaria. FDI has also contributed to the increasing competitiveness of Bulgarian companies and a growth in exports. The structure of exports has also changed: the share of higher value-added consumer and investment goods has increased at the expense of raw materials. In 2005 and 2006, however, owing to high oil prices the share of mineral fuels and electricity almost doubled in value. Growth in the volume of exports decelerated in 2005 and 2006, but it appears that the factors underlying this trend are temporary and there are not enduring problems with competitiveness. The negative factors affecting it recently have included the summer floods in 2005, the lifting of EU quotas on textile imports and restructuring in some sectors of the economy. Nominal as well as real import growth remained high between 2000 and 2005, despite the increase in import prices. The composition of imports shifted to investment goods and primarily to mineral fuels. The average annual growth of imported goods was 19% between 1998 and 2005, which was much higher than the import of services (12%). The development of services exports is determined by the tourist industry. The average annual export growth is slower in services than in goods, at 11.5% and 14.1% respectively.<sup>6</sup> Faster growth in imports led to a widening of the current account deficit, which reached 11.9% of GDP in 2005 and is expected to be higher in 2006 (the consensus forecast is about 16%).

### 3.1.2 Structure of the economy

In 2005, the services sector accounted for 60% of the total value added in the economy. The share of services has been rising steadily over the last few years – back in 1998 it accounted for just below 50%.<sup>7</sup> Positive growth rates in nominal and real terms as well as the negative developments in agriculture have been the key contributing factors. According to NSI data, the share of value added in industry in the total value added has been stable in nominal terms at around 30%. The annual average real industrial gross value added (GVA) growth rate between 1998 and 2005 has been near 5.5%, faster than the average GVA growth. The annual average real growth rate of GVA in services for the same period is above the average for the economy at 4.1%. The GVA in agriculture as a share of the total has shown a clear downward trend since 1998 from 18.8% to 9.3% (*Figure 5*).<sup>8</sup>

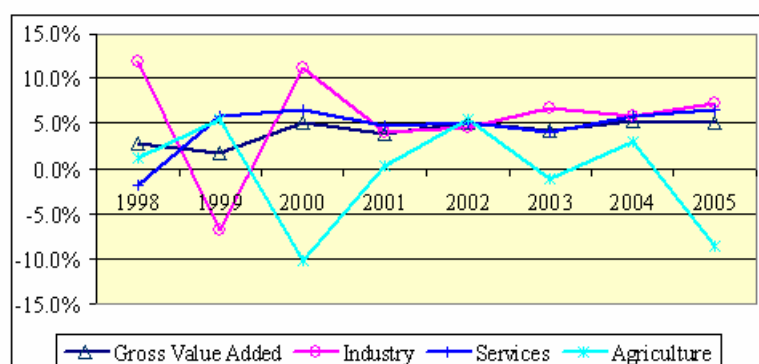
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<sup>6</sup> Derived from BNB data.

<sup>7</sup> Based on authors' calculations stemming from NSI data.

<sup>8</sup> Derived from NSI data.

Figure 5. Dynamics of the value added by sector, 1998-2005



Source: Own calculations based on NSI data.

Employment distribution across economic sectors slightly changes the GVA patterns. The share of industry was 34.3% in 2005, while in 2002 it was 32.7%. Services employ 56.8% of the Bulgarian work force (57.7% in 2002). From 2002 to 2005, the share of workers engaged in agriculture changed from 9.6% to 8.9%. NSI data suggest that the relative productivity is higher in services than in the rest of the economy.

The private sector's share in GVA has been rising since 1997. It was 62.4% in 1998 and reached 79.4% in 2005. The average real growth rate of GVA in the private sector since 1997 has been almost 8.5%. At the same time, the annual average real growth rate in the public sector has been negative, close to -5.5%. In 2005 the share of state-owned enterprises (SOEs) in employment was 35%, but they accounted for 17.7% of the total GVA. Since 1998, the GVA generated by SOEs has contracted by more than twice as a share of the total GVA, and these figures suggest much lower productivity of SOEs compared with the economy as a whole. SMEs are a key source of employment in the Bulgarian economy. The SMEs' share in employment in 2005 was 54% of the total while providing 36.8% of the overall GVA. A comparison with 1999, when the SMEs' share in employment and GVA was 46.6% and 31.2% respectively, suggests that SMEs are gaining economic importance. Sectors where SMEs employ the most staff are trade and repairing activities (34.4% of employment in SMEs) and manufacturing (24.8% of employment in SMEs).<sup>9</sup>

Wages in the public sector are higher than in the private sector. In the public sector the average nominal growth of wages was 59.4% for the period of 2000-2005, while in the private sector it was 38.5%. Gross monthly wages in financial intermediation are highest in both sectors, at €515<sup>10</sup> and €374, respectively. Other relatively highly remunerated public industries are mining and quarrying (€311) and trade (€281). In terms of wage growth (annual average nominal growth) for that period, the top three sectors are financial intermediation (18.9%), health and social work (17.2%) and trade (15.6%). Wages in the private sector are relatively higher than the average in electricity, gas and water supply (€271.5), mining and quarrying (€233.7) and education (€232.3). Employees in only two private sectors (education and other community, social and personal service activities) have higher wages than in the public sector.<sup>11</sup>

<sup>9</sup> Ibid.

<sup>10</sup> Based on NSI and BNB banking sector reports. This high wages should be attributed to BNB and to the declining number of bank employees in that period.

<sup>11</sup> Based on NSI data.

### 3.1.3 Financial sector

The privatisation of the banking sector is nearly complete and over 85% of the capital is owned by foreign investors (BNB, 2006).<sup>12</sup> Only two banks (Encouragement Bank and Municipal Bank) are not privatised, but their share in the banking assets was 2.3% in 2004. Competition in the financial sector is intense and the number of financial products has grown. Thus the value of this indicator (competition in the financial sector) was 2.7 in 1999 and reached 3.7 in 2005, which is a sign that the banking system is close to world standards.<sup>13</sup> Some regulations concerning the bank insolvency regime should be improved, but the overall situation is good. Interest-rate setting is fully liberalised and state-owned enterprises do not have a preferential access to cheap financing.

The EBRD index on non-bank financial institutions has been almost unchanged since 1999 when it was 2.0. An independent regulatory body – the Financial Supervision Commission – has been set up to supervise pension, insurance and investment companies. Although the growth in assets of these companies has been strong, the late start of these companies continues to restrict their development. The stock exchange still does not provide an alternative for raising funds. The stock market capitalisation in 2004 was 10.6% of GDP while the stock trading volume was 23% of market capitalisation (EBRD, 2005).

The interest-rate spread (the difference between interest rates on credits and deposits) has been declining since 2000 when it was 9 percentage points and in 2005 it reached 4.9 percentage points.<sup>14</sup> The main determinants are the perceived lower risk in the Bulgarian economy as a result of reforms and the economic growth in the period 1998-2005. The key reason for this is the growing competition between banks operating in the country and their relatively easy access to cheap financing from the international markets and their parent companies. On the other hand, the interest rates on deposits at the beginning of the period were very low and the number of investment opportunities has broadened, creating a more competitive market and an upward pressure on those rates. In 2005, leasing activities boomed, largely prompted by the restriction of bank credits and reallocation of some credits to non-banking institutions.

Increased competition as well as credit and deposit growth reduced the share of the three largest banks in total assets and total deposits. While their share in total banking assets was 49.9% in 2000, it declined by one-third and reached 33.6% in 2005. The situation concerning deposits has been similar. In 2005, the three largest banks<sup>15</sup> attracted 33.5% of total deposits, and although their share fell from 51.2% in 2000, they retained their leadership.

## 3.2 Labour market trends and main issues

### 3.2.1 Main trends

The stabilisation anchored by the Currency Board and the structural reform initiated in 1997 provided a stable basis for economic recovery in Bulgaria. Despite the positive trends in overall economic growth since the end of the 1990s, the Bulgarian labour market continues to

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<sup>12</sup> The foreign ownership is changing – Icelandic and Baltic institutions are reported to have acquired equity in the Bulgaria banking system.

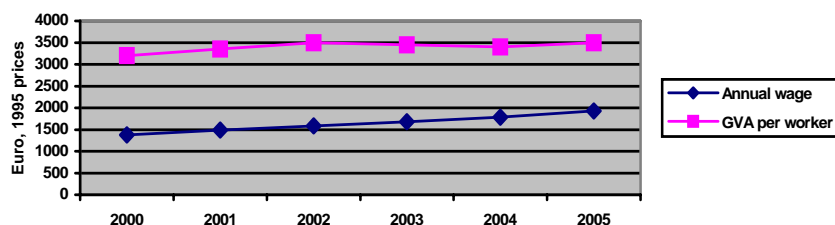
<sup>13</sup> According to the EBRD's methodology.

<sup>14</sup> Based on BNB data.

<sup>15</sup> The three largest banks are DSK, Bulbank and United Bulgarian Bank.

face problems, such as low activity rates and discrepancies between labour productivity and wage dynamics. The labour productivity in Bulgaria has recovered to around 4% growth in the last few years, but in 2005 it was still at 32.6% of the average EU level (*Figure 6*).<sup>16</sup>

*Figure 6. Wage and productivity*



Source: NSI.

In 2005, according to the Labour Force Survey (LFS), the activity rate (for the population aged 15-64) was 62.1%. Men have a higher coefficient of economic activity (67%) than women have (57.3%), whose rate is about 9 percentage points less. For the last 10 years, this gender difference has been stable, in a range of 7.6-9.5 percentage points. In the period 1996-2000, the activity rate decreased by about 5 percentage points. Since 2001, a stable trend towards an increase has been observed, particularly for the higher age groups. The total activity rate is about 8 percentage points lower compared with the EU average. The activity rate of the older persons aged between 55 and 64 was 38.3% (51.7% for men and 26.8% for women) The value of this indicator grew significantly following the gradual rise in pension age since 2000, but it is still about 7 percentage points lower than in the EU-25.

Employment showed a persistent trend towards decline until the end of 1990s. In the 2001-2005 period, the employment rate rose by 6 percentage points reaching 56% for the population aged 15-64. Yet despite this positive development, it is still far from the EU level (63.8%). This growth is partially due to temporary employment programmes subsidised by the government. Special measures were taken to encourage investments in the country given their favourable impact on the number and sustainability of the jobs created by SMEs, which are a significant generator of employment. It should be noted that among the prime working-age groups, particularly those aged 34-54, the gender gap in the employment rate is very small. The discrepancy is apparent for the age ranges of 20-29 and 55-64, mainly affected by the higher participation of women in education and their childcare duties on one hand and the lower official retirement age of about five years for women on the other.<sup>17</sup> With the increase in the retirement age, the employment rate of women aged 55-64 has risen from 10.3% in 2000 to 24.2% in 2004 (NSI, 2005).

The unemployment rate, which has been persistently high since 2002, has now started to decline and in 2005 was 9.9% – the lowest level in the last 10 years. The value of this coefficient is 1.2 percentage points above the average EU level. Nevertheless, the labour market continues to face difficulties in creating employment opportunities for disadvantaged groups. The long-term unemployment rate in 2005 was 6% of the labour force, which was

<sup>16</sup> For details, see <http://epp.eurostat.ec.europa.eu>.

<sup>17</sup> Until 2000 the official retirement age was 55 years for women and 60 years for men. According to the changes in legislation since 2001, the official retirement age for women and for men has increased each year by 6 months, reaching 57 and 62, respectively, in 2004.

much higher than that for the EU-25 (3.9 %). The share of the long-term unemployed in total number of unemployed persons increased from 49% in 1996 to 60% in 2005 (National Statistical Institute, Labour Force Survey).

Administrative statistics of the Employment Agency<sup>18</sup> for the registered unemployed confirm the trend towards a smooth fall of unemployment after 2002. Contrary to LFS data, data on registered unemployment in employment offices show a majority of women among the jobless. Women make up about 55% of the registered unemployed but 45% according to the ILO. This could be explained by the fact that women more often than men rely on employment offices to help them to access the labour market (NSI, 2005). In the last six years the number of unemployed persons registered at labour offices exceeded the number obtained by the LFS. The over-registration of unemployed persons can be explained by the intensive development of public work programmes for temporary employment. In addition, registration is compulsory criteria for access to means-tested social assistance and many of the chronically long-term unemployed depend on it (see section 6.4.).

The existence of very large group of so-called ‘discouraged’ persons,<sup>19</sup> whose number in Bulgaria is almost equal to the unemployed, demonstrates the serious problems many individuals have in trying to access the labour market. However, in 2005, as in the preceding year, the number of discouraged persons fell. They numbered 344,500 in 2005 – 48,100 less than in 2004. This category represents 10% of the population in the economically active age group. Most of the discouraged persons were men (52.3%); women represent 47.5%. Here again, individuals with low education levels form the greatest proportion. The educational level of the discouraged group is lower than that of the unemployed, which once more proves that education and qualifications are strongly linked to participation in the labour market (National Statistical Institute, Labour Force Survey). See *Table 2*.

*Table 2. Structure of the employed, unemployed and discouraged population by educational level and gender (2004)*

Level of education	Employed		Unemployed		Discouraged		%
	Men	Women	Men	Women	Men	Women	
Tertiary	20.2	32.6	7.4	16.2	4.0	7.5	
Upper secondary	60.1	51.5	52.4	49.0	39.6	36.6	
Lower secondary or less	19.7	15.9	40.2	34.8	56.4	55.9	

*Source:* NSI (2005).

### 3.2.2 Structure of employment and wages

The last 10 years have brought substantial changes in the employment structure by sector (*Figure 7*), e.g. a decrease of employment in agriculture, a moderate increase in industry and a rapid rise in services. Employment shifts have resulted mainly from the drop in production volume, rather than from labour productivity growth. This feature of employment is reported for the 1995-1999 period (Beleva et al., 1999, p. 28) and the trend has not been overcome in

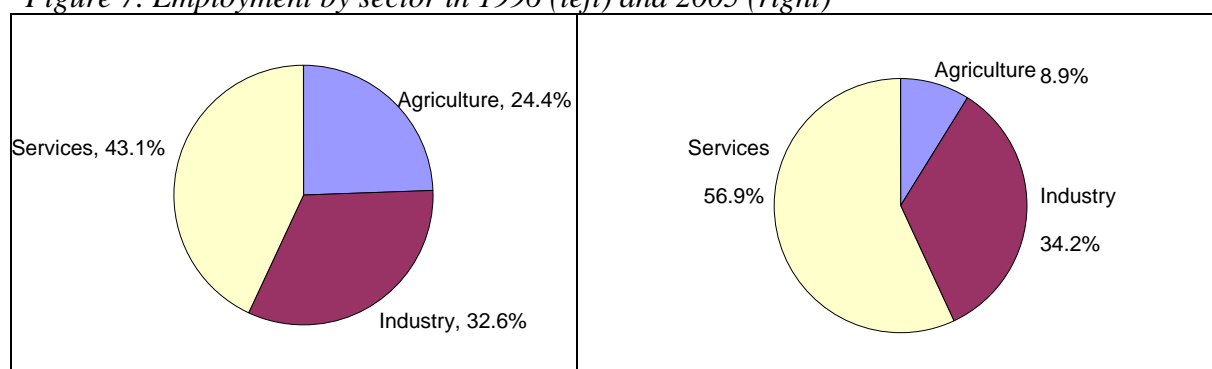
<sup>18</sup> See <http://www.nsz.government.bg>.

<sup>19</sup> This related to persons who are outside the labour force who are willing to work but are not currently looking for a job because they believe their job search would be in vain. Some analysts referred to such persons, who are not registered at labour offices, as the ‘hidden unemployed’.



the last few years as the wages in relatively ineffective sectors (e.g. energy and mining) still exceed the average by 60%.

Figure 7. Employment by sector in 1996 (left) and 2005 (right)



Source: NSI (2006).

In 2005 the private sector accounted for 68.3% of employment compared with 47% in 1996. The steady reduction of the number of employed persons in the public sector is observed – in 2005 it was 710,300, i.e. 40,961 lower compared with 2004 (National Statistical Institute, 2006). The employment rate for men was 59.9% and 52% for women, i.e. the gender differences were less expressed compared with the EU average (with employment rates of 71.3% for men and 56.3% for women). Women earn on average 22% less than men do with a similar education (Table 3). Notably, employed women also have a higher educational level than their male counterparts do: 32.6% of employed women obtained tertiary education in comparison with 20.2% for men (Table 4).

Table 3. Gross wages by gender and education (Bulgarian lev)

Education	Total	Male	Female
Total	283	312	255
Primary and lower	225	265	185
Lower secondary	219	251	178
Upper secondary	281	307	263
Higher	408	479	362

Source: Representative survey of NSI (2002).

Table 4. Structure of employment and employment rates by educational level and gender (2004)

Educational level	Structure - %		Employment rates - %	
	Men	Women	Men	Women
<b>Total</b>	100.0	100.0	58.0	50.6
Tertiary	20.2	32.6	82.9	76.1
Upper secondary	60.1	51.5	67.9	58.1
Lower secondary or lower	19.7	15.9	33.0	24.0

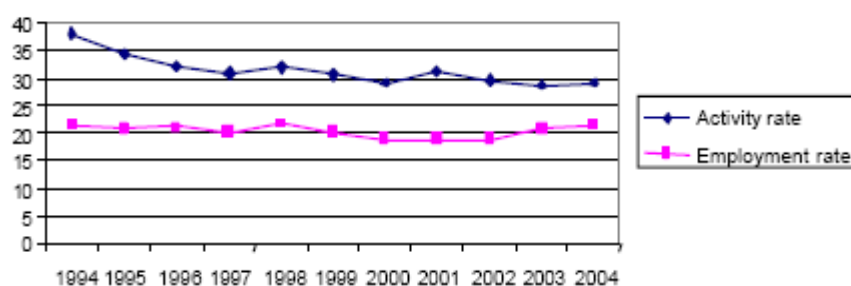
Source: NSI (2005).

The lower pay rates for women are mainly associated with professional status. Women are more often employees (88.3%) than self-employed, and fewer are in the role of managing employees (6.7%) or employers (2.1%). The shares of women who are self-employed and

employers are roughly half the respective percentages in these categories among men. Women form the great majority of those employed in education (77.9), health and social work (76.9%), finance intermediation (68.0%), and hotels and restaurants (60.5%) and are underrepresented compared with men among legislators, senior officials and managers (32.9%), craft and related trade workers (27.0%) and plant and machine operators and assemblers (32.3%) (NSI, 2005). Therefore, women are more likely to be employed in services where the wages are low. Indeed, compared with 1996, the difference decreased by 8 percentage points. Part-time jobs are still not used very often as a way for women to reconcile work and family life, as they are in many other countries. Only 2.7% of women work part-time (slightly more often than men do) and for a majority of them this kind of job is not a matter of personal preference. A problematic issue is employment without a formal contract, which is more pronounced for women. According to LFS data, 27,800 (or 2.3%) women employees work at their main job without a formal contract with the employer. Experts hold the view that the number of women working in lower productivity jobs, without employment protection, is somewhat higher.

The youth employment rate (ages 15-24) has been relatively steady during the last 10 years (Figure 8). In 2004 the youth employment rate stood at about 21.5% (23.4% for young men and 19.6% for young women). This rate is very low and is more than 10 points less than the employment of youth in the EU (the rate for employed men in the group was 23.9% and 19.3% for women).

Figure 8. Youth activity rate and youth employment rate, 1994-2004 (%)



Source: NSI (2005).

Among those aged 55-64, the employment rate was 35.4% (47.7% of men and 24.8% of women). Both age groups show low levels of employment compared with the EU-25, where youth employment is 38% and the employment of older workers is 42.5%.<sup>20</sup> Relative to 1996 levels the youth in Bulgaria are in a more disadvantaged position as their employment rate has decreased by 0.7 percentage points, while the employment of older workers has increased by more than 15 percentage points, particularly after 2000. There are several reasons for the lower activity and employment of young people, the main one being that this is normally the period of transition from school to the labour market – 53.3% of persons belonging to the age group 15-24 are still in education. Yet, in 2005, persons with primary or lower than primary education had the lowest rate – about 10% in the last few years; the employment rate of persons with secondary and higher education was 58.5% and 68.7% respectively. Another reason is that the lowest legal working age an employee in Bulgaria is 16. Thus it is likely that the rates calculated for the age range of 16-24 are a better indicator of the employment situation of Bulgarian youth. For 2004 the employment rate for this age group was 23.9%

<sup>20</sup> For details, see <http://epp.eurostat.ec.europa.eu>.

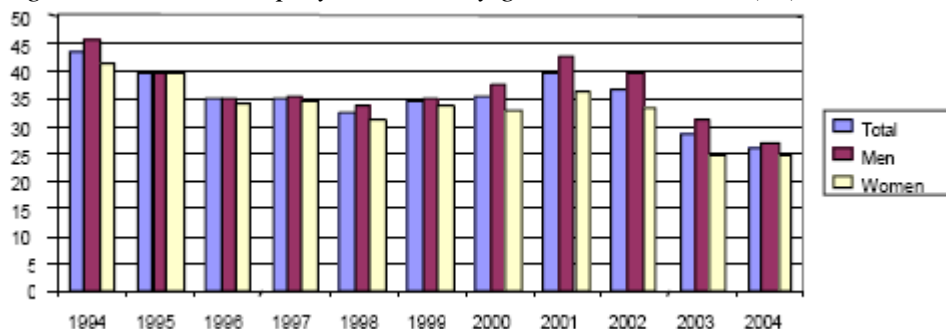
(26.0% for young men and 21.8% for young women). The private sector seems more suitable and accessible for the young (84.5%) than the public sector (15.5%).

### 3.2.3 Structure of unemployment

The unemployment rates for men and women have been quite similar during the last 10 years – the ratio of women to men varied from 54:46 to 52:48. This trend is identical to the women-to-men ratio in the population structure. Rural areas have a higher unemployment rate (13.7% in 2005) compared with urban areas (8.8%).

In 2004 unemployed youth represented 21.4% of the total unemployed population. In this group, men's unemployment was higher than that for women (24% and 21.2%, respectively in 2005). The development of youth unemployment follows a similar pattern as for total unemployment, having the highest values in 1994 and 2001 and the lowest one in 2004 (*Figure 9*). After 2002, the youth unemployment ratio decreased faster than the average from 40.1% to 22.8% in 2005. In comparison with 1994, the youth unemployment had dropped by 17.2 percentage points, while total unemployment had fallen by 8.2 percentage points (NSI, 2005). According to the last Joint Inclusion Memoranda (JIM) country report, this stems from successive, active labour-market policies in this area (Ministry of Labour and Social Policy, 2006, p. 6).

*Figure 9. Youth unemployment rate by gender, 1994-2004 (%)*



There is a difference in the distribution of the unemployed, measured by the LFS, and registered unemployed. The share of those aged 15-24 among the registered unemployed is around 7-8 percentage points less than the corresponding percentage estimated by the LFS. Young people less frequently used the employment offices to find a job than other age groups and relied more on other methods of job search.

Unemployment largely depends on the education level. In 2005, the unemployment rate among persons with primary or lower education was 35.1% and 8.9% for those with upper secondary education. The lowest unemployment level was among those with higher education (4.1%). The high share of poorly educated people in Bulgaria points to the problem of the skills gap and a large excess supply of low qualified labour.

A characteristic feature of unemployment in Bulgaria is its long duration. For the whole period of 10 years more than half the share of the unemployed had no job for more than a year according to the LFS. In 2005 their share reached 60%. Those who were jobless for more than two years also retained a high share (43% in 2005) of the total unemployed. The administrative statistics of the labour offices show similar values to the LFS data – in 2005

the long-term unemployed who had been so for more than a year formed 57% of all the registered unemployed.<sup>21</sup> Women's share among total long-term unemployed was 56.3% in 2005. The profile of the long-term unemployed shows the strongest causal link to a lack of education – 71% of the registered long-term unemployed were persons with lower secondary or lower education. Young people are also affected by long-term unemployment, although to a slightly lower extent than older workers are. Nearly half of the young unemployed (47%) remain jobless for one or more years due to the lack of suitable job opportunities. A slight gender difference of 2.4 percentage points (higher for men) was registered with regard to long-term youth unemployment in 2004. The long duration of unemployment and the existence of persistent risk factors affecting the accessibility of some groups to jobs is the most important threat to the labour market. The negative repercussions impact not only poverty and social assistance, but also the whole social protection system. The main challenge of social policy is to prevent the exclusion of the unemployed from contributory benefits, such as pensions and healthcare.

### 3.2.4 Regional and ethnic dimensions

There are 5,333 settlements in Bulgaria, of which 247 are cities. Following administrative territorial division, 6 planning regions (NUTS II),<sup>22</sup> 28 districts (NUTS III) and 264 municipalities have been established.<sup>23</sup> Significant disparities exist among the six planning regions (NUTS II). In the most developed region – the south-west, where the capital Sofia is situated – GDP per capita in 2004 amounted to BGN 6,214/€3,187.<sup>24</sup> The leading position of the south-west region is largely related to the high share of the service sector in the economy and the lower share of agriculture. Significant differences can also be observed in the levels of employment among the planning regions. A durable trend can be seen in the highest level of employment being in the south-west region (50% in 2005), while the lowest employment levels are in the north-west region (35.2% for the same year). With respect to district rates of employment (NUTS III), in 2005 the districts with highest employment rates were Sofia and Blagoevgrad (over 50%), while the lowest rate was in Vidin (29.9%). This imbalance among the regional employment markets is a consequence of the inherited, segregated structure of economy in addition to the negative impact of the restructuring process.

The positive trend of decline in the overall number and rates of unemployment has been observed in all planning regions. In 2005 the following planning regions were among those in which the unemployment rate was higher than the average of 9.9% for the country: the north-west (13.6%), followed by the north-east (13.3%) and the north central (10.7%). Lower unemployment was found in the south-west region (7.6%) (National Statistical Institute, 2006). At the beginning of the transition, regional differences in labour demand were defined mainly by the degree of restructuring of the state sector and the capacity of the local private sector for new job creation. The last few years have witnessed an increased role of foreign investment, as well as initiatives for SME sector development.

<sup>21</sup> For details, see <http://www.nsz.government.bg>.

<sup>22</sup> NUTS is the EU nomenclature of territorial units for statistics.

<sup>23</sup> Derived from the Act for Administrative Territorial Division of Republic of Bulgaria, 1995.

<sup>24</sup> This region was followed by the south-east region (BGN 3,993/€2,048 euro), the north-west region (BGN 3,848/€1,973), the north-east region (BGN 3,749/€1,923), the north central region (BGN 3,739/€1,917) and the south central region (BGN 3,576/€1,834).

Regions with compact ethnic-minority populations (Roma and Turks) tend to have higher unemployment. According to a representative survey undertaken in 2003, the employment rate of Bulgarians in general was 42.8%, while the corresponding rate for Turks was 29.5% and 19.5% of the Roma. Among the active population the unemployed comprised 17.3% of the overall Bulgarian population, 48.4% of the Turks and 52.9% of the Roma (Agency for Social Analyses, 2003). The ethnic dimensions of unemployment are associated mainly with low education and lack of skills. The Roma population has the lowest educational attainment – only 17% have upper secondary or higher education according to the poverty assessment survey (World Bank, 2002). That is why many of the active labour market programmes targeted at this group include a training component (see section 3.2.5). The Turkish minority is relatively better integrated compared with the Roma. That being said, some of the regions in which this minority is concentrated have been hit by economic problems, particularly the restructuring of tobacco production, which is a traditional employment branch for the Turkish population. The state's purchases of tobacco production are one of the most important instruments of economic support.

### 3.2.5 Employment institutions and policy

The Employment Agency at the Ministry of Labour and Social Policy<sup>25</sup> implements the government's policy for the labour market. The agency was established in 1991. Its major functions are to register the supply and demand of the labour force, to provide information services for the unemployed and employers, to implement active measures for encouraging employment, to coordinate and facilitate local and regional projects in this field, and to make analyses and prognoses for labour market development. The Employment Agency also determines standards for vocational training and control private labour-market service providers. The agency operates through its regional administrative units, e.g. 9 Regional Services, 117 labour offices and 131 local branches.

Unemployment benefits are paid by the National Social Security Institute.<sup>26</sup> Means-tested social assistance benefits that are also targeted primarily at long-term unemployed persons without any regular source of income are also considered as a kind of passive measure. These are administered by the Social Assistance Agency<sup>27</sup> at the Ministry of Labour and Social Policy.

Labour market policy is regulated by the Employment Promotion Act (2002). The Social Insurance Code (1999) and Social Assistance Act (1998) provide for cash benefits in favour of unemployed persons and the Labour Code (1986) regulates industrial relations and social dialogue. Collective bargaining in Bulgaria occurs principally at national and firm levels. The relatively less-developed extent of negotiations at the branch level is a weak point of the institutional framework of Bulgarian labour market.

#### *Labour market flexibility and wage policies*

Flexibility is considered another weak point of the Bulgarian labour market, determined by the conditions of labour contracts, working hours and behaviour of the labour market agents. Despite the liberalisation of the Labour Code's hiring and firing conditions, LFS data

<sup>25</sup> For details, see [http://www.az.government.bg/eng/index\\_en.asp](http://www.az.government.bg/eng/index_en.asp).

<sup>26</sup> For details, see <http://www.noi.bg/en/index.html>.

<sup>27</sup> For details, see <http://www.asp.government.bg/>.

indicates that full-time workers still predominate (98% in 2005). The share of part-time workers decreased from 5% of all employed persons in 2000 to 2% in 2005. Those with fixed-term contracts comprised 6.7% in 2005 (National Statistical Institute, Labour Force Survey).

Experts comment that it is not possible to achieve flexible employment and mobility unless multi-profile training of the labour force is provided, but labour market policy does not provide many options in this respect (Labour Market Project, 2004, p. 17). With regard to labour market flexibility, at the beginning of 2006 the government implemented several measures aimed at enhancing it. Several EU Council Directives have been transposed onto Bulgarian labour legislation, including Council Directive 1999/70/EC of 28 June 1999 concerning the framework agreement on fixed-term work and Council Directive 97/81/EC of 15 December 1997 concerning the framework agreement on part-time work.

On 12 April 2006 the Draft Law on Amendment of the Labour Code was submitted to the National Assembly and after adoption by parliament came into effect on 1 July 2006. The new amendments provide for equal treatment of part-time employees, part-time work in the case of temporary economic problems, unfixed working days for some occupations, etc. These amendments are expected to contribute to economic growth through labour intensity through a more flexible organisation of work in a way that fulfils both the wishes of employees and the requirements of competition and employers.

The minimum wage is regulated by the government. In 2001 the government initiated a policy of increasing it: the relative value of the minimum wage compared with the average gross wage rose from 35% in 2001 to 47% in 2005. In addition, in 2003 the government determined minimum thresholds for wages by sector and profession to prevent the widespread practice of employers hiring officially qualified workers at the minimum-wage level (i.e. at which the insurance contributions are also paid) and paying the rest of their remuneration ‘under the table’ to reduce the insurance contributions owed. Both measures aimed at improving the situation of employees and combating shadow employment, but they increased the gap between wages and productivity and had a negative impact on labour flexibility. The increase of the minimum wage has limited the demand for low-skilled labour. In Bulgaria this process is influenced by structural changes in the labour market. That is why the number of unemployed unskilled workers decreased from 400,000 in 2001 to 271,000 in 2005; however, their share of the total unemployed increased from 60% to 64% (Employment Agency, 2005).

The insurance burden for the self-employed is also part of the labour market policy that influences their incentives for participation. The preferences are mainly oriented in favour of self-employed persons in agriculture, because this group forms the largest share of the actively and illegally employed population in Bulgaria. The measures include a lower income base for calculation of contributions and opportunities for state credits. The total number of self-employed farmers is estimated at about 60,000, but fewer than 10,000 are registered as self-insured (National Social Security Institute, 2005).

#### *Cash unemployment benefits*

The eligibility conditions, duration and amount of unemployment benefits are described in section 6.4. The coverage is very low and in 2005 reached its lowest level at 19.4%. After the expiry period, unemployed persons are entitled to means-tested social assistance, but only if the household’s total income is below the guaranteed income threshold (see section 6.4).

### *Active policies*

At the beginning of the transition period both unemployment benefits and active measures for the labour market were financed by the insurance contributions collected through the Professional Qualification and Unemployment Fund, managed by the National Employment Agency. The increasing number of unemployed persons entitled to benefits endangered the financial stability of the fund and reduced its capacity to support active programmes. The expenditures on inclusive programmes were sharply reduced in the 1999-2000 period. That is why in 2003 the financing of cash unemployment benefits was transferred to the National Social Security Institute.<sup>28</sup>

The Employment Promotion Act provided for budget funding of the active programmes and codified the main instruments for employment promotion, including

- subsidies equal to the minimum wage are awarded for a 6-12 month period to employers that offer jobs to youth, orphans, the long-term unemployed, disabled persons, single mothers, former prisoners and older workers;
- lump sum grants for self-employment (equal to the amount of cash unemployment benefits);
- public work programmes for temporary employment; and
- vocational training.

Since 2001 both the beneficiaries of and expenditure on active labour market policies have dramatically increased. The share of total expenditures on unemployment rose from 23.8% to 69.7% in 2005. At the same time, less than 34% of the expenditures on active labour market measures were devoted to subsidies for employers providing sustainable employment and for training. The remaining two-thirds were spent on public work programmes<sup>29</sup> (there were about 20 public work programmes operating in the country).<sup>30</sup> The active measures include investment programmes for the promotion of employment in priority areas as defined by the state, such as in support of the development of certain regions or sectors, the construction of sites of particular importance or environmental activities (e.g. the Regional Investment Fund and the Beautiful Bulgaria Programme). Assessment of the active programmes shows that a selective approach towards disadvantaged groups has been mainly implemented through temporary employment in low-qualified and low-paid jobs. As a result, a cycle of labour-market reintegration and exit persists for disadvantage groups, in spite of the goals of labour market policies. World Bank experts underline the negative effects of widely subsidised public work programmes on the productivity and competitiveness of the labour market (World Bank, 2005, p. 49).

In 2005, 1,933 persons benefited from different incentives to start their own businesses (compared with 1,889 in 2004) (Ministry of Labour and Social Policy, 2006). The 2005 amendments to the Employment Promotion Act provided for further entrepreneurial promotion measures: there are now better possibilities to start a small business, as the amount of the funds and the total number of individuals who will be subsidised is stated on an annual basis in the National Employment Action Plan.

<sup>28</sup> The Employment Agency was left to perform its major function of implementing active labour-market policies.

<sup>29</sup> For details, see <http://www.nsz.government.bg>.

<sup>30</sup> From Social Assistance to Employment is the broadest programme with more than 92,000 participants in 2005, mostly encompassing chronically unemployed persons and ethnic minority groups.

### 3.3 Structural reforms – Level, current pace and plans

#### 3.3.1 Business environment

The European Bank for Reconstruction and Development's (EBRD) index of small-scale privatisation in Bulgaria was 3.7 in 2005, which had remained unchanged since 2000, e.g. the privatisation process was almost finished (EBRD, 2005). The index of large-scale privatisation was 4.0 in 2005, which was a significant improvement from 1999, when it was 3.0. Privatisation in Bulgaria actually started in 1997 (effectively in 1998) and was most intensive until 2001. Between 2000 and 2003 the index was 3.7 and in 2004 it rose to 4.0, reflecting that more than 50% of state-owned enterprises and farm assets were in private ownership and there was progress in the corporate governance of those enterprises. The change in 2004 was largely because of the privatisation of the Bulgarian telecommunications company. The index of enterprise reform had been 2.3 for six years before 2005, after which it grew slightly to 2.7, reflecting the need for improvement in the business environment although some positive measures were taken. Shortcomings remain in areas such as the functioning of the judicial system and public administration.

The EBRD also measures the legal environment for business through the effectiveness of procedures for insolvency, bankruptcies and liquidations. If the highest score were 100, Bulgaria would be rated at about 45% for procedures initiated by the creditor and/or the debtor (EBRD, 2005). This implies the Bulgaria suffers from a slow foreclosure process – almost ten times slower than in the Netherlands and three times slower than in Estonia. The number of outstanding writs of executions is over 375,000, amounting to BGN 1.7 billion (IME, 2005).

As with all new EU member states, in 2005 Bulgaria adopted a Private Bailiff Law (2005) aiming at improving the system. It remains to be implemented; private bailiffs do not have a national competence and, unlike all other countries where state executive judges have disappeared, in Bulgaria private bailiffs would co-exist with them for a period of three years.

Changes in the index of competition policy have been similar to those in the index of enterprise reform. The score had been 2.3 from 1999 to 2004 when it was raised to 2.7. This index measures whether there is legislation concerning competition policy and a dedicated competition office (the Commission for the Protection of Competition). Progress in this area is marked by a reduction of entry restrictions and enforcement actions against dominant firms. The World Bank's "Doing Business" database features different challenges, e.g. the licence indicator measures the time needed to comply with regulations and obtain a permit. In 2005 242 days were needed to complete 24 procedures in Bulgaria. These figures are slightly better than those for the Balkan region average (251.8 days) but are far behind the OECD average (146.9 days).<sup>31</sup> The difference in compliance costs as a percentage of the income per capita is even larger – in Bulgaria these costs amount to 325.1% while the OECD average is 75.1%. Starting a new business is not an easy task. The entrepreneur should pass through 11 procedures in 32 days on average to register a company. The average number of procedures in the Balkan region is 9.6, while in the OECD countries it is 6.5 and the average number of days is 36.4 and 19.5 days, respectively. The other obstacle is the requirement for a minimum amount of capital, which is too high in Bulgaria – 104.2% of income per capita while in the Balkan region it is 49.1% on average and 41% in OECD countries.<sup>32</sup>

<sup>31</sup> See <http://www.doingbusiness.org/ExploreTopics/DealingWithLicenses/>.

<sup>32</sup> See <http://www.doingbusiness.org/ExploreTopics/StartingBusiness/>.



The performance of the regulatory quality indicator has been uneven since 1998. In 1998 it was assessed at 44.8%. In latest available year (2004) it was assessed at 69.5%, which shows an improvement. There was an insignificant worsening in the indicator between 2002 and 2004, with levels ranging between 69.9% and 69.5%. Problems in this area are attributed to administrative regulations, the complexity of taxation and the difficulty in opening new companies.

### 3.3.2 Education

Access to education is among the most important characteristics of the social status of the population. The main changes in the educational system in the last 10 years have been the creation of new legislative framework for the regulation of the secondary education (Education Act, 1991), an increase by one year of the time for completing secondary education, introduction of professional qualification degrees in education, the decentralisation of the management of the system, etc.

Despite the measures to adapt the system to the needs of the labour market, stable trends in the decline of coverage and notably in the number of early school drop-outs have emerged in recent years. According to representative surveys the annual school drop-out rate is about 6-7% of the students (Stanev, 2002). The tendency to drop out of school is highest among the children of the Roma ethnic group: 36% of the Roma children aged 8-17 years did not attend school in 2002. Because of the high percentage of school non-enrolment and drop-outs among Roma children, the share of illiterate Roma adults in the period between the last two population censuses (1992-2001) has grown from 8.5% to 12.9% (National Statistical Institute, 2001).

Group enrolment rate in ISCED-2<sup>33</sup> (lower secondary education) and ISCED-3 (upper secondary education) is relatively low in Bulgaria – 84% and 77%, respectively. A lower enrolment rate is also registered for the age group 15-18 (83%). A positive trend towards a rise in the enrolment in secondary education emerged after the end of the 1990s. The percentage of early school-leavers (the population aged 18- 24 who have finished the eighth grade at most and were not attending educational and vocational courses) fell from 21.4% in 2004 to 20% in 2005, but the levels were still higher than in EU countries (15.2% in 2005 for EU-25).<sup>34</sup>

According to the Regional Education Inspectorates data, there is a trend towards a reduced number of school drop-outs. The 2003-2004 school drop-outs numbered 21,633 out of a total 998,192 students enrolled at the beginning of the school year, i.e. 2.16% of the total number. This rate fell down to 1.99% in the school year 2004-2005 and the number of drop-outs respectively was 19,193 of a total 963,051 of students enrolled in the beginning of the school year. The dropout level for the first semester of 2005-2006 was 1.23%, although the preparatory groups were not covered by this figure. The analysis based on education levels shows that the highest dropout rate was in the upper grades: 1.67% of them were in grade 9 to grade 13. The dropout statistics for the remaining education levels are as follows: 0.42% from the pre-school groups; 0.75% from grades 1 to 4; and 1.17% from grades 5 to 8 (Ministry of Labour and Social Policy, 2006, p. 12).

<sup>33</sup> ISCED is a standard international classification of educational grades.

<sup>34</sup> For details, see <http://epp.eurostat.ec.europa.eu>.

Data on education outcome registered by international surveys indicate a worsening of the quality of education. According to a TIMSS<sup>35</sup> survey by the OECD in 1995, Bulgarian students ranked at 11 in mathematics and 5 in sciences among the participating countries, but in 2003 their position fell to 24 out of 46 countries. The ranking of Bulgarian students according to the PISA<sup>36</sup> test of the International Association for the Evaluation of Educational Achievement (IEA) is 33 in mathematics and 30 in sciences of a total 41 countries. Positive results were observed in the PIRLS<sup>37</sup> test on reading, whereby Bulgaria ranked 4 among 35 countries. Indeed, educational outcomes in Bulgaria are no longer among the highest, which endangers the competitiveness of the Bulgarian labour force in the EU market.

According to the last JIM report the level of education differs by place of residence. A source of concern is the fact that fewer rural children complete their secondary education compared with their urban counterparts. In a majority of the villages there are no secondary education schools, nor adequate transport to the nearest city (Ministry of Labour and Social Policy, 2006, p. 15). A study commissioned by the Ministry of Finance in 2004 reports 84% enrolment in primary education and only 32% in secondary education for the villages (the national average for the country was 98.5% in primary and 68.3% in secondary education) (Ministry of Finance, 2004, p. 35). It is also crucial for the quality of human resources to develop access to lifelong learning. According to national statistics, the enrolment rate slightly exceeded 1% in Bulgaria in 2005, while in the EU-25 it was 11%.<sup>38</sup> To cover this gap, the government launched a national strategy for life-long learning for 2005-2010,<sup>39</sup> which oversees financial sources from the state budget, EU funds and private co-financing.

## 4. Demography

### 4.1 Population – Structure and fertility trends

#### *Population dynamics and structure*

Demographic trends in Bulgaria have been subject to unfavourable developments during the last decade. In 2005 the country's population was 7,718,000 and compared with 1995 it has declined by nearly 666,000 persons (Figure 10). The difference is mainly due to the negative natural increase of the population, i.e. significantly greater number of deaths compared with births. The prognosis for the next 20 years is a further decline of the population by about 800,000, even considering the opportunities for a rise in the fertility rate from 1.31 to 1.4 per 1,000 and a significant drop in the total mortality rate from 14.6 to 11 per 1,000 in 2025.

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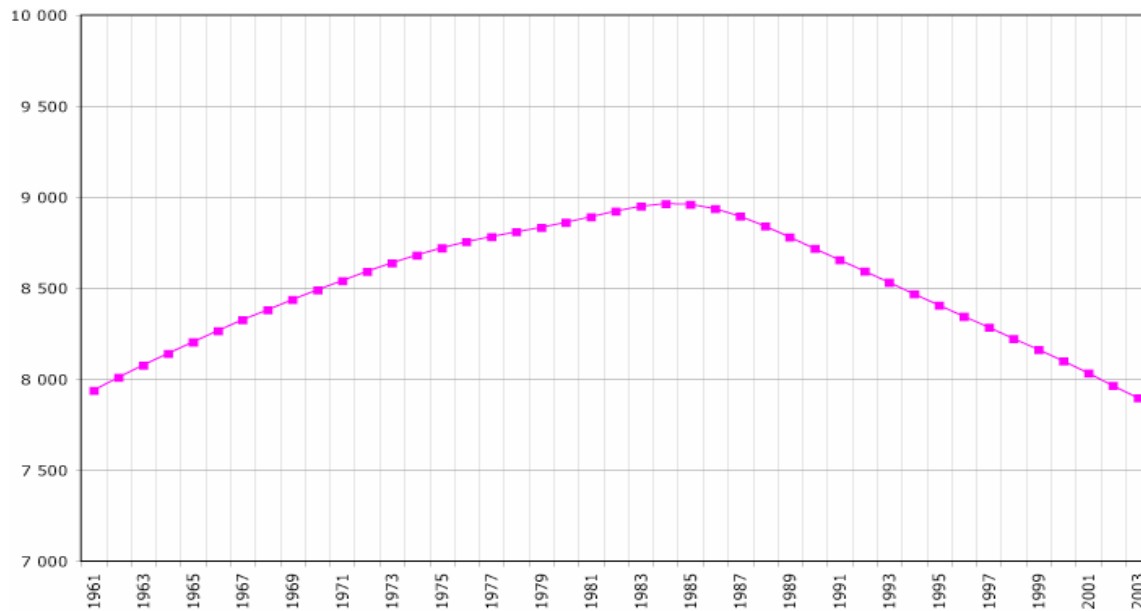
<sup>35</sup> TIMSS refers to the Third International Mathematics and Science Study.

<sup>36</sup> PISA stands for the Programme for International Student Assessment.

<sup>37</sup> PIRLS refers to the Progress in International Reading Literacy Study.

<sup>38</sup> See <http://epp.eurostat.ec.europa.eu/>.

<sup>39</sup> See <http://www.navet.government.bg>.

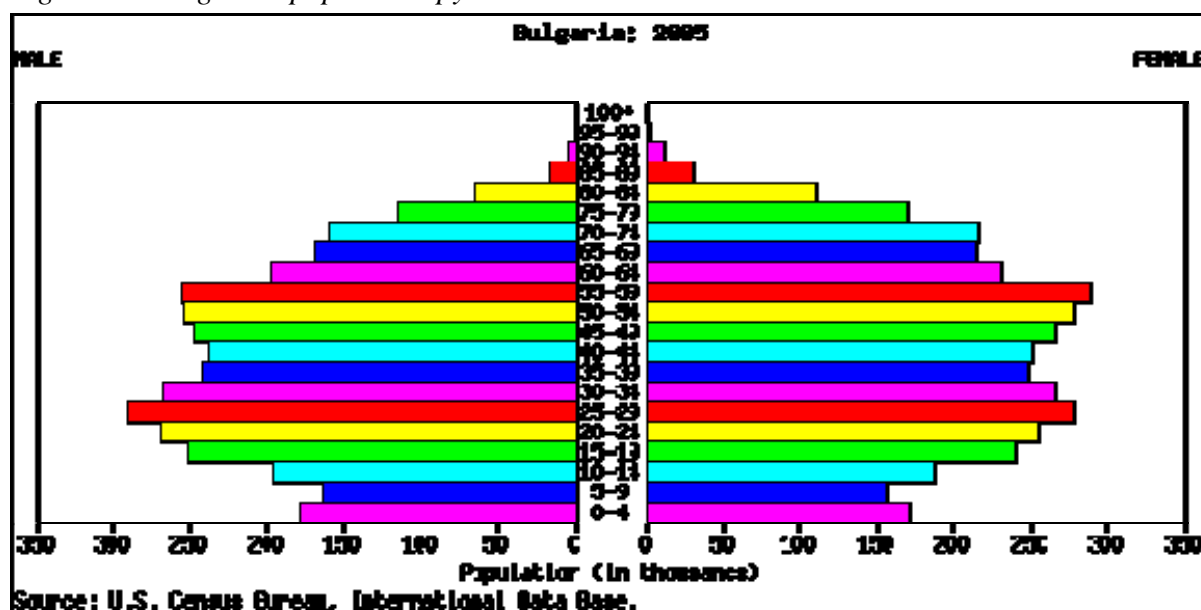
*Figure 10. Evolution of demography in Bulgaria (1961-2003)*

Source: Data FAOSTAT, for 2005 (retrieved from <http://faostat.fao.org/faostat/help-copyright/copyright-e.htm>).

Changes in the age structure are a considerable factor shaping the general socio-economic development. The number and share of the population under 15 years of age has continually dropped, reaching 13.5% in 2005 (Figure 11). Over the period 1996-2005 this age cohort fell by nearly 340,000. During the same period the number of persons over 65 rose by 33,000 and their relative share exceeded 17%. The trend towards population ageing results in higher values for the average age indicators. Life expectancy is also rising. In 2005 life expectancy was 72.4 years at birth and 18.2 years at the age of 60. Less favourable is the dynamic of life expectancy at birth, due to the high mortality rate of the group aged 40-49 and the child mortality rate. The child mortality rate is one of the major indicators for the level of healthcare in a country. Its value was relatively high in 2005, at 10.4 per 1,000 live-born children up to age 1, compared with EU countries wherein the values varied between 3.1 and 9.4 per 1,000.<sup>40</sup>

<sup>40</sup> For details, see <http://epp.eurostat.ec.europa.eu>.

Figure 11. Bulgarian population pyramid 2005



Source: Census data (retrieved from <http://www.census.gov/ipc/www/idbpyr.html>).

The detailed data on the age structure of the population show that general population ageing also influences the ageing of the labour force. The demographic replacement rate (the ratio between persons entering and exiting among the working-age population) decreased from 120% in 1995 to 118% in 2005 (National Statistical Institute, 2006). In rural areas there was not even the simple replacement of the working-age population.

The labour market scope of the population of and over working age is influenced by ageing as well as by the adopted legislative changes, specifying the age limits at retirement (see section 6). At the end of 2005 the population of working age was 4,814,000 persons or 62.4% of total population. Compared with the previous year, this category of persons grew by 32,000. The population over working age in 2005 was about 1,762,000 persons. For a year it fell by 43,000. This drop was not only owing to natural changes in the population (mortality), but also to the exclusion from this category of a specific segment of the population through the rise in retirement age and the inclusion of this segment in the working population. A lasting trend of decline is evident among the population below working age. Compared with 2004, the reduction in 2005 was 31,000 and at the end of 2005 this share of the population numbered 1,143,000. The overall tendency here is that for the period 2000-2005 the number of persons over working age shrunk owing to the rise in the retirement age (Table 5). For the same period, there was a downward trend in the system dependency ratio (pensioners to insured persons), except for 2002. In the period 2003-2005, the dependency ratio dropped from 97.6% to 89.1%. Yet the compensatory role of pension reform over the system dependency ratio only has a temporary effect, which is expected to end in 2009, when the increase in retirement age reaches its maximum (e.g. 60 years for women and 63 for men).

Table 5. Population by working-age groups and system dependency ratio (as a % of total)

	2000	2001	2002	2003	2004	2005
Population below working age	16.8	16.3	15.9	15.5	15.1	14.8
Population in working age	58.3	59.2	60.1	60.8	61.6	62.4
Population over working age	24.9	24.5	24.0	23.7	23.3	22.8
System dependency ratio	103.3	102.6	108.3	97.6	93.4	89.1

Source: NSI and NSSI.

### *Territorial distribution of the population and ethnic structure*

Around 52% of the country's population live in the south central and south-west regions. They are followed in terms of population by the north central and north-east regions with 31% of the population. The south-west region has a 10% relative share of the population and the north-west has 7%. The distribution of the population by district also is uneven: 13 districts with a population of up to 200,000 persons or 25% of the country's population form the largest group. The smallest district under this definition is Vidin (having less than 25%) and the largest is the capital Sofia (15%). The second largest district is Plovdiv, with 9% of the total population. Thus a quarter of Bulgarians live in Sofia and Plovdiv. The population density was 69.5 persons per square km in 2005. The highest density was registered in the south-west region (104.1 persons) and the lowest density in the north-west region (47.4 persons) (National Statistical Institute, 2006).

The territorial distribution of the population is influenced by natural increases along with internal and external migration. These trends caused a considerable depopulation in large areas of the country – mainly the underdeveloped, frontier and mountain regions. The coefficient of natural increase in the population in such municipalities is considerably below the average for the country: for example, the Makresh municipality in the north-west region saw a movement rate of -39 per 1,000, while the Trekliano municipality in the south-west region had a figure of -35 per 1,000.

The ethnic structure of the population should also be pointed out as a country-specific factor. The Bulgarian Roma are estimated at 365,000 persons or 4.7% of the population, according to the last population census in 2001. Ethnic background in the census is defined on the basis of a respondent's self-estimation. This process usually results in an underestimation of the number of the members and the ratio of a minority group. According to an expert assessment, the Roma total 550-800,000 persons or 7-10% of the population.<sup>41</sup> For the last 10 years, Bulgarian national statistics have recorded an 11.5% increase in the Roma population. According to experts this is not due to natural growth but to emancipation in the Roma community, in that some have relinquished other previously reported identities and with new self-confidence have declared they belong to the Roma culture (UNDP, 2005). The implication is that after Romania the second largest Roma population in Central and Eastern Europe lives in Bulgaria. In 2003 a representative survey of the social status of this group was conducted. The results showed important differences in its demographic behaviour. Early marriage is typical: 40% are married before the age of 16 and 80% before the age of 18. This cultural feature leads to the syndrome of children having children as parents, and a large number of children in households have parents who are themselves under age. After marriage they do not continue their education. The birth rate among this group is estimated as the highest in the country (Agency for Social Analyses, 2003).

Bulgarian Turks form another large minority group, including roughly 757,000 persons (9.4% of the population). According to the Centre for Documentation and Information on Minorities in Europe there are 800,052 ethnic Turks in Bulgaria (253,119 of them live in urban centres and 546,933 in rural centres).<sup>42</sup> This group lives in the most backward, rural areas of the

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<sup>41</sup> For further details, see the World Bank's report, *Roma Education Fund, Needs Assessment, Summary Report*, a Background Document prepared for the "Roma Education Fund Donors' Conference" held in Paris, 2-3 December 2004 (World Bank, 2005), p. 6.

<sup>42</sup> See Centre for Documentation and Information on Minorities in Europe – Southeast Europe (CEDIME-SE), *Minorities in Southeast Europe: Turks of Bulgaria*, CEDIME-SE (1999), p. 3.

country. They have also suffered from the loss of the most qualified persons, who moved to Turkey at the end of 1980s and early 1990s. The results of the last population census in 2001 showed slight differences in the population structure in 1992. The share of Bulgarian Turks fell from 85.2% to 83.9% while the share of the Roma grew from 3.6% to 4.7%, owing to a higher rate in natural increase of the population within this latter group compared with the rest of the population. The Turks held a constant share of the Bulgarian population overall at 9.4%, despite the fact that they also have a relatively high birth rate compared with Bulgarians in general and the natural increase of Turks is expected to be positive. Yet, the mass emigration of Turks from Bulgaria to Turkey in the middle of the 1990s led to a decline in the population by about 200,000 persons and the total decrease of the Turkish minority between the two censuses in 1992 and 2001 was 51,000 (National Statistical Institute, 2001).

#### *Ethnicity, demographic changes and labour market*

A higher fertility rate of the Roma and Turkish minorities in Bulgaria has led to different age structure of the population within these groups. Recent data on the age structure and the employment status of the labour force by ethnic group have become available from a representative survey of the Agency for Social Analyses (*Table 6*). The Roma population of working age has the highest share, with nearly 90% of their population being over age 15. At the same time, the proportion of persons employed among this group is significantly lower than in the Bulgarian and Turkish segments of the population – less than 20%. The unemployed represent more than half of the group. These data demonstrate that both the Roma and Turkish minorities have difficulty in accessing the labour market.

*Table 6. Working age cohorts and employment status by ethnic groups (as a % of the group)*

	Bulgarian	Turk	Roma
Age cohorts of the population over 15	100	100	100
Working age <sup>43</sup>	66.6	84.1	89.4
Over the working age	33.4	15.9	10.6
Employment status	100	100	100
Employed	43.6	31.6	19.8
Unemployed	13.1	46.9	53.7
Pensioners	40.4	20.0	17.7
Other non-employed	2.9	1.5	8.8

*Source:* ASA (2003).

#### *Fertility and family patterns*

The radical socio-economic changes in the last few years influenced the demographic behaviour of the Bulgarian population. A typical characteristic of this tendency is the low crude birth rate (9 per 1,000 in 2005) and the decrease in the number of children born in the country. In 2005 there were 71,000 live-born children, about 10% less than the number born in 1995 (National Statistical Institute, 2006).

After the sharp decline in the fertility rate at the end of the 1990s this indicator slightly rose in recent years to about 1.3. According to optimistic demographic projections, the fertility rate will reach 1.4 in the next 10 years. The average age of mothers at the first birth has continually risen, from 23.8 in 2000 to 24.8 in 2005, as has the age at which individuals first

<sup>43</sup> In 2003, the maximum working age was 57 for women and 62 for men.

marry (25.8 for women in 2005) (National Statistical Institute, 2006). These trends put limits on further improvements in the fertility rate. The negative tendency in the fertility rate is most often explained by higher educational and qualification levels, a preference for a professional career, new social values and the changing roles of women in society. Therefore, changes in family structure are also part of the demographic pattern in Bulgaria. After 1990 a trend emerged towards a rising number of births outside marriage. Their relative share increased from a rate of 12% in 1990 to 26% in 1995 and 49% in 2005 (National Statistical Institute, 2006). This trend reflects new family models and an increasing number of co-habiting couples. In 2005, 20.3% of all births (14,000) were cases in which the name of father was reported as unknown. Over the last 10 years both the number of marriages and the marriage rate have fallen. Young persons increasingly prefer to postpone marriage. Comparing 1992 and 2001 census data there was an increase in the share of single households by 2.7 percentage points and a rise in the number of couples without children by 2.3 percentage points.

In Bulgaria, the family policies that should empower parents and help them to meet their responsibilities (social security, childcare services, taxation, etc.) remain fragmented and oriented mainly towards direct transfers to families by social security and social assistance schemes. Paid parental leave has a relatively long duration in Bulgaria (two years) and it is transferable to other insured members of family. This measure is favourable for a fair sharing of parental responsibilities. Nevertheless, there are no developed training services for the re-integration of beneficiaries after the parental leave, family counselling or support services. Childcare services have relatively limited coverage and the fees are determined by municipalities, with the average amount being around 20-30% of the minimum wage (Ministry of Finance, 2006). Tax relief for children was introduced for first time by the Personal Income Tax Act in 2006 and leads to a reduced taxable income for one of the parents by BGN 360 for one child, BGN 780 for two children and BGN 1,140 for three or more children. The tax policy does not allow for deductible costs by families with children as it has been conducted within the narrow framework of prudent fiscal policy.

## 4.2 Migration

### *Internal migration*

In 2005 about 150,000 persons took part in migration and changed their place of residence within Bulgaria. In comparison with the end of the 1990s, in the last few years there has been a relative stabilisation of the population by place of residence and a reduction in territorial mobility. The intensity of internal migration, i.e. the ratio between the total number of migrants to the average population, was 1.9% in 2005 (National Statistical Institute, 2006). The biggest rise in migration occurred between cities. Approximately 45% of migrants changed their place of residence from one city to another in 2005. Migration flows from villages to cities represented 21% and from village to village the figure was 11%. The number of migrants from cities to villages was 23%, slightly exceeding the opposite flows from villages to cities. There is no statistical evidence on the causes of this type of migration. A possible factor for the migration from cities to the villages is the opportunity for self-employment in agriculture, for which the circumstances have improved in the last few years, e.g. through preferential credits and SAPARD<sup>44</sup> projects. There is no pronounced indications of richer city dwellers moving outside the cities in Bulgaria, which could be attributed to the

<sup>44</sup> SAPARD is a special EU accession programme for agriculture and rural development.

insufficiently developed infrastructure (lack of good road networks, Internet access, etc.). During the 1990s, the north central and north-east regions were those most affected by internal migratory outflows to other regions. Two regions, the south-west – which includes the capital city and its surrounding area – and the south central region concentrated 52% of the working-age population,<sup>45</sup> so migration between planning regions (NUTS III) has driven an increase in the population in the south-west (where the capital Sofia is located) and a decrease in the rest. The obvious reason is the higher probability of finding a job in the capital and the lower unemployment rate in the south-west region, at 7.6% or 2.5 points below the average in 2005 (National Statistical Institute, 2006). This region provides 34.2% of the gross added value for the country. At the time of the 2001 census, 70% of the total population lived in urban areas. As a whole, the intensity of internal migration is relatively limited. An important constraint of mobility is the high percentage of home ownership, which accounts for 92% of households (National Statistical Institute, 2001).

### *External migration*

Owing to its geographical location at the south-eastern gateway into Europe, Bulgaria continues to be a transit country for migrants from Asia and Africa en route to the EU. The border with Turkey and the Black Sea coastline will become external EU borders with Bulgaria's accession. Forthcoming EU membership creates prerequisites for increased migration to Bulgaria also as a country of final destination. Outward migration, however, is still prevalent with a marked trend towards seasonal labour.

Immigration is estimated at 110,000 persons.<sup>46</sup> Few of them apply for long-term stay in the country or for official work permission. The registered employed immigrants are only 2,700 and the students are 3,355. The largest share of immigrants belongs to Turkey. Ukraine, Moldova, Serbia and Central and Southeast Asia are also considered as potential sources of immigrants.

External migration had a higher intensity at the beginning of the transition period. Emigration flows in the period 1989-1992 was estimated at 450-470,000 (mostly young and educated persons). For the period 1992-2001 the emigration flows amounted to 196,000 persons (or 2.5% of the population) and the net migration was 170,000 (2.2%). These data were registered by the population census in 2001 (Kalchev, 2002). After 2001 the emigration flows in the country stabilised and the trend has since been declining. The latest representative survey by the National Statistical Institute registered 91,000 emigrants in 2004, which represented 1.2% of the population (Kalchev J., 2005).

Emigration waves from the beginning of the transition period until 1992-1993 were mainly a result of ethno-political factors. These waves largely included persons with Turkish ethnicity, many of whom left for Turkey to be with their families and others or as a reaction to the violation of their rights for determining their own status in Bulgaria. The next waves had predominately economic motivations, attributable to high unemployment and low living standards in Bulgaria. The country destination of the emigrants depends on labour opportunities. The primary destinations of migration are Germany (26% of emigrants), the US (15%), Greece and Spain (10%). Other European countries such as Austria, Belgium, France,

<sup>45</sup> See the Ministry of Labour and Social Policy (2002), Joint Assessment of Employment Priorities in Bulgaria ([http://ec.europa.eu/employment\\_social/employment\\_analysis/japs/bulgaria\\_en.pdf#search=%22migration%20to%20ward%20South%20West%20Region%20in%20Bulgaria%22](http://ec.europa.eu/employment_social/employment_analysis/japs/bulgaria_en.pdf#search=%22migration%20to%20ward%20South%20West%20Region%20in%20Bulgaria%22)).

<sup>46</sup> Data derived from the GD Border Police, Ministry of Interior (2005).



Holland, Switzerland and Turkey receive between 1 and 3% of Bulgarians (Beleva and Noncheva, 2004, p. 15).

The educational background of the emigrants shows that the highest share is formed by those with secondary education. The proportion of poorly educated emigrants (i.e. those having a lower secondary, primary or lower education level) was 25% or 15 points below the national average. The share of persons with tertiary education (19%) exceeded the average for the national labour force, but only by 2 percentage points. Emigrants with secondary education comprised 56%, which is 13 percentage points more than the respective share of the labour force. Compared with the graduates of universities this group has a relatively worse position in the national labour market and thus a stronger incentive to move (Beleva and Noncheva, 2004, p. 17).

With regard to emigration, based on the intentions of Bulgarian emigrants it is of a temporary nature. A representative survey by the International Organisation of Migration shows that most of the emigrants intend to earn money abroad to enable them to launch themselves in self-employment upon returning to Bulgaria. The relative share of those who have intentions of permanent emigration is 15% of the population aged between 15 and 60 (Beleva and Noncheva, 2004, p. 14).

In 2006 the Ministry of Labour and Social Policy published the results of a sociological study on migration attitudes.<sup>47</sup> The study compares the expressed intentions to migrate (externally) within the representative sample of the economically active population. It finds that in 2001, 15% of the population indicated a readiness to emigrate, of which 7% sought to do so for work or studying abroad. In 2006 the total share of potential emigrants has shrunk to 11% and the share of potential migrant workers has fallen to 3%. The main conclusion is that a higher demand for labour in Bulgaria in the last few years is an important factor in the declining rate of emigration.

The results of the sample study allow us to calculate approximate flows of outward migration. In 2006 the expected maximum number of emigrants is 28,600 persons, of which 20,000 persons reported the EU as a preferable destination. Overall labour migration is estimated at a maximum of 19,400 persons, of which 15,300 are expected to move to the EU. The majority of potential migrant workers prefer Spain and Germany as destinations for labour migration (*Figure 12*). This could be explained by the traditional channels for labour force mobility under the existing bilateral agreements with these countries before the accession.

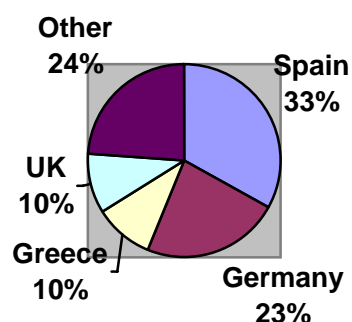
Taking into account the main findings of the study, the government assumes that the outgoing flow of migrant workers would considerably diminish after the accession and that these workers do not threaten the labour markets of the rest of the EU member states.<sup>48</sup> The number of immigrants is expected to rise after EU accession and, according to the government's demographic strategy, positive net migration is expected in 2020.<sup>49</sup>

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<sup>47</sup> See MLSP, *Emigration attitudes*, report of sociological survey prepared by BBSS Galup International, September (2006).

<sup>48</sup> For details see [http://www.mlsp.government.bg/bg/docs/BBSS\\_Main%20Report\\_Emigration%20attitudes\\_Sept%202006\\_bg](http://www.mlsp.government.bg/bg/docs/BBSS_Main%20Report_Emigration%20attitudes_Sept%202006_bg)

<sup>49</sup> See MLSP, *National Strategy for Demographic Development* (2006).

*Figure 12. Migration flows in the EC by country of destination**Workers' remittances*

The amount of resources that emigrants send to their families in the country or bring with them is rather vague owing to widespread, unofficial financial flows. The National Bank only registers the official transfers of emigrants' remittances. Nevertheless, the registered transfers show a pronounced trend towards an increase in the last year (*Table 7*). In 2005 the amount was €850 million or about 4% of GDP (Bulgarian National Bank, 2006). Compared with the FDI, the relative value of remittances ranged from 26.2% to 54.2% depending on the investment policy, but on average the remittances have represented nearly half of the total amount of FDI in the last five years (43%). This share illustrates the opportunity costs of Bulgaria's labour-force emigration. The negative impact of emigration on social security and public finances is measured by the unpaid contributions and income taxes based on the workers' remittances. In 2001 the potential loss from unpaid contributions and income tax was at €250 million or 13.6% of the total budget revenue from social security and income tax. In 2005 the amount rose to €432 million or 15.3% of the respective budget revenue.<sup>50</sup> For some previous years, the Institute for Market Economics (IME) compared the remittances with some of the government's expenditures (*Table 7*) (Stanchev, 2004). In 2005 the remittances almost equated to the country's total education spending.

*Table 7. Annual amount of workers' remittances (2001-2005)*

	2001	2002	2003	2004	2005
Remittances (€ mln.)	472.5	531.7	613.0	743.7	850
Remittances as % of					
GDP	3.2%	3.3%	3.6%	3.7%	4.0%
Foreign direct investment	52.3%	54.2%	33.1%	26.2%	47.5%
Education spending	77.5%	76.8%	87.9%	88.7%	93.7%
Healthcare spending	77.3%	72.3%	84.6%	81.2%	85.0%

Sources: BNB, NSI and IME calculations.

<sup>50</sup> The calculation is based on the average annual rate of income tax and the cumulative insurance burden.

## 5. Living conditions: Key developments and dynamics

### 5.1 Income distribution

Over the transition period good experience was accumulated in the country in terms of poverty research. Using different methods the studies help to create a better picture of poverty, including

- the definition of poverty and its assessment;
- a comparative analysis of poverty dynamics on an international level;
- the major characteristics of poor households;
- poverty profiles and factors;
- regional dimensions and mapping;
- non-monetary indicators; and
- the impact of social policy on poverty reduction.<sup>51</sup>

In this section we review the main findings of these studies on the basis of the three different approaches to poverty measurement: relative poverty by income, relative poverty by consumption and absolute poverty.

The relative method, adopted by Eurostat, became important for poverty research after Bulgaria started negotiations in 2000 for EU accession. This method is based on the distribution of households according to gross net income per equivalent unit. The poverty line is accepted to be 60% of the median equivalent income. The data reveal that for the period 1995-2005 the poverty line rose from €501 to €933 per year i.e. by 86.2%.

Given that the Currency Board was established in mid-1997 and the exchange rate was fixed (to the DM and then to the euro), it can be assumed that the 64.3% growth in the poverty threshold during 1998-2005 was almost entirely due to the nominal growth of household income, as there were no substantial changes in the polarisation and differentiation of incomes over this period:

- the S80/S20 quintile share ratio was between 3.56 and 3.96; and
- the Gini coefficient was between 0.2445 and 0.2640.

In the period 1995-1997, abrupt variations in the poverty line stemmed from the processes of hyper-inflation and strong devaluation of the national currency. At the same time, the poverty rate (i.e. at-risk poverty rate) fluctuated in a comparatively narrow band over the entire analysed period – from 16.5% (1995) to 13.5% (2002) of the population. Little difference was found even in the two years of crisis: in 1996 the poverty rate was 14.8%, and in 1997 it was 15.3%. The following conclusions can therefore be made. The number of poor Bulgarians was relatively static (about 1.1-1.2 million persons). All other things being equal, the poor in 2005 were comparatively less poor than in 1995, bearing in mind the growing poverty threshold.

The findings of international research reveal that the relative share of the poor in Bulgaria does not differ substantially from that in the EU with the new member states (European Commission, 2004; IPSE, 2001). But the distinctions are substantial when it comes to the poverty threshold. The poverty threshold in euros for Bulgaria (€639) is 2.8 times lower than it is in the 10 new EU member states (EU-10) and 13 times lower relative to the 15 old

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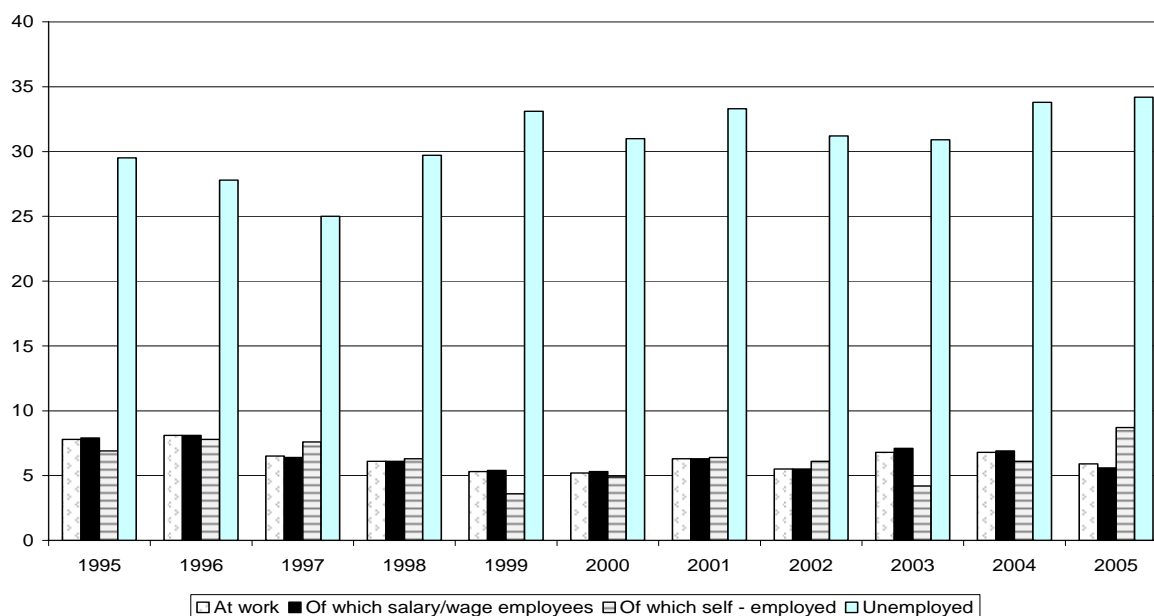
<sup>51</sup> See for example NSI (2003), ISTUR (1998-2005), ILO (1998), World Bank (2002), World Bank (1999) and NSI (1995-2005).

member states (EU-15). Indeed, the different countries have comparatively the same poverty rate, and yet poor people in countries with slower economic development are relatively poorer than are their counterparts in countries with a prosperous economy. The distinctions in terms of poverty thresholds, measured in PPS, tend to diminish in comparison with other countries. The poverty threshold in Bulgaria<sup>52</sup> in PPS (1,630) is about two times lower than in the EU-10, and five times lower in comparison with the EU-15. This should always be taken into consideration when making estimates of the poverty rate by using this method, because with prices being equal the incomes are twice as low and thus living standards are as well.

It should be noted that pensions, as a major social transfer, have a most prominent impact on poverty reduction in Bulgaria, despite their low nominal level. Other social transfers have a much lower significance in terms of poverty reduction. According to data for 2005 the poverty rate was 39.1% before social transfers were included; this rate dropped down dramatically to 17.2% when pensions were added and to only 14.2% after including all other social transfers.<sup>53</sup> For EU countries both pensions and all other social transfers have a substantial role in poverty reduction. This implies that the approaches of social policy in Bulgaria are considerably different from those in economically advanced countries. On the one hand, this stems from a degree of economic backwardness, yet it also relates to the inefficient redirection of funds to the poor strata of the population.

The data in *Figure 13* reveal the relative share of the poor under the established poverty threshold according to economic activity. The share of the poor among the employed ranged from 5.2% in 2000 to 8.1% in 1996. Under equal conditions they can be defined as the ‘working poor’.

*Figure 13. Risk of poverty by most frequent labour market activity (%)*



Source: NSI, Laeken Indicators: Results of 3rd Round.

<sup>52</sup> In 2005, the UNDP estimated that the share of the population below the internationally recognized poverty line was 11% for the majority and 51% for Roma population in Bulgaria (<http://vulnerability.undp.sk/DOCUMENTS/Roma%20Fact%20Sheet%20FINAL1-02-2005.doc>).

<sup>53</sup> See the NSI, Laeken Indicators: Results of 3rd Round.

As *Figure 13* shows, over the period under review the highest share was held by the poor unemployed, ranging from 25.0% in 1997 to 34.2% in 2005. This result is logical given that in principle the link between poverty and unemployment is rather pronounced.

The risk of poverty for women is higher than it is for men by 1.5 to 4.6 percentage points. With respect to the different age groups, at greatest risk until 1999 was the age group of 65+ with a poverty rate from 20.9% to 24.8%. Since 2000, however, those most at risk of poverty are the 0-15 and 16-24 age groups (from 15.1 to 21.7%). The group aged 50-64 is the least threatened, with rates from 9.6% to 13.4%.<sup>54</sup> Much more pronounced are the distinctions when it comes to the size and composition of the different households. The most prominent risks are faced by single-member households and those with three and more children, while families with one child or no children are much less vulnerable. In its studies of Bulgaria the World Bank (2002) uses two poverty lines, under which different poverty rates are recorded (*Table 8*).

*Table 8. Poverty rates based on consumption (World Bank LSMS methodology)*

<i>Poverty line definition</i>	<i>1995</i>	<i>1997</i>	<i>2001</i>
Poverty rates (PL equal to 2/3 of average consumption per capita 1997)	5.5	36.0	12.8
Poverty rates (PL equal to 1/2 of average consumption per capita 1997)	2.9	20.2	7.5

*Source:* Poverty Assessment, Report Nr. 24516-BUL, World Bank (2002).

Although the relative poverty lines have been used again, it is evident that consumption is more reactive to the critical stages of economic development compared with net income. The poverty rate was respectively 6.5 and 7 times higher than the two poverty lines mentioned above in the crisis of 1997 compared with 1995. After that the poverty rate decreased and consumption recovered from the crisis (World Bank, 2002). The major conclusions of the survey based on a poverty line equal to two-thirds of average consumption per capita for the period 1997-2001 could be summarised as follows:

- Inequality in consumption was higher in the rural than in the urban regions.
- Following the crisis (1997) there was a substantial improvement in the standards of living, but the changes in welfare were not equally felt by the entire population.
- The poverty rate in the urban regions fell more dramatically (from 33.5% to 5.9%) compared with the respective decrease (from 41.2% to 23.7%) in the rural regions.
- In a similar way the poverty of the other risk groups, including individuals with lower education and representatives of ethnic minorities, declined at a reduced pace compared with the population as a whole.
- There were persistent ‘poverty niches’ of people who did not experience any benefit from the economic recovery. The poverty rate among those with no education was nearly four times as high as the average rate, and ten times higher compared with those having secondary education.
- Poverty was lowest among salaried persons. Those who relied on social assistance as a major source of income had four times the likelihood of becoming poor.

<sup>54</sup> Ibid.

- Around 40% of the poor came from households where the head of the household was unemployed, although these households were only 15% of the entire population. Poverty was also highest among unemployed persons in villages.
- The risk of poverty among the Roma population was 10 times higher relative to the risk for Bulgarians as a whole. Poverty among the Bulgarian Turks was also four times higher than among the general population.
- Another characteristic feature of the poverty among the Roma population was the proportion of those who had dropped out of school. While drop-outs among the Bulgarian population left school between primary and secondary education, drop-outs among the Turkish and especially the Roma segments did so right after the first one or two years of primary school. The findings of empirical studies (USAID, 2004) show that the poverty of the Roma is the major reason Roma children do not to go to school on a regular basis (81.1%). According to 11.3% of the respondents they have to provide help at home.

The relative share of the poor in individual municipalities varies from 1.8% in the capital city of Sofia to 53.8% in the municipality of Boynitsa in the Vidin region. The 13 poorest municipalities<sup>55</sup> where over one-third of the population is poor differ from the others in terms of their poorly developed infrastructure, industry and services, high unemployment rates and a very negative educational structure. In some of them (Boynitsa, for example), 80% of the households have no water supply, 84% have no sewage and 99% do not have an indoor toilet. The profile of poverty in the cities and the villages differs substantially. Alongside the clearly monetary nature of poverty in all areas, in the villages poverty additionally involves poor access to the labour market, education, healthcare and other social services. In the villages the levels of consumption in kind still holds a large share of total consumption at the expense of incomes from wages or entrepreneurship.

Interesting findings were obtained from several studies of poverty in Bulgaria, based on the absolute poverty line. Three of the measurements are more commonly used for poverty assessment by experts:

- *The international poverty line.* This threshold is defined through the costing of pre-selected basic needs on the basis of international prices, where the value obtained is adjusted in terms of the purchasing power in the respective country. This method has been applied in Bulgaria by the World Bank with poverty lines of \$2.15 PPP per day and \$4.30 PPP per day (World Bank, 2002). With the first poverty line the poverty rate of 3.1% in 1995 increased to 7.9% in 2001, and with the second one it rose from 18.2% to 31.9% respectively. With this indicator Bulgaria is close to Romania, Lithuania and Ukraine, but falls substantially behind Poland and Hungary.
- *The Orshansky method*<sup>56</sup> *for estimating the absolute poverty line.* Calculated in this way, the poverty line is presented by Tzanov & Bogdanov (2001). The obtained results indicate high estimates, with the share of poor households exceeding 45% in most years.

<sup>55</sup> These municipalities are Boynitsa, Belitsa, Varbitsa, Rakitovo, Satovcha, Yakoruda, Kotel, Omurtag, Macresh, Kainardzha, Dospat, Hikola Kozlevo and Opaka.

<sup>56</sup> In the Orshansky method, the poverty threshold is assessed by multiplying the established average food expenditure per person by an exponent, reached through geometric averaging of the ratios of total expenditure and food expenditure for each household. The formula can be presented in the following way:  $PL = E \times K$ , where PL – poverty threshold; E – food expenditure per person in the household; K – coefficient (exponent) reached

- *The consumer basket method.* This method is used by ISTUR (1998-2005),<sup>57</sup> whereby the absolute poverty line is calculated on the basis of 77 vital goods and services, included into a consumer basket of limited consumption, which are subject to costing after a three-month monitoring of consumer prices. The method is strongly reactive to inflation. The data show that after the period of economic recovery (after 1998) the relative share of households under the absolute poverty line varied between 30 and 40% (Tomev, 2002).

A recent UNDP survey<sup>58</sup> showed that in terms of living standards and access to social services the Roma fell far behind both the national average and the majority population living in close proximity:

- Five times more Roma live below the poverty line (\$4.30 PPP) than do the majority population (51% compared with 11%).
- Around 13% of the Roma live in extreme poverty (\$2.15 PPP per day poverty line) compared with 1% of the majority.
- The poverty gap for the Roma is about three times higher than that of the majority (17% compared with 6% of the majority).
- The Roma have a higher share of unpaid rent, electricity and water bills compared with the majority. The Roma owe on rent 2.6 times and in electricity bills about twice what they earn in a month.
- Seven out of ten Roma cannot afford prescription drugs, while three out of ten among the majority cannot afford them.

The differences in the poverty rate, estimated according to the absolute and the relative methods reveal that the estimates for each and every case should take into consideration some of the national characteristics of Bulgaria:

- a high relative share of the informal economy and incomes arising out of it (according to different estimates it ranges from 22 to 31.2% of GDP) (CSD, 2004);
- the comparatively large share of expenditure on food out of the total household budget – 44.1% in 2000 and 38.6% in 2005 (NSI, 2005);
- low levels of consumption per person in the household of major groups of foodstuffs, e.g. consumption that is two to three times less of meat and meat products, fish and fish products, milk, sugar and potatoes in comparison with the EU-10 (NSI, 2003); and
- a comparably high share of incomes and consumption in kind including self-produced items (representing about 20% of the total income), especially in the case of households in rural regions and small cities (NSI, 2005).

No less important are the methodological peculiarities typical of the different poverty lines. As a rule the relative poverty lines use equivalent scales (for Eurostat 1-0.5-0.3 and for the OECD 1-0.7-0.5), while the absolute poverty lines use a per capita basis.

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through geometric averaging of the ratios of total expenditure and food expenditure for all households in the survey.

<sup>57</sup> See the Institute for Social and Trade Union Research.

<sup>58</sup> See UNDP (2005).

## 5.2 The role of subsistence agriculture in poverty alleviation

The consumption of foods from subsistence agriculture is an important resource for many households in Bulgaria. On average almost 22% of the household food consumed is from a household's own production (World Bank, Bulgaria Poverty Assessment, 2002). Nevertheless, poor households used their own products less than those who are not poor. This paradox reveals one of the main characteristics of poor households in rural regions – their inability or impossibility to develop their own household plots in order to satisfy their needs. About 57.5% of households in the country owned land and among 80% of those at least one household member is engaged in agricultural production (NSI, Bulgaria: Challenges of Poverty, 2003). The problem is that barely 4.8% of these households owned agricultural equipment (for poor households the share is lowest at 1%). This makes their activity unprofitable and productivity low. Therefore, most are satisfied with the land they own and only 3.4% cultivate rented land.

Livestock breeding is usually practiced by households above the poverty distinction (34.2%) rather than by the poor (28.2%). In most cases this production satisfied a household's needs. Households tend to keep it at this level, as producers are unable to market such agricultural production owing to higher sanitary/hygiene requirements and other trade limitations.

Data show that for the most part subsistence agriculture is viewed only as a tool for supplementing income and thus some households are lifted out of the poverty zone, but others remain there. In poor households the income by own activities is 13.5% of total income. Yet for them such incomes have the added function of supporting physical survival, because the rest their income – from the social protection system (49.7%) and labour activity (36.8%) – does not guarantee a level of consumption to bring out them poverty (NSI, Bulgaria: Challenges of Poverty, 2003). More specifically, the role of subsistence agriculture in poverty alleviation is obvious, but not as a substitute for social protection and the labour market.

Some additional light on ethnic variance is shown by the findings of the UNDP study on the Roma and the majority of persons living in close proximity to them:<sup>59</sup>

- Growing food was not reported to be an important coping strategy for the majority of the Roma, including those who actually own land. While on average 32% of the majority households use any arable land for agricultural purposes, among the Roma this percentage is only 7%. In both cases the predominant share of respondents are using their own arable land – 83% of the majority and 64% of the Roma. Rented land use represented only 7% of the majority population and 25% of the Roma.
- The majority households produced considerably more varied kinds of food products for home consumption compared with the Roma. The difference in the range of products is by about two to three times and is determined by household resources as well as by some characteristic features of the living standards and Roma culture (*Table 9*).

*Table 9. Relative share of households that produce and grow food for home consumption*

Food products/households	Majority living in close proximity to Roma	Roma	Total
Meat and meat products	22%	8%	15%
Milk and dairy products	15%	5%	10%
Fruits	38%	12%	25%
Vegetables	40%	19%	30%

Source: UNDP (2005).

<sup>59</sup> See UNDP (2005).



- As a rule, arable land use is combined with small land size: 45% of the majority and 61% of the Roma population use from 1 to 10 hectares. Only 16% of the majority and 19% of Roma owned over 100 hectares of arable land. Therefore, production is almost wholly for own consumption as indicated by 90% of the majority and 96% of the Roma. A volume of sold products over the amount of €50 monthly was reported by only 3% of the majority households and 1% of Roma households.
- The market price assessment of the production for own consumption is also low (averaging €49.10 a month for the majority households and €37.70 for the Roma households). Thus, for the Roma it does not even cover the food component of the poverty line, which is €42.76 per equivalent unit (with the poverty line for 2005 at €77.75 monthly per equivalent unit according to the Eurostat method). More specifically, in order to pass out of the poor zone, these households need to increase their income by a sizable amount (depending on the size of the household) through social protection or by labour market participation.

### 5.3 Access to goods and services

A major element in the assessment of poverty and living standards is the system of non-monetary indicators for access to goods and services. An important component of this system is the access of households to public utilities, which is in direct relationship with the quality of housing. An important feature characterising the quality of housing is the year of construction or the average age of the dwellings. In Bulgaria 31.6% of all dwellings are over 40 years old. The proportion of houses built after 1990 is only 7.5%, and the number built after 2001 was a mere 0.4% (NSI, 2002). The situation with regard to supply of water and electricity is much better. In practice, almost the entire population has access to water and electricity: the percentage of households with electricity is 99.8 and that with improved water sources is 93.9. The problem here, however, is connected with the quality and reliability of the water mains and the electrical network. Most of the infrastructure is out of date; it does not meet growing demand and needs to be replaced.

Another important problem relates to the introduction of Directive 2002/91/EC on the energy performance of buildings.<sup>60</sup> The issue of energy efficiency is growing more significant. On the one hand, the price of the energy sources is a heavy burden for household budgets, and on the other hand there is a global effort to save energy in the context of sustainable development, with heating absorbing 70% of the total non-industrial energy consumption. The share of homes with central heating is only 12.7% in 42 cities. At the same time, the relative share of households living in dwellings with a gas supply is only 0.1% (Energy Efficiency Agency, 2005). The government is planning that by 2010 the share of households using gas will grow by 30%, but this will in no way lead to dramatic changes in the attitudes towards the use of environmentally clean energy sources (Government of Bulgaria, 2005). The overwhelming majority of households use electricity and solid fuel for heating. In cities nearly 40% of all households use electricity as a major or additional source of heating and for 29.3% electricity is the only source. In villages the relative share of inhabitants using electricity for heating is about 10%, while the remaining 90% use solid fuel, either wood or coal.

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<sup>60</sup> Directive 2002/91/EC of the European Parliament and the Council of 16 December 2002 on the energy performance of buildings, OJ L L1/65-L1/71, 4.1.2003.

Some 89.9% of households have internal sewage systems, but only 40% of the population is effectively using the central sewage infrastructure owing to the fact that the collection systems are not fully functioning or such systems are lacking. In the settlements as a whole there are only 61 waste-water treatment plants.

Central garbage collection is used by 82% of households. The National Waste Management Programme for the period 2003-2007 adopted by the Council of Ministers includes all necessary investment activities for the country to build the needed waste-treatment infrastructure and achieve European standards.<sup>61</sup>

The access of the Roma to utilities is problematic. This situation is very much associated with the dilapidated dwellings they inhabit and the construction of these on unregulated plots of land. The latest UNDP survey<sup>62</sup> shows that the levels of housing deprivation for Roma households are much higher than for the majority of households living in close proximity:

- The total living space in Roma households measured per household member is half that of the majority populations surveyed (15 compared with 34 m<sup>2</sup>).
- As much as 33% of the Roma do not have access to secure housing (they live in ruined houses and slums) compared with 4% of the majority.
- In terms of accessed to improved sanitation, 81% of the Roma do not have an indoor toilet and bathroom and 10% do not have an improved water source (piped water inside or in the yard) compared with 26 and 0.2% of the corresponding majority population.

A specific difference between rural and urban poverty in Bulgaria is the access to some goods and services, which underlies some of the internal migration from villages to cities. A large number of villages are situated in remote mountain regions. They usually have a small number of inhabitants, with 46% of villages comprised of 200 persons or less and 2.8% of them have been completely depopulated (NSI, 2004 and 2005). With regard to access to goods and services, a typical example concerns pharmacies. While 100% of towns have access to pharmacy services, in 91.1% of the villages there is no pharmacy (nor are there pharmacies in 87.5% of the settlements in the country on average). The relative share of the population without access to a pharmacy, however, is only 18.8%, owing the fact that 70% of the population live in towns. The low level of coverage in the villages stems from the requirement that pharmaceutical services can only be delivered by master pharmacists. In addition, the factor of economic profitability (which would be too low in the villages with a small number of inhabitants) should not be ignored. As a rule small villages are served by the nearest administrative centre.

Access to telephone services has greatly improved over the past 15 years. While in 1985 only 39.3% of all households had a telephone line, by 2001 their percentage went up to 72.5% (78.2% in the cities and 60.3% in the villages) (NSI, 2001). The rate is much lower for Roma households, at only 12.4%. With the entry of mobile phone operators (currently three) demand is increasingly oriented towards them. In March 2004, 45.7% of all households had a mobile phone (without access to the Internet) and 11.5% of all households had mobile phones (with Internet access). A major extension of the coverage of the stationary telephone network is hardly to be expected. The efforts of the telecommunications company, which was privatised two years ago, are mainly focused on improving the quality of services. At the end

<sup>61</sup> The NSI and National Waste Management Programme for the period 2003-2007 was adopted by the Council of Ministers on 11.12.2003.

<sup>62</sup> See UNDP (2005).

of 2005 the EU requirements for digitalisation were met (an average of 67%) in the 27 regional centres wherein 90% of the urban population lives. Nevertheless, only 45% of the national telecommunications system is digital (BTC, 2005). The access of households to the Internet (9.6%) is still limited compared with other European countries, but official NSI data indicate that changes are underway (NSI, 2004). The growing coverage is also supplemented by new possibilities to use the Internet at work, at school, at Internet clubs, etc. These findings are echoed by the most recent *e-Bulgaria 2005 Report*:<sup>63</sup> a) the share of Internet users in the country has increased by some 50% since 2004, reaching 24% of the population aged 15 and over. The projections suggest that by 2007 half of the population will be using the Internet; b) year 2005 marks a transition from low-speed dial-up connections (two-thirds of connections in 2004), to high-speed LANs and cable networks (two-thirds of connections in 2005). Despite significant improvements, the *e-Bulgaria 2005 report* also outlines disturbing socio-economic distinctions in Internet use, which may have a negative long-term impact. For example, only 2% of the Roma population and 5% of the ethnic Turkish population are reported to use the Internet. These distinctions can be explained by socio-economic factors and lower access to computers in homes and schools in these communities.

#### 5.4 Work-life balance

The need to strike a balance between work and family life reflects the changed nature and conditions of work, improvements in living standards and environments, and access to a wider range of services. Yet ultimately these factors come down to how time is allocated. The major findings of the most recent survey of the NSI<sup>64</sup> of how individuals apportion time (carried out in 2001-2002 and covering persons aged 7+ in 3,132 households), revealed:

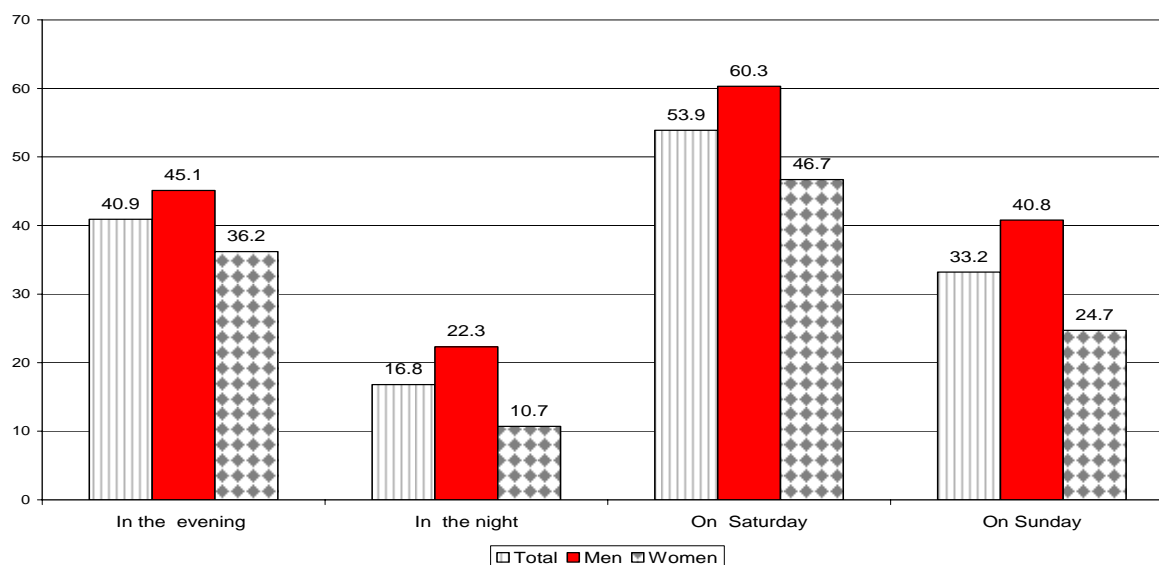
- The time spent on sleeping and catering has grown by 26 and 53 minutes per day respectively, compared with the previous survey in 1988.
- The average time per day spent by an individual on his/her basic job is 471 minutes (nearly 8 hours), compared with 412 minutes (6 hours and 52 minutes) back in 1988. This growth of the time spent on the core job can be explained on the one hand by the changes in the status of employment (self-employment, with unfixed working hours), and on the other hand by the fact that the established length of work of some types of employment is not observed. Men work on average 40 minutes longer than women do (490 and 450 minutes respectively).
- For a part-time job the time allocated is 281 minutes a day and in this case women work longer – 303 minutes per day (5 hours) on average, compared with 4 hours and 22 minutes in the case of men.
- Individuals who have paid work without an employment contract (informal employment) spend on average 64 minutes per day on it (61 minutes by men and 68 minutes by women).
- Women spend an average of 278 minutes per day on domestic work (nearly 4 and a half hours), while the figure for men is 149 minutes (2 hours and 29 minutes).

<sup>63</sup> For details, see <http://www.vitosharesearch.com>.

<sup>64</sup> For further information on the survey, see <http://www.nsi.bg/Census/TimeUse.htm>.

The above findings give a more realistic picture about the gender differences with regard to employment and domestic work. The official data of the LFS (NSI, 2001-2005) on the average length of the normal weekly working hours indicate just minor differences in terms of both dynamics and gender, varying in the margins of 40.6 to 40.9 hours for women and respectively from 41.1 to 41.3 hours for the men. An additional module of the LFS in 2004 presents interesting information about individuals who have non-typical working hours (Figure 14).

Figure 14. Employed persons working non-typical hours by gender in 2004 (%)



Sources: NSI, LFS, Module “Work organisation and working time” (2004).

The high rate of employment of Bulgarians in jobs with ‘non-social’ working hours, i.e. in the evenings, at night and during weekends, is a considerable obstacle to finding an acceptable balance between work and family life. This holds true for both men and women, despite the fact that the total number individuals in such circumstances is relatively small. Within Europe, Bulgaria has one of the highest rates of working persons who report that they have difficulties in reconciling work and family life. The share of employed persons who have difficulties reconciling work and family life several times a week is as follows (EQLS,<sup>65</sup> 2003):

- too tired to do household jobs 37%
- difficulties in fulfilling family responsibilities 20%
- difficulties in concentrating at work 6%

Usually this situation has spillover effects in terms of social contacts and personal life, as the care for family is always a priority. The proportion of persons reporting that they spend too little on the following activities is reported below:

- contact with family members living in this household or elsewhere 25%
- other social contacts (not family) 50%
- own hobbies/interests 56%

<sup>65</sup> The European Quality of Life survey (EQLS) was carried out by the European Foundation for the Improvement of Living and Working Conditions in May-August 2003.

What is interesting for Bulgaria is that working parents with children under the age of 4 have fewer difficulties in reconciling work and family life compared with all other working persons (European Foundation for the Improvement of Working and Living Conditions, 2003). This finding may in part be explained by two factors. On the one hand, there is a well-developed system of childcare facilities – kindergartens and nurseries and comparatively easy access to them. On the other hand there is the traditional co-existence of several generations in the household, which implies that other household members, mostly grandparents, are involved in the upbringing of the children.

These findings are also confirmed by the findings of the above-mentioned additional module “Work-life balance”, included by the NSI in the LFS in 2005. When the parents are at work, childcare is provided by relatives (for free) (27.6%), no one (26.8%), the spouse living in the family (25.0%), a childcare facility (19.9%), neighbours/friends (for free) (0.4%) or a paid carer (0.4%). To some extent this explains why 89.3% of parents are unwilling to cut their working hours in order to look after their children. Yet the lead motive to work more is to make more money, bearing mind that most of the families with young children in Bulgaria experience financial difficulties.

The possibilities for greater flexibility in reconciling work and family life are also connected with possible changes in the start and termination of working hours. As the findings of the same survey reveal, however, only one in four persons may count on such flexibility.<sup>66</sup> Much the same is the situation with respect to the possibilities to take a day off for family reasons. Flexible working schemes are not yet popular in the country, which does not allow a better reconciliation of work and family. Furthermore, there is an urgent need to introduce such schemes in education, occupational training, recreation and entertainment, etc. The introduction of schemes such as annual working-time accounts will help to promote flexibility at work while guaranteeing social security and respecting family and individual values.

The possibility to choose how to achieve an optimum balance between work and family life, social contacts and leisure time comes as a result of financial security and living standards, but also through the value system and awareness of one’s individual needs. Very interesting in this respect are the findings of an empirical study that also reveals specific gender characteristics associated with this issue (*Table 10*) (Agency for Social Analyses, 2005). *Table 10* reports the responses to the survey query in which respondents were asked to imagine that they could change the way in which they spend their time, by dedicating more time to particular activities and less time to others. They were then asked to list the activities on which they would spend more time, less time and the same time as now.

*Table 10. Respondents’ preferred allocation of time by gender (%)*

	Much more time			A little bit more time		
	Total	Men	Women	Total	Men	Women
Work for payment	33.7	37.7	31.3	13.7	14.1	13.5
Domestic work	3.7	2.8	4.2	10.2	7.7	11.7
Family	16.7	15.7	17.3	23.8	21.8	25.1
Friends	9.4	9.8	9.1	27.0	25.8	27.8
Leisure	12.0	10.5	13.0	26.0	25.1	26.7

*Note:* The results for the first two variables are presented only – ‘much more time’ and ‘a little bit more time’.

The rest include ‘the same as now’, ‘a little bit less time’, ‘much less time’, ‘don’t know’ and ‘no answer’.

*Source:* ASA (2005).

<sup>66</sup> See the NSI (2005) Labour Force Survey Module, “Work-Life balance”.

About one-third of all respondents would work much more time, which is quite natural in terms of the relatively low living standards of Bulgarians and the situation in the labour market. In this respect men are much more categorical, but we should not ignore the comparatively high share of the women who would like to work more for financial gain. As regards the choice in favour of more time for the family, more time for domestic work and more time for leisure activities, women hold predominant shares. With respect to the willingness to have more time for friends, there are no gender differences. However, the very fact that a considerable number of the respondents were eager to change the way they spend their time is rather indicative; in other words, they were aware of the need to optimise their work-life balance.

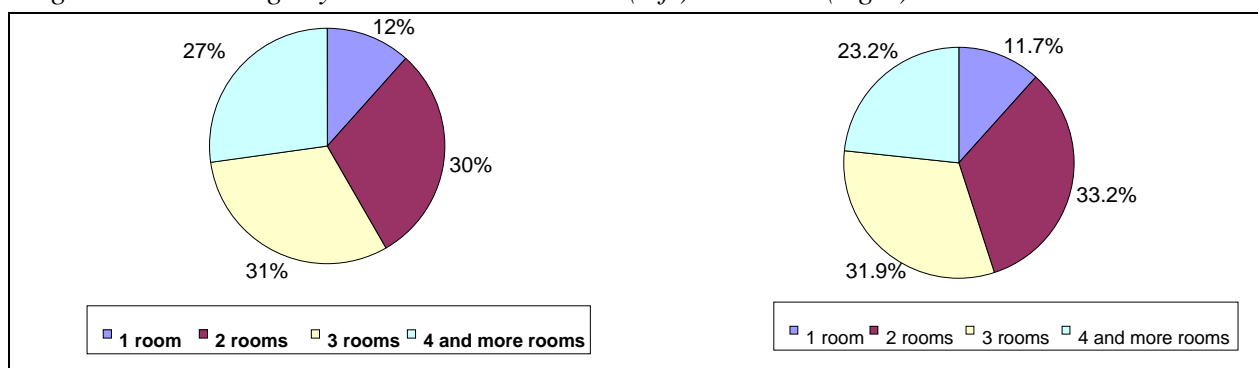
## 5.5 Housing and the local environment

The housing space per person has continually grown, rising from 16.9 m<sup>2</sup> in 1995 to 19.7 m<sup>2</sup> in 2005 owing to the acceleration of construction and the decrease of the population.<sup>67</sup> As for the number of rooms per person (1.3), Bulgaria is a little ahead compared with the new EU member states (1.1), but falls considerably behind the EU-25 (1.8). In social terms the data on housing reveal the following three important characteristics for Bulgaria:<sup>68</sup>

- There is little connection between housing space and income (the ratio in the housing space of the richest and the poorest is 1.4:1.2).
- Young households have less housing space compared with older households (0.9:1.6).
- Rural households have more housing space compared with urban ones (1.4:1.2).

The distribution of housing in terms of the number of rooms shows that two- and three-room dwellings prevailed in 2004, at 33.2% and 31.9% respectively (*Figure 15*). The trend in the past 10 years has been towards growth in the relative share of the two- and three-room dwellings, at the expense of declines in four-room dwellings. There are on average 477 dwellings per 1,000, i.e. the average number of persons living in one dwelling is 2.1 (NSI, 2004).

*Figure 15. Dwellings by room number in 1995 (left) and 2004 (right)*



Source: NSI, *Statistical Yearbook*.

<sup>67</sup> See the NSI, *Statistical Yearbook*, 1995-2005.

<sup>68</sup> See EQLS (2003).

The structure of ownership reveals an extremely high relative share of private ownership – 85%, compared with 66% for the EU-10 and 42% for the EU-25. Furthermore, data from the last census in 2001 indicate that 91.3% of all Bulgarian households live in their own home. It should be noted that there is a small correlation between ownership and the level of incomes (84% of those in the lowest income group own their dwellings, compared with 85% in the highest income group). But the quality of the housing stock is lower compared with the EU-10, and dramatically lower than in the EU-25<sup>69</sup> (*Table 11*).

*Table 11. Basic facilities of accommodations – Proportion of households that declared problems with accommodation (in %)*

	Bulgaria	EU-10	EU-25
Shortage of space	21	24	18
Rot in window, doors or floors	19	25	11
Damp and leaks	25	19	13
Lack of indoor flushing toilet	30	10	3
At least two problems	26	22	11

*Source:* EQLS (2003).

The worse standards in quality are due to the fact that the dwellings are out of date and not maintained (quality construction with modern technologies and insulation materials has only been underway in the past five to six years). Also, there are insufficient funds to make housing environments cosier: 55% of households cannot afford sufficient heating, while for the EU-10 this share is 23% and for the EU-15 only 7%. Relative housing expenses have continued to rise (*Table 12*). This trend has especially been strong in the past four years, during which the government started up a programme to increase the prices of electricity and heating on an annual basis, with the purpose of improving the financial stability of energy firms and ending state subsidies.

*Table 12. Relative housing costs (housing, water, electricity, gas, other fuels, furnishing and maintenance of the house) as a % of the total expenditure of households*

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
11.3	12.6	11.5	13.4	15.2	15.1	15.0	16.6	17.4	17.0	17.3

*Source:* NSI, Household Budgets in the Republic of Bulgaria.

As a result of the above problems, the degree of satisfaction with housing in Bulgaria is among the least in Europe, ranking at 6.4 points on a scale of 10. For the EU-10 the satisfaction figure is 6.7, for the EU-25 and EU-15 the figures are 7.5 and 7.7 respectively. The satisfaction rates are highest among older persons (6.9), while for younger ones it is 6.3. The rich in Bulgaria are 1.2 times more satisfied with housing than are the poorest (European Foundation for the Improvement of Working and Living Conditions, 2003). The quality and security of the environment is another factor determining the satisfaction with living conditions. It is worth noting that the satisfaction of Bulgarians is not radically different from EU citizens as a whole in this respect. Some 28% of the population report they are not satisfied with the quality of water, 23% are not happy with the air quality and 18% are unhappy about the noise and lack of green areas. The proportion of respondents who complain about at least two problems concerning the quality of the local environment is 24% for Bulgaria, compared with 21% for the EU-10 and 19% for the EU-25 (*ibid*). The following peculiarities are specific to Bulgaria as regards complaints about the local environment according to social group:

<sup>69</sup> *Ibid*.

- Young persons are more critical of the environment.
- Those living in the urban regions have more complaints compared with those living in rural regions. Most dramatic are the differences with respect to air pollution (3.7 times), noise (3.6 times), and water quality (2.7 times).
- There is a small correlation between incomes and the percentage of those who complain about the local environment. The differences in the percentage of complaints from the highest and lowest quartiles are in the range of 1.1-1.4 times for the different variables.

The feeling of safety is another important element of overall living standards. It is determined not only by the location of residence but also by objectively created conditions and civil order for the safety of citizens. The comparative data on the indicators characterising the safety of neighbourhoods show that the situation in Bulgaria is similar to that in the EU-10 and candidate countries, yet much different to that in the EU-15.<sup>70</sup>

- The percentage of individuals aged 18 and over who think that it is very unsafe or rather unsafe to walk around the area in which they live at night is 61%. In the EU-10 and candidate countries this figure is 65% and in the EU-15 it is 79%.
- The percentage of individuals aged 15 and over who agree or strongly agree that there is a lot of vandalism and theft in their area is 20%. For the EU-10 and candidate countries and the EU-15 these figures are 18% and 13% respectively.
- The share of persons aged 15 and over who are within 20 minutes or could walk to the nearest police station in Bulgaria is 68%. For the EU-10 and candidate countries the share is 68% and in the EU-15 it is 74%.

The quality of the living environment is also characterised by access to specific goods and services and the established service infrastructure in terms of distance from housing. Comparative data show that in some core indicators the availability and access to grocery stores and childcare facilities in Bulgaria is above the level in the EU-10 and candidate countries and the EU-15, but as a whole (with some exceptions, notably cash dispensers) the situation is similar to that in Europe (*Table 13*).

*Table 13. Physical distance from services – Proportion of persons aged 15 and over who live within walking distance or within 20 minutes of the nearest service*

	Bulgaria	EU-10 and candidate countries	EU-15
Cash dispenser	76.8	78.7	90.9
Cinema	45.0	42.4	51.0
Supermarket or grocery store	99.8	95.7	95.4
Nursery or kindergarten	85.1	78.4	73.7
Primary school	86.0	87.2	87.4

*Source:* EurLIFE database (2002).

In summary, in Bulgaria the score for life satisfaction is just 4.5 points (on a scale of 1 to 10, wherein 1 is very dissatisfied and 10 is very satisfied). This score is low in comparison with an average of 7.1 points for the EU-25 (European Foundation for the Improvement of Living and Working Conditions, 2006).

<sup>70</sup> See the EurLIFE database (2002).



## 6. Tax/benefit systems and policy approaches

### 6.1 Institutional system for social protection

#### *Institutional structure*

The Ministry of Labour and Social Policy (MLSP) develops, coordinates and implements Bulgaria's national policy in the sphere of the labour market, vocational training, incomes and living standards, industrial relations, health and safety at work, social insurance and social assistance. Agencies of the MLSP – the Employment Service, the Social Assistance Service and Labour Inspectorate – oversee active labour-market programmes, social assistance and family benefits and labour regulations. Private providers of social services are registered with the MLSP. In 2006 the public register comprised 601 non-governmental organisations (NGOs), which managed private social institutions, social canteens, provided meals on wheels, etc.

The National Social Security Institute (NSSI) is a public organisation that implements social insurance policy and has administrative responsibility for its mandatory provision, e.g. for old age benefits, disability and survivors' pensions, unemployment benefits, sickness and maternity benefits, along with those associated with accidents at work and occupational diseases. Since 1997, the NSSI has been an autonomous institution, subordinated to the parliament. The consolidated budget of social security funds has been adopted as a specific law, separately from the State Budget Act. The Ministry of Health is the main actor in the sphere of healthcare. Until 1998 the administrative organisation of the health system in Bulgaria copied the so-called 'Semashko model', e.g. state ownership of health institutions and financing through the government budget. The Health Insurance Act (1998) established the National Health Insurance Fund (NHIF), which is responsible for the development, operation and management of the health insurance scheme<sup>71</sup> in Bulgaria.

#### *Centralisation and decentralisation*

The social protection system is administrated by the central government. The above-described implementing agencies have local branches that cover at least all 28 districts of the country (NUTS III) or most of the municipalities in cases where more active contacts with beneficiaries are needed (e.g. with social assistance and labour offices).

In the period 1990-2001, there were attempts to run the social assistance system in a decentralised way. The social assistance system was a function of the local governments. The central government (through the MLSP) had a supervisory role. The dual subordination of the system complicated its administrative structure, which was spread across 280 municipalities in the country.

The financing of social assistance was provided by the local budget. It included own revenues, such as half of income tax and some local taxes, as well as block grants from the central government negotiated annually according to the local priorities and expected social expenditures in the municipalities. For the most part, the municipalities were not able to cover the rising needs for social assistance, owing to growing long-term unemployment and poverty. In more than half of the municipalities 'municipal dept' emerged in social assistance funding. This situation entailed the delay or reduction of benefits allowed by the Municipal Social Assistance Office because of the lack of resources in the local budget. Recognising this problem, in 1999 the government applied a new co-financing mechanism, which aimed at

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<sup>71</sup> This scheme is based on the Bismark model.

matching central and local responsibilities in a poverty alleviation policy. Accordingly, through this mechanism half of the planned local expenditures for monthly benefits and child-support payments were reimbursed by an earmarked subsidy from the central government and half continued to be paid by the municipalities. The co-financing did not lead to an improvement of coverage, however. In 2001 the municipal deficit of allowed but unpaid benefits reached 18% of the local budgets for social assistance.

Consequently, in 2002 the administrative structure of the social assistance system was centralised under the auspices of the MLSP. Since that time all social assistance benefits have been financed from the central budget through an earmarked subsidy.

In principle, decentralisation in social assistance is considered more flexible with regard to regional differences in income, employment, ethnic structure and other risks, which determine the level of poverty in the different settlements. The municipalities are closer to the social needs of the population and may adjust the interests of tax payers and beneficiaries in a better way than the central authorities. Yet in Bulgaria these advantages of decentralisation were not manifested. On contrary, coverage before the centralisation reached its lowest level (45% of all eligible households), owing to the restricted public expenditures and the high level of inequality among the municipalities.

At present the municipalities are responsible mainly for maintaining social services (day care and residential institutions for children at risk, the elderly and disabled persons) and the central government is responsible for the provision of cash social-assistance benefits. Local governments are partially involved as stakeholders in the development of public work programmes, particularly those targeted at long-term unemployed persons who are entitled to social assistance benefits.

In 2003 the government launched an extra-budgetary fund called 'Social Assistance', aiming at subsidising NGOs as partners in policy to prevent social exclusion. At present the fund plays a very limited role with less than 1% of total public spending on social assistance.

NGOs in the sphere of social assistance are represented mainly in the larger cities. Most of their activities are sponsored by foreign donors and run for a limited period. Their participation in a large number of small projects is an obstacle to coordination among the NGOs. There are many cases of duplicate projects (mostly for the provision of humanitarian aid or training), and at the same time there are particular needs and vulnerable groups or regions that remain uncovered.

### *Organisation and financing*

The financial organisation of social protection differs for the three subsystems: state social insurance, health insurance and social assistance. *Figure 16* illustrates the existing social protection schemes by type of financing (contributory and non-contributory).

Figure 16. Architecture of Social Protection in Bulgaria

Administration	Risks covered				
National Social Security Institute	Pensions (old age, disability, survivors)	Non-contributory pensions	Unemployment benefits	Sickness and maternity benefits	Accident at work and occupational diseases
Second Pension Pillar	Universal and professional pensions				
Ministry of Health & National Health Insurance Fund	Health insurance		Public healthcare (emergency, immunization, social diseases, work expertise)		
Employment Agency	Training	Subsidies for employment	Public work programmes		
Social Assistance Agency	Benefits for low-income persons	Family benefits		Disability benefits	
Local Social Services	Day care		Social institutions		

Legend: Contributory Noncontributory

The state social insurance fund was separated from the government budget in 1995. Later, in 1999, the Social Insurance Code implemented comprehensive reforms by establishing individual social insurance funds run by the NSSI, e.g. benefit funds for unemployment, pensions, sickness, maternity, accidents at work and occupational diseases. Each fund is financed by a separate pay-roll tax. The state budget participates through earmarked transfers for non-contributory benefits, e.g. social pensions. Alongside this the state budget provides subsidies for compensating the deficit. The separation of the social insurance budget from the state budget led to greater fiscal transparency and increased public confidence and compliance rates. The NHIF is also funded by pay-roll tax. Emergency care and some national programmes for public health, including the state sanitarian control, anti-epidemic measures, health promotion and prevention programmes for socially significant diseases are financed directly by the government budget. The social assistance system is financed by general tax revenue, i.e. an earmarked subsidy for cash benefits and local taxes for social services. Despite the existence of different sources of financing, the social insurance system in Bulgaria is based on common principles, i.e. mandatory participation, solidarity, equality and tripartite management.

The Social Insurance Code (1999) provides for differentiation among the categories of insured persons according to the number and types of social risks they have as well as their employment status:

- *Compulsorily insured for all social risks.* This group is the largest covered by the scheme, which is characterised by broad and comprehensive insurance protection bearing in mind the performance of labour activity in a permanent manner and the regular incomes received from it. This group includes persons working under employment relationships and other similar circumstances in terms of their durability and subordination to a certain order, including workers and employees, civil servants, military personnel, members of cooperatives receiving labour remuneration and executors under contracts for management and control of commercial companies.

- *Compulsorily insured for disability, old age, death, accidents at work and occupational diseases.* This category concerns workers and employees with one or more employers short-term or periodically (for not more than five working days in the calendar month). Up to 1 January 2002 this group was insured solely for accidents at work and occupational diseases and completely at the expense of the employers. The last amendment to the Code also provided them with the opportunity to accumulate pension entitlements.
- *Compulsorily insured for disability owing to general disease, old age and death.* This category covers self-employed persons, e.g. freelance professionals, craftsmen, sole entrepreneurs, owners or associates in commercial companies and farmers. Self-insured persons may enlarge the scope of social risks and by their own wish obtain coverage for general diseases and maternity.

The above three categories are covered by a universal system of state social insurance and differ only by the scope of risks covered.

## 6.2 Recent and planned institutional reforms in social protection

### *Three-pillar pension model*

A new three-pillar pension model was introduced in 2000, including a mandatory pay-as-you-go public scheme, a mandatory fully funded scheme and a supplementary voluntary scheme (Social Insurance Code, 1999). The establishment of the public-private mix in 2000 was oriented towards the redistribution of the insurance risk between different pillars and improvement of the financial balance of the system. The compulsory pension insurance (second pillar) is implemented through capital funded pension schemes accumulated and capitalized on individual pension accounts. The institutional scheme envisages two independent legal entities– universal and professional funds, which are established and managed by licensed insurance companies. The scope of the second pillar is narrower than that of the first pillar and covers only the risks of old age and survivors. The personal scope is also more limited and includes two categories:

- The compulsorily insured in a professional pension fund covering only the workers under the conditions of first and second labour category /the so called “risky” labour/ with the aim of getting entitled to a fixed-term professional pension for early retirement which precedes the old age pension without cumulating with it. The number of insured persons under these categories is 182,000. The contribution rate is 12% for 1<sup>st</sup> category and 7% for 2<sup>nd</sup> category of labour and it is paid by employers only (Social Security Budget Act, 2006).
- The compulsorily insured in a universal pension fund covering all insured under the first pillar born after 31 December 1959. This scheme targets more than 2.2 million persons. At present the contribution rate is 4%. The implementation of supplementary universal pension insurance does not increase the total fiscal burden for the insured persons. For example, in 2006 the current 23% pension contribution for the persons born after 1959 is divided between the first pillar with 19% rate and the universal funds with 4% rate (Social Security Budget Act, 2006).

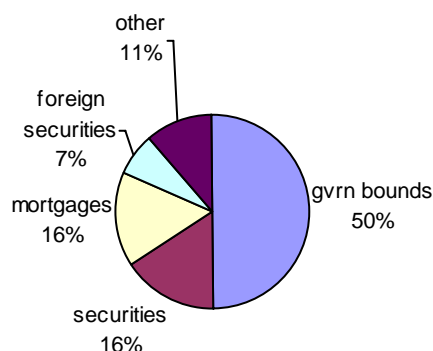
The supplementary voluntary pension insurance is the third element of the Bulgarian pension system based on the capital funded principle. It ensures a fixed-term personal pension for old age or disability and also a survivor’s pension in case of death of the insured person,

respectively the beneficiary. The primary aim is the creation of opportunities and conditions for raising the social protection of the population through participation in saving-investment schemes for voluntary pension insurance. The additional objectives of the voluntary pension insurance are promotion of savings, stimulation of social initiatives of employers, targeting of financial instruments of mass privatisation to the voluntary pension funds etc. Voluntary insurance contributions could be paid by the insured person, independently or along with the employer, as well as only by the employer without participation of the insured person. The supplementary voluntary pension insurance is implemented through cash insurance contributions at rates that have been agreed upon, which are monthly, or for other period and also through a single purchase of pension rights and investment bonds. All contributions for the voluntary funds are tax exempted.

The fully funded pension insurance (second and third pillars) is organised and administered by licensed insurance companies (eight companies in 2006), which have the right to establish legal persons such as the voluntary pension funds to manage their assets, to conclude insurance contracts, to collect insurance contributions and to pay the pensions of the insured persons.

In 2005 the total amount of assets in the second and third pension pillars reached 1.1 billion BGN (2.6% of GDP). The assets of the private pension funds may be invested in government bonds, securities admitted for trading at regulated stock markets, municipal bonds, bank deposits and real estate and mortgages. The assets structure is presented on *Figure 17*. In 2006 the rules for investment portfolios of the private pension companies have been changed in favour of assets diversification. Limitations for investment in foreign securities have been revised according to the European acquis for free movement of capital.

*Figure 17. Structure of assets of private pension funds, 2005*



*Source:* Financial Supervision Commission.

### *Healthcare reform*

The legislation reforming healthcare started with the adoption of the Health Insurance Act (1998) and Health Institutions Act (1999). The transformation of property over health institutions and the inclusion of health insurance payments against effectuated health services under contracts with the National Health Insurance Fund (NHIF) allowed creation of a regulated market, to set instruments for competition improvement of quality of services and better management of the health resources.

Starting in 2000 the financing of outpatient medical care by the NHIF came into force. The general practitioners and private institutions for curative care act according to conditions and package of activities defined by a National Framework Contract signed between the professional organisations and NHIF. In 2001 the health insurance financing was introduced for hospital establishments as well, but only for limited part of their activities. Until 2005 hospitals continued to receive the main part of their revenue from budget subsidies depending of type of ownership (central government budget for state hospitals and local budgets for municipal hospitals). At present, 9 years after the start of the reform, hospital institutions are not restructured and many ineffective institutions are still providing services keeping relatively high number of medical staff and beds. The main deficit of ongoing reform is the delayed structural changes in hospital care and lack of informational system.

#### *Improving targeting in social assistance*

The latest World Bank research shows that social assistance system is largely ineffective in poverty alleviation (World Bank, 2005). The main critics are related to the duplication of programmes and the cases of wrong targeting. The recommended reforms include the following:

- Consolidating the social assistance system moving towards income support mechanisms
- Training social workers to better identify poor households
- Improving information system to facilitate means testing and to reduce the payment of duplicative benefits
- Expanding communication activities so as to inform beneficiaries about eligibility criteria and application procedures

#### *National Revenue Agency*

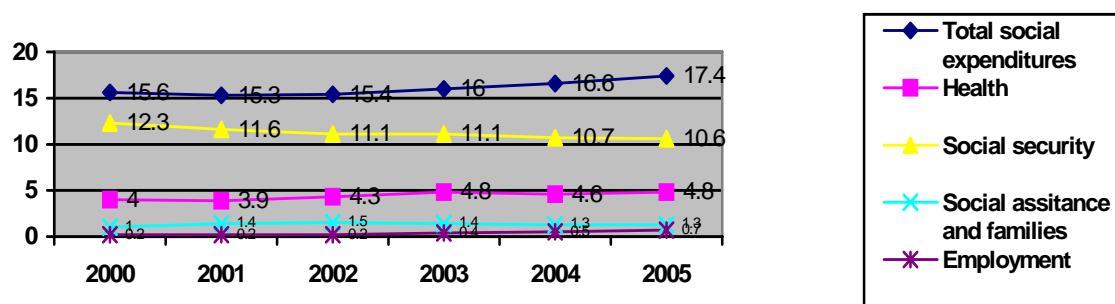
In the beginning of 2006 a new institution started functioning: National Revenue Agency. It collects all taxes under the national budget, as well as all social insurance contributions, collected until 2005 by NSSI. The NSSI was left to perform its major function for benefits administration only. Expected effects of the unified tax and pay-roll collection comprise a decrease of administrative costs, increase of compliance, improvement of quality of services for insured persons and employers. Data for the first quarter of 2006 shows nearly 12% net increase of collection rate compared with the first quarter of 2005 (Ministry of Finance, 2006). The net increase considers the decrease of total amount of revenue due to the lower pension contribution rate reduced by 6 percentage points since January 2006.

### **6.3 Public social expenditure**

The consolidated general government expenditures have been steadily growing by 9.5% per annum since 1999. In 2000 compared with 1999 expenditures were increased by 16.5% while in the next year the growth rate was reduced. The growth rate was close to 7% and 6% in 2001 and 2002, then it accelerated to 10.5% in 2003 and in 2005 it was 9.6%. As a result of these high growth rates in 2000 the expenditures to GDP ratio reached 42% and 40.7% in 2003 and slightly declined in 2004 to 39.7% which was kept in 2005.

Public social expenditures dynamic (e.g. health, social security and welfare) has exceeded GDP growth in the last five years. Their share increased from 15.6% of GDP in 2000 to 17.4% in 2005 (*Figure 18*).

Figure 18. Social expenditures as % of GDP



Source: Ministry of Finances

Pensions are the largest social protection expenditure component. Pensions have relatively high share in the total income of households that is 22.2% compared with 43.6% in the case of wages (NSI, 2005). The financial pressure of the ageing of the population was the most important factor for increase of expenditures in 1995-1999 period. After the parametrical reform in 2000 the number of beneficiaries of old-age pension has decreased and the ageing impact on the expenditures has been temporary neutralized (see item 6.4 below). Despite the restricted access and the lower level of pensioners, expenditure keep relatively high level at about 9% of GDP in 2001-2005 period (National Social Security Institute, 2005) The main factor is the increase of pension benefits in nominal and real term and improving adequacy of pensions. The rest of social security benefits (e.g. sickness and maternity, unemployment, labour injury and professional diseases) decreased as a relative share in GDP and the share of total social security expenditure in 2005 is 1.7 percentage points lower compared with 2000. The need to alleviate pay-roll tax burden for active population have contributed to rising deficit of the Pension fund equal to 3.5% of forecasted GDP in 2006 and funded by the central government (National Social Security Institute, 2005) and as a consequence the re-distributive role of public expenditures on pensions has increased.

Healthcare is the second component of public expenditures in terms of nominal amount. Compared with 2000, their share in GDP increased by 0.6 percentage points. In 2001-2005 period social security expenditures of NHIF has gradually replaced the tax financing of hospital care. As a result the share of social security funds in total public healthcare expenditures increased from 11.8% in 2000 to more than half in 2005. Individuals also participate in healthcare financing by a regulated fees for use of healthcare. The amount of fees are 1% of the minimum monthly salary for the outpatient sector and 2% of the minimum monthly salary for daily stay in a hospital up to certain amount of days of hospital stay per year. Health services of private practicing doctors or health institutions, which have not concluded a contract with the National Health Insurance Fund, are paid by the patients at market prices. Patients are also paying out of pocket for medical services and goods that are not included in the health insurance package (e.g. rehabilitation, ordinary drugs etc.).

World Health Organisation data shows increasing incidence of private out-of pocket expenditures for health in Bulgaria<sup>72</sup>. While in 1998 before the introduction of health insurance in Bulgaria the share of private expenditures were 32.1% of total health spending, in 2004 it increased to 44.2%. In nominal terms private out of pocket expenditures reached €640 million in 2004, or 3.4% of GDP. The private out of pocket expenditures comprise following four components: 1) fees for public services, described in the above paragraph, 2)

<sup>72</sup> National Health Accounts Unit of EIP/CEP/WHO, Geneva.

purchase of drugs (except around 3,500 medicines that are fully or partially reimbursed by NHIF) 3) widespread unofficial payments or gifts in public healthcare services 4) health services not covered by the compulsory health insurance or provided at market prices by private health institutions.

Three of these components are directly related to the public healthcare. In these cases the individual spending represents an inner part or prerequisite for the public healthcare. That is why, the high share of out-of pocket expenditures, reaching almost half of the costs, endanger access to public health system for the low income groups of the population.

In 2004 the government commissioned representative survey on health status of vulnerable groups. The results show worst health indicators for Roma and Turk minority groups. They have higher mortality rate compared with the average and particularly high child mortality (17 per 1,000 for Turks and 28 per 1,000 for Roma at average 9.9 per 1,000 for the country). More than half (58%) of the respondents have no access to dental services and 55% have limited access to health services because of related transport services or out-of pocket expenditures.<sup>73</sup>

The fourth type of expenditures is related to the demand for higher quality healthcare or supplementary services, such as plastic surgery and rehabilitation, etc. In these cases direct payment or contracts with health institutions prevail, compared with voluntary health insurance.

The voluntary health insurance plays a very limited role, despite that it was regulated in Health Insurance Act since the beginning of the reform in 1998. In 2005 the total revenue of private health insurance companies is 15 million BGN and the benefits paid are 6 million BGN, or 0.3% of total health expenditure (Financial Supervision Commission, 2005). The main limitations on voluntary insurance are the lack of experience, the low income of the population and difficulties in overseeing the service providers. Another obstacle for the development of voluntary health insurance is the provision in the health insurance act (Art. 82 (2)) that voluntary health insurance shall guarantee the provision of healthcare services and goods beyond the scope of compulsory health insurance and may furthermore guarantee healthcare services and goods within the scope of comprehensive health insurance. However citizens are still obliged to contribute 6% from their income to the National Health Insurance fund.

Means-tested social assistance and family benefits took 1.3% of GDP in 2005. Family benefits shifted from social security fund to social assistance system in 2002, when the new legislation (Family Benefits Act, 2002) replaced the citizenship criteria with an income test. As a result of centralization process (described in part 6.2) the share of central government budget in the total social assistance benefits increased from 27% in 2000 to 83.6% in 2005. Central government budget finances means-tested social assistance benefits, family benefits and benefits for disabled through earmarked subsidy. Since 2002 the social policy focused on public work programmes as a major instrument for treating social exclusion and poverty. As a result the eligibility criteria and access to most of the means-tested benefits were reduced. This is the reason for decreasing share of these expenditures in GDP after 2002.

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<sup>73</sup> See [http://www.evroportal.bg/article\\_view.php?id=727084](http://www.evroportal.bg/article_view.php?id=727084).



## 6.4 Social protection provisions

### *Pensions*

The new eligibility conditions for old age pensions have been implemented since January 1, 2000 (Social Security Code, 1999). The standard retirement age in 2006 is 63 for men<sup>74</sup> and 58 and 6 months for women. At the beginning of each year the standard pension age shall be increased by 6 months until 2009 when shall reach 63 for men and 60 for women. The qualifying period is expressed as a sum of the age and the length of insurance. Claimant's age plus claimant's insurance record must equal to at least 100 points for men and 91 points for women (in 2009 – 94 points for women). The minimum period of affiliation is 15 years of insurance record before the age of 65 for both women and men. However, the actual average age of retirement is below this maximum. In 2005 it was 58.8 years for old age pensions and 53.6 years if the leeway of disability pensions is taken into account (National Social Security Institute, 2005). The lower actual retirement age is due to the earlier retirement options at the conditions of first and second risky labour category.

The gradual increase of retirement age and required length of insurance leads to decreasing number of beneficiaries. For the period 2000-2005 the total reduction is 15%. The restrictive eligibility conditions created incentive to seek more actively for disability pension that played the role of “by-pass” of retirement. Disability pension is awarded for at least 50% lost capacity of work. In terms of expenditures the share of disability pensions reached 20% in 2005 (National Social Security Institute, 2005). The relative share of disability pensions in all newly awarded pensions increased from 13.9% in 2000 to 56.8% in 2005. In order to exercise more effective control, representatives of NSSI take part in medical commissions for expertise of work capacity since 2005.

The amount of the old age pension shall be calculated by multiplying the reference income by 1% for every full year of insurance record. For the length of insurance before 1997 only three most favourable years are taken into account as a reference income. The optional definition of the reference income destroyed the balance between contribution and benefits. It was abolished in 1999 and the reference income is an average for all periods of service after 1997. As a consequence the replacement rate of newly awarded benefits decreased in the first years of the reform. The economic stabilisation and the increase of the insurance income contributed to overcome this trend. After 2002 the replacement rate of newly awarded pensions is rising, reaching 49% in 2005, but it is still about 1 percentage point lower compared with the average pension.

The adequacy of pensions has been improved in the last 10 years. According to the World Bank poverty assessment, the poverty rate for persons over retirement age is generally low (16.9%) and below the average 22.2% (World Bank, 2002, p. 12). Data on poverty rates before and after social transfers to population over age 65 shows significant incidence of pension expenditures. The poverty rate of elderly persons before transfers is 74.7% and considering income from pensions it decreases to 19.5% in 2005 (Ministry of Labour and Social Policy, 2006).

The main risk group affected by the new restrictive criteria for old-age pensions comprises long- term unemployed persons, that have lower probability to comply with the criteria for minimum length of insurance. Workers dismissed from restructuring branches of industry

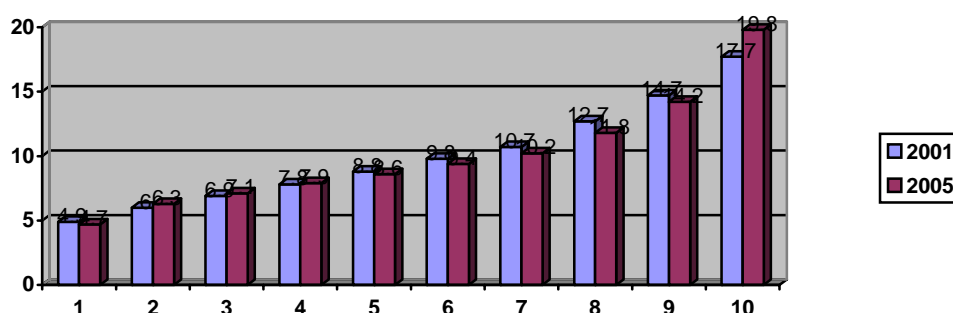
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<sup>74</sup> Men have reached planed pension age in 2006 and it is 63, so next steps of increase in 2007-2009 concern women only.

(e.g. mining, metallurgy etc.) and unemployed women at pre-retirement age are considered at higher risk in terms of coverage. Persons who are not entitled to old age pension acquire the right to non-contributory Social Pension at 70 years of age and under an income test. The amount of the Social Pension is defined annually at the level that exceeds poverty threshold. In 2005 it is 60 BGN or 24% of the average net wages (National Social Security Institute, 2005). The recipients of this benefit are about 55,000 in 2005 (2.4% of all pensioners). It is a tool for prevention of extreme poverty among the old-age population. Other specific policies for older persons who have no access to pension are the public work programmes targeting persons in pre-retirement age with shorter length of insurance than the required one (e.g. the programme ‘Assistance for Retirement’ with more than 5,000 unemployed beneficiaries). Since 2006 so-called ‘purchase of length of insurance’ has been implemented, including opportunity to pay a lump sum for the missing insurance record (but no more than five years), as well as credits for low-income candidates. About 2,000 new pensioners benefited this measure in 2006.

All pensions are updated on an annual basis by a coefficient equal to the average of consumer price index and nominal wage increase (so called “Swiss formula” of compensation). The compensation machinery was a factor for increase of replacement rate of average pension by 5.7 percentage points in the last five years. The pensions from the second and third pillars are defined-contribution, e.g. their amount depends on the rate of return of the private pension funds and the administrative expenditures of private pension companies. The parameters described above lead to improving adequacy of pensions. The average amount of pension increased from 41 euro in 2000 to 64 euro in 2005. The average replacement rate has also increased from 45.7% to 51.4% in the same period. The new formula leads to increasing differentiation of pensions (*Figure 19*). The share of first decile of pensioners in total income slightly decreased from 4.9% to 4.7% in the last five years, but the share of the last decile increased significantly from 17.7% to 19.8%

*Figure 19. Distribution of pension income by decile groups (as % of total)*



Gender differences in pensions are a function of labour market differences. The reference income for newly awarded pensions of women is 26% lower compared with men’s reference income. The women have shorter length of insurance (34.4 year compared with 45.6 year for men), that is also a factor for lower amount in pension formula.

Despite the positive development in the last five years, the sustainability of the pensions system is still at risk. The main factor for financial imbalance is the rising dependency ratio. It is driving not only by demographic trends, but also by the low labour participation rate, and under-reported official wages that pose a serious threat to the coverage and adequacy of pension of further generations. Other important challenges are frauds prevention in collection of contribution and increasing coverage of self-employed persons.

### *Other benefits for pensioners*

The supplementary benefits for specific needs of pensioners plays relatively limited role in Bulgarian social protection system. Pensioners are entitled to Energy Benefits for heating in the winter season equal to the value of 470 kWh per month (€28.2).<sup>75</sup> However they are means-tested and the income threshold is below the average pension. That is why only about 25% of the pensioners are eligible.

Day care services for the aged have relatively limited coverage. The most popular form is Social Patronage, which provides food and services at home to older persons above age 65 and disabled persons. The total number of clients amounts to 30,000 persons, which comprises 2% of the target group. The low attractiveness of this type of services could be explained with the ineffective management and high level of fees reaching 60% of pensioners' income.

Disabled persons are entitled to monthly benefit for integration. It includes means for transport services, phone services, training, medical rehabilitation, diet food and medicines and accessible to information. These components of the integration benefit are differentiated according to the percentage of lost work capacity. The total amount of benefit varies from 15% to 100% of Guaranteed Minimum Income or about €10. (See “*Means-tested social assistance and family benefits*”) The average amount represents 19% of the average disability pension. Compared with the disability pension, the integration benefit plays very limited incentive role for disabled to register.

The latest World Bank research shows that social assistance system is largely ineffective in poverty alleviation. The conclusion drawn in the research is that “poverty alleviation in Bulgaria is heavily dependent on pension, while the social assistance system has a negligible impact. This imply that pensions, which are not means tested and therefore are not an efficient instrument for poverty alleviation are compensating costly inefficiency in the social assistance system” (World Bank, 2005, p. 84).

### *Sickness and maternity benefits*

Sickness benefits are paid through social insurance system. Six months insurance period is needed for general diseases and maternity and one day of insurance for accident at work and professional diseases. The basic daily amount of sickness benefit is 80% of the average gross wage. Maternity leave continues 135 days of which 45 prior to confinement. The replacement rate of benefit for pregnancy and birth is 90%. The reference income is defined in the same way as sickness benefits. After expiring maternity leave, social insurance system provides benefits for parental leave until the child reaches 2 years of age. The amount of benefits is equal to the minimum wage. The father and grand parents are eligible too, in case if they are insured for all risks. The average number of days of paid leave has not been changed significantly in the last years. More than 60% of insured mothers do not use the maximum amount of parental leave (National Social Security Institute, 2005). They go back to work before the child reaches 2 years of age under the pressure of employer or the need of higher income. This trend is determined by the risk of de-qualification of women and the lack of re-training services. Another reason is the low level of benefits for parental leave paid after the 135<sup>th</sup> day (third month).

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<sup>75</sup> These benefits are described in more details in part “*Means-tested social assistance and family benefits*”.

The latest amendment in Social Security Code ensures increase of maternity leave from 135 to 315 days. Mothers who do not benefit the full length of maternity leave will be entitled to free individual childcare services, provided by unemployed family member or other unemployed person recommended by the labour offices. The childcare services will be financed through the public work subsidies of Employment Agency. The amendment enters into force in 2007. It will need additional cost at about 30 million BGN or 23% increase of the planned budget for maternity and parental leave. Expected effect is not only increase of cash benefit (in the period from third to ninth month of paid leave), but also reconciliation of family and professional responsibility and work incentive promotion.

### *Unemployment benefits*

The qualifying period for unemployment benefits is 9 months during the last 15 months. The unemployment benefit equals 60% of the average monthly wage during the last 9 months length of insurance. The amount should be no lower than BGN 90 and a maximum ceiling is BGN 160. Each year these limits should be adjusted to the level of income in the country. The period of payment of unemployment benefits depends on the length of insurance and it is differentiated from 4 to 12 months. The average unemployment benefit represents 40% of average net wage and 65% of the minimum wage. The relatively high replacement rate plays labour disincentive role for the beneficiaries, particularly these that are low qualified and expect job offers at the amount of minimum wage.

At the end of 2005 there are 77,000 recipients of unemployment benefits. Female beneficiaries prevail (54.5% of the total), this corresponds to the higher female unemployment. The recipients of benefits represent only 19.4% of all registered unemployed. The coverage has continuously gone down in the last 10 years. In 1996 41% of the registered unemployed received benefits, in 2000 they were 29%. This trend is a result of two restrictive factors. First is the relatively high qualifying period and limited access of seasonal workers. Second factor is the rising duration of unemployment. The majority of non-eligible unemployed have expired period of benefits. They continue their registration at the Employment Agency because this is a qualifying condition for participation in active programmes, as well as a requirement for award of means-tested social assistance benefits. This fact also explains the high registration rate in Bulgaria. The unemployed registered at labour offices exceeds data reported by the LFS by about 20% in the last years. Many of chronically unemployed and low qualified persons (that correspond to the category 'discouraged persons' of the LFS), are formally registered at the labour offices. The probability to find a job is very low, but they need registration status for means-tested social assistance.

The entitlement to means-tested social assistance (described in the paragraph below) is playing a work disincentive role for unemployed with expired period of benefits. That is why, in 2006, the period of eligibility to means-tested benefits has been reduced to 18 months, particularly for the unemployed members of poor households. The active labour market programme "From social assistance to employment" has been implemented since 2002 as an instrument for prevention of work disincentive attitude of long-term unemployed persons. The programme provides subsidies for communal activities (cleaning, regeneration of parks etc.) paid at the amount of the minimum wage. The long-term unemployed persons receive income through this program, instead of means-tested benefits. In this way their total family income usually exceeds the poverty threshold. More than 92,000 participants are included in 2005, mostly chronically unemployed persons and ethnic minorities groups. They represent 50% of all economically active persons living below the poverty threshold. The positive effects of the

programme is increasing employability of the vulnerable groups, but the mass subsidising of ineffective and low-qualified job places plays negative role on the labour market.

### *Employment of individuals with disabilities*

Individuals with a disability represent 271,000 or 6.3% of the population of working age in 2005 (National Social Security Institute, 2005). Economically active are around 210,000 persons (nearly 80%). The access to employment is defined by the Law for Integration of People with Disabilities (2004) and it is provided by three different types of policies: quotas set up for enterprises with more than 50 employees; sheltered enterprises for disabled and subsidies for promotion of employability, training and integration of disabled at the labour market.

The compulsory quota varies from 4 to 10% of job places, depending on the branch and type of the enterprise. According to the experts opinion this policy is not effective because the control over the compliance is difficult.<sup>76</sup> There are 115 sheltered enterprises registered at the Agency For Disabled Persons of that provides job opportunities for 7000 disabled persons (around 15% of all employed persons with disabilities)<sup>77</sup> The Agency also awards subsidies for self-employed disabled and for employers that provides accommodation of job places and integrated employment. The employed disabled persons benefit lower personal income tax. The income of sheltered enterprises is also tax exempted. The tax facilities aim at encouragement of employment and investment in appropriate work environment for disabled persons.

The subsidies for the promotion of employability and integration of disabled are provided by the labour offices. According to the experts' assessments, the unemployment rate within the group exceeds the average for the country.<sup>78</sup> However the registration rate is relatively low. This could be explained with the low probability to find appropriate job and limited offers of accommodated job places. In 2005 7450 persons with disabilities are registered at the labour offices, of which 1672 has started work and 151 graduated from vocational training courses. The limited coverage of employment services for persons with disability is among the main challenges of labour market policies.

### *Means-tested social assistance and family benefits*

The main schemes for guaranteed minimum resources of low- income households are the Monthly Benefits and Energy Benefits. The Monthly Benefits were introduced in 1991 as a major instrument of poverty alleviation policy. They are granted to individuals who live below the eligibility income line – Guaranteed Minimum Income (GMI). In 2005 it amounts 55 BGN, which represents 22% of the net average wage and 36.6% of the minimum wage (National Social Security Institute, 2005). For the purpose of the means-test it is differentiated through a system of coefficients. The latter depend on the household's size and composition. Larger households are entitled to a higher income line. Energy Benefits were introduced in 1995 as a result of the liberalisation of the prices of electricity and fuel. These grants are also disbursed following means-test criteria. The income line, determining eligibility for energy

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<sup>76</sup> See G. Smatrakalev, Employment of Persons with Disabilities in Bulgaria: Problems and Perspectives, NISPAcee occasional papers, No 4-2001

<sup>77</sup> <http://ahu.mlsp.government.bg/>

<sup>78</sup> G. Smatrakalev, Employment of Persons with Disabilities in Bulgaria: Problems and Perspectives, NISPAcee occasional papers, No 4-2001

benefits, is higher than those for the monthly benefits. It is valid for the heating season (1 November – 30 April) when the value of minimum energy consumption equals to 430 kWh per month in current prices is adding to the differentiated minimum income line. The means-test criteria also include ceilings for the assets the applicants should not own real estate (land, buildings) or other property that could be a source of alternative income. The unemployed who gets GMI have to be registered at least 6 months with the labour office as active job seekers and should participate in public work programmes. The low level of GMI and the tight eligibility criteria reduce the number of beneficiaries mostly to chronically unemployed and marginalized strata of the population. Most of the families with one permanent source of income beyond the social assistance (wage, pension or short-term benefits) turn to be above the eligibility income line. The beneficiaries of monthly benefits represented one third of the population deemed to be poor in 2000 and this coefficient decreased to 49.3% in 2005 as shown on *Table 14*. The narrow limits of targeting implied to refine the system in order to reach poor households, which remain outside of the safety net. The World Bank Poverty Assessment Study has also recommended better targeting of social assistance (World Bank, 2002). That was the reason to develop supplementary social assistance programmes (e.g. Energy Benefits, Family Benefits, Integration Benefits etc.).

*Table 14. Beneficiaries by type of means-tested schemes*

	2000		2005	
	Cases	Coverage	Cases	Coverage
Monthly Benefits	314486	66.4*	220790	49.3*
Energy Benefits	589689	125.8*	465561	105.6*
Integration of disabled	235154	20.9**	1067414	138.2**
Family benefits (uninsured mothers)	224838	42.3**	54243	32.3**
Family benefits (income- tested child benefits)	-	-	747434	69.6**

\*As percentage of the population below the poverty line as defined in section 6.

\*\* As percentage of eligible group.

*Source:* Social Assistance Agency.

Social assistance system provides income-tested Family Benefits. Until 2002 the system of family benefits was regulated by the inherited from the pre-reform period Decree for Encouragement of Child Birth (1968). Both insured and uninsured parents were entitled to birth grants, child allowances up to 18 years of age and 2 years parental leave. The first group received benefits from NSSI and the second – from social assistance system. The generous eligibility has caused a dramatic rise of the number of uninsured beneficiaries. Taking into account the financial considerations and the cases of wrong targeting of the limited resources to the non-poor, in 2002 a new Family Benefits Act was adopted. It provided for considerable restriction of benefits and implementation of income test for all family benefits (except the lump-sum birth grants). In 2005 the income threshold for receipt of family benefits is 200 BGN per family member that is close to the average households' income (National Statistical Institute, 2005). After the implementation of the income test, the coverage of family benefits decreased by 10 percentage points compared with the universal benefits provided until 2002. The monthly child benefit amounts 18 BGN (since 2006 the second child receive 20 BGN). It is awarded until the child graduates upper secondary education, but no longer than 20 years of age. School attendance became eligibility criteria for award of child allowances as an additional measure for school dropout prevention. Uninsured mothers below the income

threshold are eligible to 1 year parental leave only at the amount defined by the government. In 2005 the benefit was 130 BGN or 87% of the minimum wage, in 2006 it increased to 160 BGN – amount equal to the minimum wage (State Budget Act, 2006). Lump sum pregnancy grant and grant for students starting 1 class of primary school are also provided for families below the eligibility income.

Given the high level of poverty among the households with many children, the targeted family benefits can play a potentially important role. For example, in the majority of cases the Roma are exposed to several types of risks – low education, unemployment, poor living conditions, backward rural region, and large households composed of 3-4 generations (NSI, 2003). An interesting adverse proportional relationship has been established i.e. the poverty level declines with the increase in the number of children. The explanation is that under equal other conditions (for example unemployed parents) the households with many children receive more social benefits, including energy aid, child allowances, allowances for single mothers, etc. whereas it is hardly possible to verify eligibility in the conditions of co-existence in large communities. Thus all types of social benefits are targeted to the same beneficiaries, which reveal the flaws of the social assistance system. However the current scheme has no real impact on child welfare, because benefits level is too low to reduce poverty. In 2005 the child benefits amounted only 7% of the average net wage or 12% of the minimum wage. In 2001 the expenditure of the universal scheme of child benefits, provided on citizenship, was 0.4% of GDP and the replacement rate was 0.5% of the net wage. In 2005 the income-tested scheme takes the same share of GDP, not increasing significantly the adequacy of benefit and adding administrative expenditures for income control. (National Social Security Institute, 2005). These data illustrate the lack of efficiency of the income-tested benefits for children. Social assistance system administrates targeted non-contributory Benefits for Integration of Disabled (for technical facilities, free public transport, rehabilitation etc.). Income test for these benefits was abolished in 2005 and the coverage increase significantly, as shown on *Table 14*.

## 6.5 Taxation

The main trend in tax policy in the last five years is reducing reliance on direct taxation and expanding the role of indirect taxation in budget revenues. Several tax rates were reduced to become more supportive of growth, investment and work incentive. Corporate tax dramatically decreased in the last 10 years from 40.2% to 15%. In 2006 the insurance contribution diminished by about 10 percentage points, compared with its highest level in 1999 (*Table 15*). The tax wedge for low paid earners decreased from 39.4 to 34.7 in 2005.

In 2005 the composition of tax revenue from labour, capital and consumptions was 40:10:50 (Ministry of Finance, 2006). The relative decrease of labour and increase of consumption started since 2000 when the composition of respective elements was 43:11:46. The restructuring of fiscal policy, and particularly the decrease of direct taxes in favour of indirect taxation, aimed at increasing collection rate. The rapid rise of indirect taxes from 47.5% to 50.4% of tax revenue in 2005 is associated with higher level of consumption. The reduced rate of corporate tax in 2005 (from 19.5% to 15%) led to higher compliance and its share in total tax revenue did not decrease significantly (10.7% in 2004 and 10.5% in 2005). In 2005 the government reported 110% compliance of total tax revenue (Ministry of Finance, 2006). Despite the progress made in tax policy, the total tax burden is still high at about 33% of GDP in 2005. Next to this, deficiency in revenue administration contributed to tax evasion and informal economy. The recent World Bank study estimates the informal economy in Bulgaria

at about 16% of GDP. It founded that “higher tax rates, differential enforcement of tax law for small and large firms and in different areas of the country and systematic bribing practices give firms an incentive not to comply with taxation law” (World Bank, 2005, p. 76). The ongoing reform in tax collection and the establishment of the National Revenue Agency (see part 6.2) is expected to contribute for enforcement of fiscal discipline.

*Table 15. Selected tax rates in Bulgaria 1997-2006 (%)*

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Corporate tax	40.2	37.0	34.4	32.5	28.0	23.5	23.5	19.5	15.0	15.0
Income tax:										
Lowest rate	20	20	20	20	20	18	15	12	10	10
Highest rate	40	40	40	40	38	29	29	29	24	24
Social insurance contribution	42	41.5	45.7	45.7	42.7	42.7	42.7	42.7	42.4	36.4
VAT	22	22	20	20	20	20	20	20	20	20

*Source:* Ministry of Finance.

Taxes on consumption like value added tax (VAT), excises and custom duties represent the main source of revenue for the government. The rate of VAT is 20%. There are a few exemptions for juridical services and tourism. These will be removed at the point of Bulgaria’s accession to the EU, which is the reason for imposing higher excise rates on some goods like tobacco products, alcoholic beverages and petrol products. Because of those requirements the share of indirect taxes has been rising. On the other hand, the custom duties for the trade with the EU countries have been almost removed thus decreasing the revenues from them.

Taxes on labour are the personal income tax and social security taxes. The top marginal rate on personal income tax in 2006 is 24% and it was reduced from 29% in 2005. The pension tax was reduced in 2006 by 6 percentage points so the total social security tax is around 36.7% paid by both the employer and the employee. The share of employer is 65% and the employee pays the rest 35%. The current corporate profit tax is 15%, which in 2005 was reduced from 19.5%.

A set of administrative measures have been also undertaken for collection of social security contributions. Since 2003 a matrix of minimum insurance thresholds has been implemented. It sets minimum income by activities and professions and reduces the common practice for underreporting of wages. All labour contracts have to be registered at the collection authority. The compliance rate rose sharply after the implementation of these measures – 106% in 2004 and 108% in 2005 (National Social Security Institute, 2005). The effect of administrative control should not be overestimated, because to a large extent the pay-roll compliance is due to the higher employment in this period.

The social security reform undertaken in 2000 aimed at financial sustainability and improvement of balance between revenue and expenditure. In 2005 Bulgaria still had relatively high payroll tax: 42.4% or 4.6 percentage points higher than the EU average (Social Security Budget Act, 2005). Since January 2006 the pension contribution rate decreased by 6 percentage points. The revenue from contributions is not sufficient to cover the rapid expansion of social spending. The emerging deficit is funded by transfers from the central government. In 2005 they amounted at about 23% of the consolidated social security expenditures. In 2006, after the decrease of contribution rate, planned transfers reach 32.6% of



consolidated social security budget. This trend shows that Bulgarian social security system is oriented toward redistribution of fiscal burden from the active population paying insurance contributions to all tax-payers. The reform initiated in 2000 also previews gradual redistribution of fiscal burden between the employers and employed. The final goal is equal share that must be implemented in 2007. At present the employers' share in total social security revenue is 60.2%, the employed and self-employed participate with 24.2% and 5.1% respectively and the state pays 10.5% of revenue (e.g. contributions for civil servants and granted contributions for maternity leave and military service). The planned balance between contributors in 2007 is aiming at decrease of labour costs for the employers and higher competitiveness.

## **6.6 Gender equality and anti-discrimination**

In November 2005 the Council of Ministers adopted the Action Plan for Promotion of Gender Equality 2006. It is targeted to overcoming disparities in the situation of women and men in some areas of public, economic and political life. Other significant achievements will be sought of increasing and expanding the support for women entrepreneurs, equality mainstreaming within the administration and strengthening the equality objectives in the National Action Plan for Employment.

On 3 June 2004 amendments to the Labour Code were adopted. They comply with the European legislation regarding pregnant and suckling women (Directive 92/85/EC), elimination of overprotection of women considered as discrimination, including the orders concerning night work and overtime (Directive 76/207/EC). The Code lays down in details the terms and conditions for granting, taking and terminating the leave for raising a child up to 2 years of age, placed with relatives or in an adoptive family. It also stipulates the right of unpaid parental leave (in force from 01.08.2004) for each of the parents raising the child up to 8 years of age. The amendments envisage explicit written consent of the working mothers of children up to 6 years old for night or overtime work, as well as for working under conditions of extended working time. The pregnant worker is entitled to a leave in order to undergo medical examinations during pregnancy. As regards to the abolition of the prohibition for certain categories of female employees to perform night or over-time work

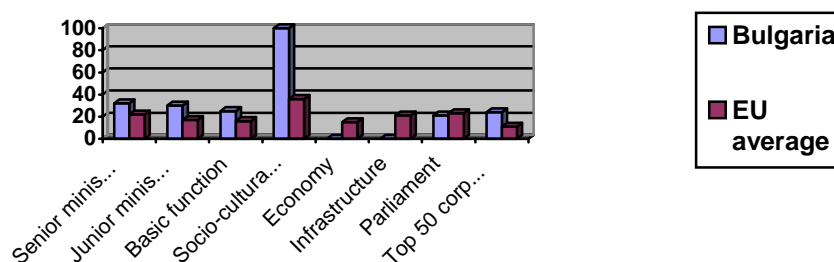
With regard to the administrative capacity in the area of gender equality a National Council on Gender Equality under the Council of Ministers was established in November 2004. The Council is a permanently operative body with wide participation of social partners and NGOs working on issues of gender equality. The Council serves as an active public discussion forum in the field of equality policy and promote gender equality by taking initiatives and approve opinions. Its objective is to advise the government in: promotion and monitoring the attainment of equality, elimination of the discrimination, improvement of the status of women in all spheres of public life. It would propose the measures and actions to the Council of Ministers. In October 2005 the Demographic Policy, Social Investments and Equal Opportunities Directorate was established in the Ministry of Labour and Social Policy. Its Equal opportunities Unit is responsible for the gender equality issues and the provision of technical and administrative services to the National Council on Gender Equality under the Council of Ministers.

The work of the non-governmental sector in the field of equal opportunities for women and men during the last decade is remarkable. Many organisations (like Women's Alliance for Development, Gender Project for Bulgaria Foundation, Centre Nadja Foundation, Bulgarian Gender Research Foundation, Animus Association Foundation etc.) contributed significantly

to the adoption of the legislative acts and determining the legal framework guaranteeing gender equality. There exist more than 100 organisations working actively in the four critical areas of concern – violence against women, trafficking in human beings (including trafficking for sexual exploitation), participation of women in decision-making and in political life as well as encouraging women’s entrepreneurship. These organisations were supported in their activities mainly by a number of international donor organisations. There is still a lack of the governmental funding for the activities of women’s NGOs. Nevertheless, women’s non-governmental organisations have established permanent relationships with government, facilitated by the above mentioned National Council on Gender Equality. An important factor for increasing role of the sector is the consolidation and the Annual Meeting of non-governmental organisations addressing women’s issues in Bulgaria, traditionally organised by the Centre of Women’s Studies and Policies.

Figure 20 illustrates the gender equality status of women in public positions. Women took relatively high share in the government, parliament and corporative management in Bulgaria, compared with the EU average.

Figure 20. Share of women in decision-making



Source: EU database on women and men in decision-making (2005).

### Other forms of discrimination

Bulgaria did not provide an active policy toward discrimination in the last 10 years. Specific norms against all form of discrimination (gender, ethnic background, disability, age etc.) entered into force in 2004 (Law for Protection against Discrimination, 2003). The last 2006 Monitoring report of EC on the state of preparedness for EU membership of Bulgaria focused particularly on the efforts needed in policies for children and disabled living in residential institution and for integration minorities.<sup>79</sup> Although the law prohibits discrimination against persons with physical and mental disabilities in employment, education, access to healthcare, or the provision of other state services, the government did not effectively enforce these provisions in practice. Living conditions in residential institutions for persons with disabilities and children at risk are considered the most important challenge. The Joint Inclusion Memoranda (2005) has recommended further effort to improve living conditions in the specialised institutions for mentally handicapped people and focus on the transition from institutional care to community service delivery.

The role of the non-governmental organisations of disabled in Bulgaria is encouraged by the Law on Integration of People with Disabilities (2005) establishing a National Council for

<sup>79</sup> <http://www.evropa.bg/en/del/eu-and-bulgaria/documents.html>

Integration of People with Disabilities. It consists of 16 non-governmental organisations, representatives of the Government, organisations of employees, organisations of employers and the National Association of the Municipalities in Bulgaria. In 2005 the Council adopted Action Plan for Equal Opportunities for People with Disabilities 2006-2007. The plan consists of seven parts with outlined activities in different areas of rehabilitation and social integration. Their implementation aims at creating conditions for adaptation of the everyday surrounding and increasing the mobility of disabled people, improving the model of care for disabled children and creating guarantees for access to high-quality general education in mainstream education system. The opportunities for employment of disabled people are increasing and alternative forms of social services are developing.

Social inclusion of the minorities still requires substantial efforts too. The idea of wide participation of nationally represented NGOs was further developed through the National Council for Cooperation on Ethnic and Demographic Issues established in 2004 by representatives of 29 NGOs of minorities, central and local governments. With regard to the representation of the minorities in state institutions by ethnic origin the statistics is as follows: ministers – 4 of Turkish origin; deputy ministers – 8 of Turkish origin and 2 of Roma origin; members of Parliament of Turkish origin – 28; members of Parliament of Roma origin – 1; Commission for Protection against Discrimination – Chairperson of Turkish origin, Deputy Chairperson of Roma origin; Ombudsman of the Republic of Bulgaria – Deputy Chairperson of Turkish origin (Ministry of Labour and Social Policy, 2006).

Measures have been envisaged in the National Action Plan for the Decade of Roma Inclusion for meeting the basic priorities of the decade: education, healthcare, employment, and better housing conditions, as well as specific for Bulgaria priority as ethnic culture and equal opportunities. In 2005 more than 30 regional and municipal activities connected with the Decade of Roma Inclusion were financed by the state budget, e.g. campaigns for health education, mobile medical units for preventive healthcare, training for self-employment of representatives of ethnic minorities. The educational integration of vulnerable ethnic minorities is one of the main prerequisites for their complete social inclusion. The main challenge with this respect is desegregation of kindergartens and schools in detached Roma neighbourhoods and creating conditions for equal access to quality education out of them; optimization of the school network in municipalities with small and dispersed settlements, including supplementary financial support to these schools for guarantee a quality education. During 2005-2006 school year 3 500 students living in detached Roma neighbourhoods have been integrated in mainstream schools out of the Roma neighbourhoods; 150 teaching assistants have been appointed for educational integration of Roma children in mainstream schools (Ministry of Education, 2006).

## **7. Governance structures**

### **7.1 Governance efficiency in general and in the social protection system in particular**

Since 2000 the government accelerated the public sector reforms aiming to improve public administration and public sector governance. In 2002 the government adopted several principal documents: Strategy for State administration modernization: from accession to integration (actualised in 2003), Strategy for training civil servants, followed by the E-government strategy, Conception and programme for finance decentralisation (actualised in 2003), Strategy for establishment of central register and electronic register, Conception for improvement of the administrative service on the principle of “one-stop shop” system of

service delivery, etc. All these documents aimed at increase transparency and effectiveness of the governance and allocation of quality services and increase public control. The measures and legislative changes undertaken are directed to simplifying the legislative and regulatory regimes, to implement transparent and competitive procurement for all civil works, to elaborate comprehensive anti-corruption strategies at all levels, and to improve the functioning of the institutions.

As the World Bank surveys show the institutional quality (governance index) is positively associated with economic performance. Governance research indicators measure different processes like selection, accountability, monitoring and replacement of governments, capacity of government to manage resources, to provide services efficiently and to effectively formulate and implement policies and regulations. Bulgaria's overall governance index has been improved in the last few years increasing from -0.15 in 1996 to +0.26 in 2002. Nevertheless it is still poor performing compared with the eight new member states (NMS-8<sup>80</sup>), where the average governance index increased from +0.40 to +0.80 (World Bank, 2005). All three governance indicators under review<sup>81</sup> show improvements in the period 1996-2004. Government effectiveness increased from -0.45 in 1996 to -0.08 in 2004; regulatory quality – from -0.47 to +0.60; rule of law – from -0.09 to +0.05 (Kaufmann, et al, 2005).

The data on the governance indicators in percentile ranks<sup>82</sup> give more clear idea where the country stands in the total ranking of the countries included in the World Bank Survey. Government effectiveness in percentile ranks has improved from 13.7th in 1998 to 54.8th percentile rank in 2004. The rank was higher in 2002 (59.7) suggesting some worsening in effectiveness in the last years. Reasons could be found in the still ineffective public administration, insufficient quality of public infrastructure, declining quality of public education and increasing time spent by senior management dealing with government regulations. The percentile rank of the Regulatory quality indicator in 1996 is 44.8 while in latest available year (2004) it is 69.5 showing an improvement. Nevertheless problems could be found in administrative regulations, complexity of taxation, hardship in opening new companies that define its uneven dynamics since 1998. The Rule of law indicator percentile ranks show some deterioration decreasing from 56.0 (1996) to 55.1 (2004). As a whole the data show that in 2004 Bulgaria's percentile ranks for all governance indicators are in the second best quartile (over 50th percentile).

Despite some improvements registered by the World Bank Survey Doing business<sup>83</sup> the legislative and regulatory framework remains excessively complex. Starting and closing business is not simple and not cheap in Bulgaria compared with the region of Europe and Central Asia and especially to the OECD countries (*Table 16*).

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<sup>80</sup> NMS-8 – new member states, excluding Cyprus and Malta.

<sup>81</sup> According to the World Bank definitions, government effectiveness measures the competence of the bureaucracy and the quality of public service provision; regulatory quality indicator measures the incidence of market-unfriendly policies as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development; rule of law measures the extent to which agents have confidence in and abide to the rules of society. The World Bank indicators are measured in units ranging from -2.5 to + 2.5 with higher values corresponding to better governance.

<sup>82</sup> The percentile rank on each governance indicator is in the margins 0-100 indicates the percentage of countries worldwide that rate below the selected country. Higher values imply better governance ratings.

<sup>83</sup> World Bank. Doing Business, 2004, 2006, 2006, www.doingbusiness.org

Table 16. Administrative barriers to firm entry/exit

	2003	2004	2005		
			Bulgaria	Region Europe & Central Asia	OECD
Ease of doing business - country rank <sup>84</sup>			62		
<b>Starting a business</b>					
- number of procedures	10	11	11	9.6	6.5
- time (days)	30	32	32	36.4	19.5
- cost (% of income per capita)	8.3	10.3	9.6	13.5	6.8
- minimum capital (% of income per capita)					
- ease of starting business (rank)	134.4	116.6	104.2 80		
<b>Closing a business</b>					
- time (years)	3.8	3.3	3.3	3.5	1.5
- cost (% of estate)	18	8.0	9.0	14.0	7.4
- recovery rate (cents of the dollar)		34.2	33.5	29.8	73.8
- ease of closing the business (rank)			56		

Source: World Bank, Doing Business (2004, 2006, 2006).

As the *Table 16* shows when starting new business in 2005 the entrepreneur should pass through 11 procedures in 32 days on average to register a company at a cost equal to 9.6% of gross national income (GNI) per capita. The average number of procedures in the region of Europe and Central Asia is 9.6, while in the OECD countries it is 6.5. The average number of days is 36.4 for the region and in OECD it is 19.5 days. Other obstacle is the requirement for minimum amount of capital which is too big in Bulgaria – 104.2% of income per capita while it is 49.1% on average in the region and 41% in OECD. These facts suggest that registering business in Bulgaria is too complicated and the country lags behind its rivals for attracting investment. As a result, the business environment is still perceived by the Bulgarian business and foreign investors as not sufficiently favourable. The process of closing business takes 3.3 years and costs 9% of the estate value. The recovery rate, expressed in terms of how many cents on the dollar claimants recover from the insolvent firm, is 33.5 compared with 73.8 in the OECD countries.

In 2005 Bulgaria ranks at 62nd place out of 155 surveyed countries as for the ease of doing business. Concerning ease of starting business it takes 80th place and 56th place as closing of business is concerned. The Doing Business indicators are important because they determine the possibilities to develop business thus creating jobs and expanding the opportunities to overcome poverty. Simplifying further<sup>85</sup> regulatory regimes and reducing the costs of doing business is urgent to the development of the labour market and social inclusion.

The period 2003 – 2005 was an experimental stage, related to the introduction of 20 indicative e-services for the citizens and businesses defined by the European Commission. The e-

<sup>84</sup> The ease of doing business index ranks economies from 1 to 155. The index is calculated as the ranking on the simple average of country percentile rankings on each of the 10 topics covered in Doing Business in 2006. The ranking on each topic is the simple average of the percentile rankings on its component indicators.

<sup>85</sup> The government reports that since 2002 Bulgaria implemented reforms to simplify regulation of business activities, that out of 361 central government permit procedures 52 regimes have been eliminated and 92 simplified ([www.mee.government.bg](http://www.mee.government.bg)). However, independent research find these reports doubtful, see: Krassen Stanchev (editor), White Paper on Achievements and Challenges of Business Environment Reforms (with an Exclusive Focus on SMEs), IME, April 2005 ([www.ime.bg](http://www.ime.bg)).

document and e-signature have been introduced in the work of the administration and work on basic, conceptual and methodological projects has been carried. From the 20 indicative services for the business and citizens 14 are full-scale provided by transaction or two-way interaction. Outside the 20 priority services, the Register of administrative structures and administrative bodies' acts provides precise information and possibility to download forms for the license and permit mechanisms and structures of the state administration thus ensuring improved business environment and better transparency of the state administration. In this period a number of pilot projects for delivery of on-line administrative services have been implemented at central, regional and municipal level.<sup>86</sup> Government effectiveness measuring the competence of the bureaucracy and the quality of public service delivery has improved from 13.7% in 1998 to 54.8% in 2004. The rank was higher in 2002 59.7% than in 2004 suggesting worsening in effectiveness.

One of the ways to increase governance effectiveness is decentralisation of policy and services delivery. Local governance is considered a key determinant of the outcome of economic and employment development strategies and action to improve the quality of life. Most changes in the local government in Bulgaria date back to 1991, when the new Constitution and the Law on Local Self-Government and Local Administration were adopted. The basic territorial and administrative unit in the country is the municipality. Municipalities have the right to own property and maintain independent budgets. They also have the authority to address all issues of local importance including the management of public property, development policies, education, healthcare, culture, social aid, and environment protection. The local budgets are determined by the central government. The process of decentralisation of powers from the central government to the municipalities accelerated in 2002 with the Government Conception of the financial decentralisation and the Programme for its implementation aiming at public services delivery corresponding in their quality and prices to the need of citizens. However, the process of decentralisation does not ensure sufficient resources for local governments. The provided possibility for public discussions with the participation of the citizens of the municipal budgets, in most cases up to now, are only held formally.

### *Social protection performance*

The efforts of the NSSI are directed to the strengthening the collection of pension contributions securing the sustainability of the social security system and increasing the trust of workers and employees in its effectiveness. The covered wage bill (measured as percentage of GDP) is very low compared with EU countries where it is more than 50% and shows a trend to slight decrease from 16.7% in 2000 to 15.3% in 2004 (Fultz and Stanovnik, eds., 2004). The same is the trend if the covered wage is measured as percentage of the workers compensations in the GDP showing a decrease from 48.3% to 45.2% respectively. As the

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<sup>86</sup> Some of the most important projects are: a) Council of Ministers – central portal for services of the e-government to integrate the e-services of the separate administrations as a single entry point of the e-government; b) National Insurance Institute – e-services for enquiries related to the social and health insurance of citizens, filing statements on social and health insurance of employees by companies, filing of statements on labour contracts of employees by companies; c) Ministry of Finance – General Tax Directorate – filing of VAT declarations by companies, income taxation declarations by citizens, corporate taxation declarations by companies; Customs Agency: filing of customs taxation declarations; Information Systems Directorate: filing of offers for placing of small public procurement orders by companies; d) Ministry of Labour and Social Policy – Employment Agency: demand of jobs in Labour offices; e) Ministry of Economy and Energy – Public Procurement Agency: public procurement electronic register; f) Stara Zagora Region and Municipality – integrated portal for services of the region and municipality.

legal social security coverage in the country is extended to the great majority of workers, low values of the covered wage bill could be due to several factors: poor contribution compliance, high share of informal economy and low wages.

There are some improvements in the period 2000-2005:

- Percentage of actually contributing insured persons increased from 85.9 to 92.0 %
- Percentage of actually contributing employers increased from 87.4 to 92.1 %
- Percentage of contributions in arrears decrease from 13.9 to 9.2%

In the last few years important reforms have been implemented in the social security system including measures to increase the effectiveness of the institutions. The introduction of the minimal social security thresholds and the obligatory registration of labour contracts had healthy impact on the system. The financial situation of NSSI is now more stable. There are no outstanding benefits as in the beginning of the transition when due to the financial constraints the pensions and social assistance benefits are paid with arrears. The effectiveness of the administrative work improved and the claim handling time is 30 days which is in the margins provided by the Social Insurance Code. The administrative costs despite some slight increase from 1.23 in 2000 to 1.48 in 2005 are low having in mind the enlarged scope of activity. The personnel costs decreased since 2003 and in 2005 are at the 2000 level. The average wage of the staff rose from 272 BGN in 2000 to 454 BGN in 2005 representing 142% of the average wage for the country.<sup>87</sup> Measures to increase the collection level include inspection of employers (10.7% of employers were inspected in 2005), information letters to the insured, Internet personal information on social security contributions, some e-services for employers, etc.

### *Corruption*

One of the more acute problems of Bulgarian society faced is the large extent of the corruption. The radical shift in economic and political life opened opportunities for corrupt practices in all spheres of the society. The presence of corruption is often a manifestation of a lack of respect of both the corrupter (typically a private citizen or firm) and the corrupted (typically a public official or politician) for the rules which govern their interactions, and hence represents a failure of governance according to World Bank definition. Improvements in the Control of Corruption<sup>88</sup> governance indicator are registered by the World Bank Government Matters Survey with an increase of the estimate from -0.67 in 1996 to -0.04 in 2004 and of the percentile rank from 29.3 to 56.2 respectively (Kaufmann, et al, 2005). Despite the registered improvements the data show that corruption is still challenge for Bulgaria requiring urgent need of practical measures to curb it. The Transparency International Global Corruption Barometer (GCB) in 2004 and 2005 show that respondents believed that corruption was very significant and increasing in affecting the political life and the business environment, and moderate as far as their personal and family life is concerned (*Table 17*). According to the GCB the customs are most corrupt (score 4.5<sup>89</sup>) followed by the political parties, parliament/legislature, police and medical services (score over 4.0) (Transparency International, 2004, 2005).

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<sup>87</sup> NSI and NSSI data

<sup>88</sup> Control of Corruption indicator measures perceptions of corruption, defined as the exercise of public power for private gain, including both petty and grand corruption and state capture

<sup>89</sup> The score from 1 to 5 – 1: not at all corrupt, 5: extremely corrupt

*Table 17. Respondent's beliefs about how corruption affects his/her personal and family life the business environment and political life – %*

Some people believe that corruption affects different spheres of life in this country. In your view does corruption affect: (1: Not at all ... 4: To a large extent)	Personal and family life	Business environment	Political life
2004	3.4	3.1	2.0
2005	3.6	3.4	2.0

*Source:* The Transparency International Global Corruption Barometer (2004, 2005).

The Transparency International (TI) Index<sup>90</sup> indicates improvement of Bulgaria its scores between 2000 and 2004 and had fall a bit down in 2005. This indication is rather different from the assessment of the latest EU Monitoring Report for the accession of Bulgaria and Romania.<sup>91</sup> World Bank Control of Corruption from Quality of Governance Indicator<sup>92</sup> pictures Bulgaria as TI.

The Transparency International Corruption perception Index (CPI)<sup>93</sup> measures the degree to which the corruption is perceived to exist among public officials and politicians. According to Transparency International's CPI, Bulgaria has shown improvement over the last years. Bulgaria was ranked in the CPI for the first time in 1998 scoring 2.9 points. For the period from 1998 to 2005, the surveys showed a slow but steady increase in its value to 4.0.<sup>94</sup> With this value Bulgaria ranks 55<sup>th</sup> out of 159 countries. Thus Bulgaria progressed from a country of systemic corruption (an index value of less that 3) to a country of moderate corruption prevalence (an index of 4.0). This places the country in a position comparable to the new EU member states (NMS-8). The country shows best results compared with the other candidate countries (*Table 18*).

*Table 18. Transparency international CPI scores for the NMS-8 and the candidate countries*

Country	1998	1999	2000	2001	2002	2003	2004	2005
Bulgaria	2.9	3.3	3.5	3.9	4.0	3.9	4.1	4.0
Croatia	n.a.	2.7	3.7	3.9	3.8	3.7	3.5	3.4
Czech Republic	4.8	4.6	4.3	3.9	3.7	3.9	4.2	4.3
Estonia	5.7	5.7	5.7	5.6	5.6	5.5	6.0	6.4
Latvia	2.7	3.4	3.4	3.4	3.7	3.8	4.0	4.2
Lithuania	n.a.	3.8	4.1	4.8	4.8	4.7	4.6	4.8
Poland	4.6	4.2	4.1	4.1	4.0	3.6	3.5	3.4
Romania	3.0	3.3	2.9	2.8	2.6	2.8	2.9	3.0
Slovakia	3.9	3.7	3.5	3.7	3.7	3.7	4.0	4.3
Slovenia	n.a	6.0	5.5	5.2	6.0	5.9	6.0	6.1
Turkey	3.4	3.6	3.8	3.6	3.2	3.1	3.2	3.5

*Source:* Transparency International, Corruption Perception Index (1998-2005).

<sup>90</sup> See Corruption Perception Index, at [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi-2005](http://www.transparency.org/policy_research/surveys_indices/cpi-2005)

<sup>91</sup> Available at: [http://www.government.bg/fce/001/0162/files/monitoring\\_report\\_bg\\_en.pdf](http://www.government.bg/fce/001/0162/files/monitoring_report_bg_en.pdf)

<sup>92</sup> Available at : [http://info.worldbank.org/governance/kkz2004/country\\_report.asp?countryid=21](http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=21)

<sup>93</sup> Transparency International Global Perception indices, 1998-2005, [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)

<sup>94</sup> CPI Score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).



The Corruption monitoring system (CMS) of Coalition 2000<sup>95</sup> also shows the tendency of the gradual decline in both actual and potential corruption in the country in the 1998-2004 periods. In the past year and a half, however, there have been some alarming indications of an increase in the number of corruption deals. The level of petty (administrative) corruption rose between April 2004 and November 2005. So did the number of cases when citizens came under pressure by public sector officials to engage in corruption deals. In 2005, the incidence of pressure exerted by officials and of actually executed corruption deals reverted to the higher rates characteristic of the 1999-2001 period (CSD, 2006).

Under the pressure of some NGOs the public debate was initiated and legislative changes were introduced in the field of anti-corruption. The first comprehensive government anti-corruption document – the National Anti-Corruption Strategy<sup>96</sup> – was adopted in the end of 2001 stating the main objectives of the anti-corruption reform within the public institutions, the judicial system and criminal law, the economic sphere. An Anti-Corruption Coordination Commission (ACCC) chaired by the Minister of Justice was established as a specialised central government structure. The main task of the Commission was to collect, analyse and summarise information about anti-corruption measures and to supervise efforts in combating corruption. In the beginning of 2006 The Strategy for Transparent Governance, Prevention and Countering of Corruption 2006-2008 was adopted.<sup>97</sup> Priorities of the Strategy are to guarantee transparent and accountable governance of the state administration, to elaborate clear and efficient rules for administrative staff-citizens relationships, to increase transparency in decision-making, to prevent practice of corruption, and to increase public trust in institutions and improve public control. New Commission for Prevention and Countering of Corruption (CPCC) to coordinate the implementation of the strategy was established replacing ACCC.

## **7.2 The character and capacity of the social partners and social dialogue**

The social dialogue in the country started from scratch after the political changes in the early 90s. Since the beginning of transition the legislation providing for the development of social dialogue and the corresponding institutions were promoted. Fifteen years after the start of reforms the necessary institutional framework is in place and the social partners organisations proved that they are sufficiently powerful to be able to implement their responsibilities on national level and get actively involved in the consultation process of carrying through employment and social policy. Nevertheless the social dialogue continues to ebb and flow, becoming considerably narrower and less dynamic with the years and depends largely on the attitude and commitment of the government of the time. In recent years, the established mechanisms of social partnership have not been used effectively in achieving a balance between the social and economic dimensions of reforms and ensuring that these reforms occur at a bearable cost. A formal attitude to social dialogue has become more visible, with a

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<sup>95</sup> The Coalition 2000 Initiative of the Center for the Study of Democracy and a number of other Bulgarian NGOs supported by the United States Agency for International Development (USAID) was launched in April 1998 with the aim to fight corruption in Bulgarian society. The Corruption Monitoring System (CMS) of Coalition 2000 consists of a set of quantitative and qualitative monitoring instruments and includes both perception and experience based indicators CMS monitoring surveys address mainly administrative corruption. Main results are presented in Annual Corruption Assessment Reports.

<sup>96</sup> National Anti-corruption Strategy, adopted with the CM Decision № 671/01.10.2001.

<sup>97</sup> Strategy for Transparent Governance, Prevention and Countering of Corruption 2006-2008, adopted by the Government on January 12, 2006.

number of laws amended so as to restrict the involvement of the social partners. The relations between social partners, especially the trade union confederations and governments are marked by tension, uncertainty and suspicion (Tomev et al., 2002).

There are ever-stronger manifestations of the contradiction between the general internal constraints imposed by the international financial institutions and the objective inability to implement the EU directives in the social field under these conditions. That ultimately impedes the introduction of the European social model in the Bulgarian context. The fact that the negotiations are first conducted with foreign partners, i.e. IMF and World Bank before the social partners limit the ability of the latter to influence effectively the most vital issues for the population – employment, living standards and incomes.

### *The main social actors in the country*

The main body for national-level social dialogue is the National Council for Tripartite Cooperation (NCTP), established in 1993, which has standing commissions on a number of issues. The NCTP is a body for cooperation and consultation over labour, social security and living standards issues. It includes representatives of the government and of the trade union and employers' organisations recognised as representative at national level.<sup>98</sup> After the democratic changes starting in 1989, the trade unions were among the first organisations to undergo rapid change and they became one of the main driving forces of the process of change. The establishment of trade union pluralism in Bulgaria is seen as having contributed to the recognition of unions' key place in the process of reforms, especially in the years of preparing and initiating tripartite cooperation and collective bargaining. A policy of support for reforms at an acceptable 'social price' and a new consensual culture of labour relations based on social dialogue strengthened the unions' prestige and made it possible for them to play a leading role in the creation of Bulgaria's new system of industrial relations. At present two national trade union organisations have been recognised as representative on national level – Confederation of Independent Trade Unions in Bulgaria (CITUB) and Podkrepa Confederation of Labour and they participate in the NCTC. According to the official census of the trade union members in the two confederations combined accounted for about 95% of the trade union members, with the other trade union centres covering the remaining 5%. Both CITUB and Podkrepa are members of the International Confederation of Free Trade Unions (ICFTU) and the European Trade Union Confederation (ETUC). The predominance of the state and the trade unions is still visible in the tripartite system.

The establishment of the employers' organisations started later and their organisational structures are somewhat fragmented with lacking clear rules for membership. There are six employers' organisations recognised as representative on national level: the Bulgarian Industrial Association (BIA); the Bulgarian Chamber of Commerce and Industry (BCCI); the Union of Private Economic Enterprise (UPEE); the Union of Private Bulgarian Entrepreneurs Vazrazhdane (UPBE); the Employers' Association of Bulgaria (EABG) and the Bulgarian Industrial Capital Association (BICA). The latter two organisations are recognised as representative in the end of 2004.

During the past few years, the range of the social partnership has been broadened. New mechanisms have developed, such as: participation of the social partners in the work of

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<sup>98</sup> The Labour Code (LC) regulates the social partnership at all levels and defines the criteria for representation recognition of the employer organisations and the trade unions at national level. The Council of Ministers is authorised to give recognition.

parliament through the Advisory council at the Parliamentary commission on labour and social policy; and the establishment of special working groups on the preparation of new labour and social laws, involving the social partners in preparing legislation and in the working groups on the EU accession process. The social partners are also involved in the management and monitoring of numerous institutions with a tripartite structure.

The Employment Promotion Law (2001) in force since 1 January 2002 regulates social dialogue promotion in the field of employment and provides higher opportunities for social partners to influence the policy. The set up of cooperation bodies operating on tripartite principle, such as: interim Employment Commissions at the Regional Councils for Regional Development with the participation of social partners and NGOs, municipal Councils for Cooperation at the Employment Agency units for control of the implemented active labour market policy, and the National Employment Promotion council as a standing cooperation and consultative body for employment policy development guarantee legal involvement of social partners in employment policy development.

The social partners participate also in the tripartite bodies in the field of the vocational education and training (VET): Managing board of the National VET Agency (NAVET); National Advisory Council for Vocational Qualification (NCVQ) and in the National Working Conditions Council. Since 1995 with the adoption of the new legislation on social security the social dialogue acquired new dimension involving the social partners in the designing and running social security schemes. The Supervisory board of the National Social Security Institute (NSSI) was established on tripartite principle.

A law adopted in 2001 (and last amended in March 2003) in line with the European practice provided for the establishment of Economic and Social Council (ESC), an advisory body compound of representatives of employers' organisations, trade unions and non-governmental organisations.<sup>99</sup> Main purpose of the Council is to express the will and interests of the civil society on fundamental economic and social policy issues in the country. The ESC held its first plenary session only in the end of 2003. Since than several analyses, statements and positions on important issues has been elaborated, e. g. on the demographic issues and challenges of the aging of the population, on development of the civil dialogue, on state budget, health, energy, social, income policies, Lisbon strategy, etc. The establishment of the ESC is regarded as completing the social dialogue system in Bulgaria.

Through enumerated tripartite bodies, major reforms were the subject of consultations with the social partners, with the result that major social conflicts were, in the main, successfully avoided. Agendas of meetings of the tripartite bodies are set in many different ways, but in most cases by the government not always with the full involvement of the social partners. Nevertheless they have the right to propose issues to be included in the agenda. The government is not allowed to make decisions without discussing the issues with them, but it is not obliged to accept the partners' opinions and must seek to ensure consensus. Being aware of the responsible role they have regarding the labour market, the employer and trade union organisations focus their activities on:

- Participation in the formulation, development, adoption and implementation of a national labour market and social security policy;
- Development and implementation of specific projects and employment initiatives.

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<sup>99</sup> Law for Economic and Social Council. Prom. SG. 41/26 Apr. 2001, amend. SG. 120/29 Dec. 2002, amend. SG. 20/4 Mar. 2003.

Through their participation in the tripartite cooperation bodies the social partners are involved in all important stages of employment promotion and social policy, i.e.: policy setting, drafting of legislation; developing programmes that support the strategies chosen, etc.

The social partners take an active part in the National Employment Promotion Council activities directed to the development and implementation of employment promotion policy. With their participation every year since 2001 National action plans for employment promotion were adopted. In 2003, the Bulgarian government adopted the country's first-ever Employment strategy and the Strategy for fighting poverty and social exclusion with the participation of the social partners.

Much has been achieved over the past decade with the support of the ILO and the EU Community programmes and initiatives contributing to the development of social dialogue institutions. However, a lot remains to be done to strengthen the capacities of social partners and the government. Despite the relatively good institutionalisation of social partnership in tackling the labour market issues it should be noted that the social partners' involvement in some of the structures is more formal than not and the opportunities provided are not big enough to influence decision-making due to the high level of centralization of power and resources established by the Government. Few constructive proposals coming from the social partners are taken into consideration, especially on a national level. That contradicts the European Employment Strategy (EES) spirit and philosophy. Bulgaria's commitments in the process of negotiations for accession to EU require both extension of the social dialogue and promotion of more meaningful social partnership on social dimensions of development. Recommendations are made in almost all regular reports of the European Commission on Bulgaria's progress in the process of accession and in JAPs<sup>100</sup> for encouragement of the social dialogue, including involvement of the social partners in decision-making and in the formulation of the social policy as a whole. Despite the wide proclaimed social partnership the idea of partnership has not been transformed from a formal political statement into reality. In more cases the social partner's participation remains rather procedural than conducive to full and responsible involvement.

### **7.3 Civil society organisations**

The social and civil dialogue is considered important part of good governance leaving room for democratic participation in decision-making at different levels. The recent Bulgarian Non-Government Organisations' sector was born in the transition to the democratic political system. A wave of NGOs emerged with the beginning of the political transformations. According to some surveys more than 16,000 NGOs have been registered after 1996 (Dakova, 2003). Despite the considerable development the civil society is still underdeveloped as far as the participation of citizens is concerned. The establishment of civil society organisations (CSOs) is related to the emergence of programmes and grant schemes designed to support the institutional development of NGOs. Thus, the sector was formed with a top-down approach, led by donor demands and visions and not by the Bulgarian citizens (Andreeva, 2005). The co-ordination and co-operation between central governments, local governments, and nongovernmental organisations is still weak.

The ILO Survey shows that main spheres of activity of the Bulgarian NGOs are as follows: science (6%), healthcare (11%), education (15%), environment (4%), local development

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<sup>100</sup> Joint Assessment Paper.

(16%), poverty (23%), social services (12%), and human rights (17%). From the three basic strategies offered by the World Bank for fighting poverty, namely: i) granting goods and services; ii) making easier access to institutions; and iii) redistributing goods, the Bulgarian NGOs perform activities mainly on the first strategy. As a whole the third sector rarely comes into contact with political elites, the state, or the executive power and legislature (ILO, 2004).

The researchers of civil society (Dakova, 2004) pointed out some specific characteristic features of the Bulgarian civil society:

- The NGO sector is still perceived as quite fragmented and the coordination between individual NGOs is ineffective
- Financial dependency on the central and local governments and international donors
- Underdeveloped public-private partnership
- Uneven distribution with the concentration in the big cities
- Created from above citizen participation is very low – "civil society without citizens"
- Human resource shortage
- Well-developed institutional structure with high level of professionalism, including the presence of self-regulation mechanisms and umbrella organisations as a positive outcome of the "donor-driven" emergence of the sector
- Relatively stable and enabling overall political and socio-economic environment
- Social capital defined as involving formal and informal social networks among individuals who share norms and values, especially the norm of reciprocity (mutual assistance) is not well developed.

Surveys<sup>101</sup> have registered low level of participation in community based activities or other social activities – petitions, demonstrations, referendums, charity political or discussion forums, participation in associations, organisations, political parties, etc. Bulgarians still think that civil participation will not change anything (*Table 19*). According to the EQLS data for 1999 just 4% attend religious service, 2% are active in church or another religious organisation.<sup>102</sup>

*Table 19. Membership and activity in an organisation, party, group (%)*

	Membership and active participation	Membership but not active	Membership in the past	Never been member	Don't know	No response
Political party	2.9	3.4	15.8	76.3	0.1	1.5
Trade union, business association, professional organisation	2.6	9.0	29.0	57.8	0.3	1.3
Church or another religious organisation	1.4	2.4	1.2	92.5	0.9	1.6
Sport, cultural or other group for entertainment	1.5	2.1	8.7	86.3	0.3	1.2
Another voluntary organisation	1.0	0.7	5.4	90.4	0.8	1.8

*Source:* Everyday Issues Survey conducted by the Agency for Social Analyses (ASA) within the Work orientation module in 2005 (N01121) Fro Field Data Partners (2005).

<sup>101</sup> UNDP National Human Development Report , 2001; ASA Survey, 2005

<sup>102</sup> European Foundation for the Improvement of working and Living Conditions. European Quality of Life Survey Database, 2003 <http://www.eurofound.eu.int/areas/qualityoflife/eqls.htm>

Very interesting insights to the development of the Bulgarian civil society presents the Civil Society Index (CSI) study carried out by Balkan Assist Association for partnership and citizen activity support (BAA) within the project of the international non-governmental organisation CIVICUS: World Alliance for Citizen Participation. The CSI employs 72 indicators, which are grouped in 25 sub dimensions consolidated along four basic dimensions of civil society: structure, environment, values and impact. The data for 2003-2005 period when the project has been realised show that Bulgaria has a moderately sized civil society, with rather strong values. The Structure dimension describes and analyses the overall size, strength and vibrancy of civil society in human, organisational, and economic terms. The score of this dimension is 1.1 indicating a relatively small civil society. The score of the dimension Environment is 1.3 which indicates that Bulgarian civil society exists in a moderately enabling environment. The score for Values dimension is 2.1, which reflects an overall positive value basis for Bulgarian civil society. Civil society's Impact on the life of Bulgarian people and on society at large is scored at 1.5, indicating an average level of impact for Bulgarian civil society. In general terms, the Survey indicates that the civil society's impact on the development of Bulgaria has received a mixed assessment. The role of CSOs in promoting good governance and development has so far been most successful in the establishment of a positive legal environment for good governance and public participation. Some positive examples are the advances made in social development, decentralisation and access to information. There are also cases of impact by CSOs on policy implementation, although only few organisations advocate for policy change on specific issues.<sup>103</sup> Still the civil society is not perceived as an effective channel through which citizens could influence public life, exercise control over the policy and contribute to good governance.

## 8. Specific issues

Several issues warrant highlighting with specific regard to Bulgaria's socio-economic development. On the topic of employment, a characteristic feature of unemployment in Bulgaria is its long-term duration – during the 10 years leading up to 2005 more than half the share of unemployed persons had been jobless for more than a year (60% in 2005). Those who had been unemployed for more than two years also held a high share (43% in 2005) among the total unemployed. Meanwhile, the participation rate of young persons (aged 15-24) and older workers (55+) remained below EU indicators. Significant differences can be observed in the levels of employment among the different planning regions, especially those with a larger share of minority groups. A positive trend of falling unemployment has been observed, however. One of the reasons for improvements in the labour-market participation rate is the existence of a relatively well-developed system of childcare facilities, kindergartens and nurseries, and the comparatively easy access to them. Alongside these facilities is the traditional co-existence of several generations in the household, which implies fewer difficulties for parents with small children in terms of participating in the labour market. The flexibility of the labour market is also considered a weak point as well as the discrepancy between productivity and wage levels.

Education – which is directly related to labour market participation and performance – has worsened in the last decade in terms of quality and attendance. It is estimated that 6-7% of students drop out. The highest percentage of drop-outs is among the Roma minority. Another source of concern is the lack of schools in the rural areas which creates inequalities in access

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<sup>103</sup> See Andreeva et al. (2005).

to education. Disturbing socio-economic distinctions in access to services and goods by minorities are found – for example, only 2% of the Roma population and 5% of the ethnic Turkish population are reported to use the Internet. These distinctions can be explained by socio-economic factors and less access to computers at homes and schools in these communities and may have long-term negative effects.

Although the poverty line has risen in the last 10 years, the income of Bulgarians is still far below the EU-25 average. This means that the living standards are still low. Although most householders own their property, this is not related to the levels of their income and they do not have sufficient means to maintain the dwellings. The quality and security of the environment is also low and creates dissatisfaction among the population.

A long-term tendency towards a decline in the size of the population is observed. In rural areas the problem is even sharper as there is not even the simple replacement of working-age persons. The regional distribution of the population is uneven and according to statistics about one-quarter of the total population lives in the capital and in the second largest town. There are differences in access to some goods and services for the urban and rural populations, which is one of the factors stimulating internal migration from villages to cities (and particularly big cities). The population structure has specific ethnic features as well. According to national census data, the Roma minority accounts for 4.7% of the population, however, some experts estimate a figure around 7-10%. Bulgarian Turks are another significant ethnic group amounting to 9.4% of the population.

The system of social security has been substantially transformed in the last decade. A new three-pillar pension model was introduced in 2000, including a mandatory pay-as-you-go public scheme, a supplementary, mandatory fully-funded scheme and a supplementary voluntary scheme. Indeed, the establishment of the public-private mix was oriented toward redistribution of the insurance risk among the different pillars and improvement of the financial balance of the system. Although a set of administrative measures for better collection of social security contributions has also been implemented since 2003 – e.g. a matrix of minimum insurance thresholds, which increased the compliance rate, the sustainability of the pension system is still at risk, mainly because of imbalances in the dependency ratio. A high relative share of the informal economy – and respectively the incomes in this economy (according to different estimates it ranges from 22 to 31.2% of the GDP) – another problem in reporting the real wages and payment of adequate contributions to the social security system. Serious problems are observed in the healthcare sector, where reforms are not progressing and as a result the quality of services has deteriorated; indeed, an increase in inequalities (financial and access-related) can be observed. In this context, achieving and maintaining the sustainability of public finances may prove to be difficult.

Another specific feature regarding the socio-economic development in Bulgaria is the presence of corruption in the society. Despite the efforts towards improvements there are still challenges to be tackled as corruption affects political life, the business environment and personal development. Corruption and government effectiveness remain the main obstacles to starting a business easily in Bulgaria. The legislative and regulatory framework remains excessively complex, and starting and closing business is not simple and cheap in Bulgaria, compared with OECD countries for example.

## 9. Conclusions

During the past 10 years, the requisite reforms in the economic and social fields for Bulgaria's preparation for EU accession have been accomplished. They have been achieved in the background of a relatively stable political environment. Two consecutive governments have implemented the full mandate, while the period before 1997 was marked by frequent changes in the executive power and an uncertain parliamentary majority. The Currency Board had and continues to have an exceptionally important role as an anti-inflation anchor, which creates and maintains the macroeconomic stability of the country as a whole. The key factors for success have been i) a relatively high level of political support for the economic reform process; ii) the ensured continuity of economic policies during the past 10 years; iii) the fiscal policy implemented through the Currency Board; and iv) the structural reforms taken. The latter reforms have brought about changes through improved legislation, mass privatisation, the restructuring of the financial sector, an active labour market policy and steps towards reforming pensions and healthcare systems.

Nevertheless, Bulgaria is facing a number challenges related to its forthcoming EU accession.

In **economic and industrial development**, a great number of regional and sectoral problems persist alongside a disproportionate level of goods production. It is impossible to solve these problems promptly and effectively without a new, active industrial policy. The general challenge is to raise the competitiveness of Bulgarian industry in the process before and after EU accession, because this determines the ability of Bulgarian firms to withstand the expected competitive pressures. The situation related to the environment is particularly difficult. The fulfilment of the high requirements with the negotiated short transition periods will lead to an exceptional increase in the investment costs in the short-term and loss of competitiveness. Meeting these requirements in the time allotted might pose threats to the existence of SMEs, and a massive failure of SMEs would have unpredictable ramifications on the economy and in particular on the labour market, income and social security insurance systems.

The **problem with the high-energy capacity and low-energy effectiveness** of the Bulgarian economy is difficult to solve against a background of increasing consumption of electric power in the country.<sup>104</sup> Bulgaria undertook the commitment that three to four blocks of the Kozlodui Nuclear Plant would be terminated and removed from operation from the beginning of 2006. But if consumption continues to increase, Bulgaria will need to import electricity. In recent years, Bulgaria covered the electric power deficit of the countries of south-eastern Europe. The European Commission offered an additional €140 million within the PHARE programme in order to compensate unfavourable economic, social and environmental consequences. Yet the experts already foresee that this measure (arising out of the lost export positions) will lead to an increase in electricity prices in the country because both reactors annually produced about 5 billion kilowatt hours.

The **bad condition of the road infrastructure** continues to be one of the main factors that impede the economic and regional development of the country. Three of a total of five highways in Bulgaria – Trakia, Struma and Chernomore – will be finished under concession contracts. The unclear points and the possibilities for changes around the contract, concluded by the former government, have until now frustrated the building activities on the Trakia highway. The future of the Maritsa highway is not clear. The Hemus highway is difficult to finish as well. For the period 2007-2013, Bulgaria expects to receive about €850-900 million

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<sup>104</sup> See the CED report *The Bulgarian economy in 2005*, CED, Sofia, 2006.



from the European Union to improve the road network to high standards. Even if used fully, however, the finances are not enough and other sources have to be found.<sup>105</sup>

An **underdeveloped land market** continues to be the main problem of the agricultural sector. Land restitution is finished but the process of re-allocating agricultural land is proceeding too slowly. The widespread fragmentation of land does not allow the use of sophisticated techniques or the introduction of new technologies in agricultural production. The concentration of land property will allow better use of EU funds. It is expected that three registered investment associations for buying up agricultural land will propose better contractual conditions and will implement more effective control on the management and use of the land. For these reasons, the land market has to be made more liquid and in parallel the price of land must increase.

In terms of **demographic development**, changes in the age structure of the population are a considerable factor shaping Bulgaria's general socio-economic development. A decline in the working-age population forms part of the trend towards population ageing.

The **labour market is characterised by a low degree of competitiveness** – about 60% of the registered unemployed are jobless for more than a year. As a rule they have little chance of moving into the primary labour market because of specific hindrances – low educational levels, a lack of occupational qualifications, poor ability to adapt and an unwillingness to move. At the same time, there is chronically severe lack of qualified workers in the labour market, which could not be assuaged even with a vast increase in labour costs. This structural problem in the labour market is exacerbated by unfinished reforms of the educational system (including occupational education and orientation), as well as by emigration, which as a rule diverts the younger and more educated contingent of the potential work force.

Despite the economic recovery at the end of 1990s, the Bulgarian labour market continues to face problems, such as stagnated productivity and low activity rates. Economic growth is below its potential level and the productivity gap in Bulgaria is widening. Labour market participation is very low, but a positive trend towards an increase has been observed in the last five years. The employment rate has also grown in this period. It is partially owing to temporary employment programmes subsidised by the government. SMEs are also a generator of employment. The last 10 years have brought substantial changes in the employment structure by sector, e.g. a decrease of employment in agriculture, a moderate increase in industry and a rapid rise in services. Employment shifts have resulted mainly from the drop in production volume, rather than from growth in labour productivity. The unemployment rate, which was high in the period around 2002, started to decline and in 2005 exceeded the average EU level by a mere 1.2 percentage points. Notwithstanding this positive trend, the labour market continues to encounter difficulties in creating employment opportunities for disadvantaged groups. A characteristic feature of unemployment in Bulgaria is its long-term duration. In addition, there is a persisting adverse trend of higher unemployment among persons aged up to 24.

The **low income level** is basically predetermined by the low level of labour productivity, but certain problems also stem from wages, which in some sectors (for example textiles and clothing) is used as a factor for competitiveness and as a way to attract foreign investors. The average hourly labour costs (€1.45) in Bulgaria compared with the EU-25 level (€21.22) are in nominal terms 14.6 times lower.<sup>106</sup> This present 'advantage', if used as a long-term policy,

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<sup>105</sup> Ibid.

<sup>106</sup> See EUROSTAT (retrieved from <http://epp.eurostat.ec.europa.eu/portal/>).

will bring vast negative consequences – being a general failure to develop the economic potential of the country along with an orientation towards less lucrative sectors and activities. Greater employment under such terms does not lead to a privileged status but to the phenomenon of the ‘working poor’ and to a lack of motivation for training and skills improvement.

With regard to **social security issues**, in 2000 a radical reform of the social security system sought a better balance between contributions and expenditures. A new three-pillar pension model was introduced at that time, including a mandatory pay-as-you-go public scheme, a supplementary, mandatory fully-funded scheme and a supplementary voluntary scheme. The financial pressures of population ageing were the most important factor behind the increases in expenditures in the 1995-1999 period. After the reform in 2000, more demanding eligibility criteria were implemented (e.g. a higher pension age and changes in the length of insurance) and the number of beneficiaries fell. In the same period, social insurance contributions were reduced by nearly a third. For this reason the deficit in the pension fund rose, despite the fact that the introduction of a three-pillar model in Bulgaria is considered a successful example of smooth reform. The rising retirement age has limited the coverage of pension insurance and created an incentive for individuals to more actively seek assistance through disability pensions. Nevertheless, the labour participation rate is relatively high for the population aged 55-64 and specific public work programmes are oriented towards unemployed persons of pre-retirement age.

Healthcare insurance has been gradually replaced the tax financing of healthcare and hospital treatment since 1998. The main shortfalls in ongoing reforms relate to the delayed structural changes in hospital care and the continuation of many ineffective institutions.

Non-contributory schemes provide mainly means-tested benefits and targeted assistance for specific groups of persons, particularly families with children, disabled persons and disadvantaged groups among the unemployed. Such schemes are not very effective in poverty alleviation, because of the high eligibility criteria and the very low level of benefits. Poverty among the economically active population is usually addressed by involvement in subsidised public work schemes. The coverage of active labour market programmes and expenditures on them have risen significantly in the last few years, but they provide temporary employment in low-qualified and low-paid jobs. The continual labour market reintegration and exit of disadvantaged workers are not achieved as an output of active labour market policies.

The main trend in tax policies in the last five years has been to reduce the reliance on direct taxation and expand the role of indirect taxation in tax revenues. Several tax rates were reduced to become more supportive of growth and investment and to promote work incentives. The cuts in social insurance contributions have been implemented together with a gradual redistribution of the fiscal burden between employers and workers. Despite the progress made in fiscal policy, the total tax burden is still high and, together with the deficiencies in revenue administration, contributes to tax evasion and the informal economy. Yet the establishment of a unified national revenue agency in 2006 is a step towards transparency and administrative capacity-building.

Bulgaria needs to guarantee the sustainability of its fiscal achievements mainly by further development of public expenditure reforms aimed at increasing effectiveness and efficiency. The key challenges in the field of social protection expenditures are the better targeting of subsidised employment towards disadvantaged groups, countermeasures to alleviate the problems of population ageing by increasing the labour market participation of older workers, the restructuring of hospital care and firmer control over disability pensions.

In summary, the main social and economic problems in Bulgaria are as follows: i) low incomes; ii) low levels of productivity and energy efficiency; iii) a relatively high rate of unemployment; iv) a steep level of taxation; v) burdensome regulations; vi) the declining quality of education and healthcare; vii) worsening demographics; and viii) insufficient protection of property rights. In order to tackle these challenges, the following decisions have to be taken with a view to achieving greater economic freedom in the country:

- maintain the Currency Board arrangement; in this respect, one possible extension of its remit is to allow payments in euros (including the settlement of obligations to the state);
- reduce the size of the government in terms of revenues and expenditures, by cutting taxes, lowering subsidies and optimising the number employed in the public budget sector; a maximum of 35% of GDP should be redistributed through the consolidated budget;
- increase the private provision of ‘public goods’ and the privatisation of state-owned assets, including enterprises, infrastructure, land, forests, coastal areas, etc.;
- facilitate a more flexible labour market by removing obstacles to hiring and firing workers, alleviating regulations concerning working time and freezing the minimum wage at its current level;
- introduce vouchers in education and healthcare systems and promote competition; remove the monopoly of National Health Insurance Fund and allow compulsory insurance in private funds;
- undertake reforms in pension and healthcare systems aimed at a higher share of second-pillar provision (the fully funded system).
- implement fiscal decentralisation;
- cut the number of license and registration regimes, adopt the ‘silent content’ and e-government; and
- simplify company registration in terms of fees, number of days, procedures and minimum capital requirements.

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- USAID, Labour Market in Bulgaria.



## List of Abbreviations

ACCC	Anti-Corruption Coordination Commission
BCCI	Bulgarian Chamber of Commerce and Industry
BGN	Bulgarian national currency (lev)
BIA	Bulgarian Industrial Association
BICA	Bulgarian Industrial Capital Association
BNB	Bulgarian National Bank
CBA	Currency Board Arrangement
CITUB	Confederation of Independent Trade Unions in Bulgaria
CPI	Consumer price index
CSI	Civil society index
CSO	Civil society organisation
EABG	Employers' Association of Bulgaria
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EES	European Employment Strategy
ESC	Economic and Social Council
ETUC	European Trade Union Confederation
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
GVA	Gross value added
ICFTU	International Confederation of Free Trade Unions
IEA	International Association for the Evaluation of Educational Achievement
ISCED	International Standard Classification of Education
JAP	Joint Assessment Paper
JIM	Joint Inclusion Memoranda
LFS	Labour Force Survey
MLSP	Ministry of Labour and Social Policy
NAVET	Managing board of the national VET agency
NCTP	National Council for Tripartite Cooperation
NCVQ	National Advisory Council for Vocational Qualification
NHIF	National Health Insurance Fund
NSI	National Statistical Institute
NSSI	National Social Security Institute

NUTS	Nomenclature of territorial units for statistics
OECD	Organisation for Economic Cooperation and Development
PIRLS	Progress in International Reading Literacy Study
PISA	Programme for International Student Assessment
PPP	Purchasing power parity
SAPARD	Special Accession Programme for Agriculture and Rural Development
SME	Small and medium-sized enterprise
SOE	State-owned enterprise
TFP	Total factor productivity
TIMSS	Trends in International Mathematics and Science Study
UPBE	Union of Private Bulgarian Entrepreneurs (Vazrazhdane)
UPEE	Union of Private Economic Enterprises
VAT	Value added tax
VET	Vocational education and training

## Annex to BALKANDIDE Bulgaria country report

### Bulgaria - additional indicators

Annex 2.1	Economy, labour market
Annex 2.2	Demography
Annex 2.3	Living conditions
Annex 2.4	Tax-benefit general
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## Annex 2.1: Economy, labour market

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>GDP</b>															
GDP per capita in PPP	United Nations Economic Commission for Europe Statistical Division Database	prices and GDP of current year	USD			5,190	5,506	5,713	6,184	6,672	7,064	7,581	8,101	8,833	
<b>Inflation rate</b>															
aggregate CPI			%				18.7	2.6	10.3	7.4	5.8	2.3	6.1	5	
goods CPI															
services CPI															
<b>Foreign Direct Investment</b>															
euro	Bulgarian National Bank		million euro						1103.3	903.4	980	1850.5	2727.5	1789	
<b>Productivity</b>															
Labour productivity per person employed (GDP in Purchasing Power Standards (PPS) per person employed relative to EU-25 (EU-25 = 100))	Eurostat								31.3	32.5	32.5	31.9	31.7	32.6	
average nominal monthly wage, EUR	National Statistical Institute								114.4	123.9	132	140.3	148.7	160.6	
nominal average wage growth, local currency	National Statistical Institute									8.3	6.6	6.2	6	8	
Real unit labor cost (growth rate of the ratio: compensation per employee in current prices divided by GDP in current prices per total employment)	Eurostat	data for 2004 and 2005 are forecast	%			-8	18.4	-2.2	-5.4	0.8	-3.4	0.4	-2.6	1.7	
<b>Macroeconomic policies &amp; other indicators</b>															
general government revenues; % of GDP	Ministry of Finance		%						41.4	39.8	38.7	40.7	41.4	42.9	
general government expenditures; % of GDP	Ministry of Finance		%						42	40.4	39.4	40.7	39.7	39.7	
average interest rate - official, for major monetary policy instrument	Bulgarian National Bank		%						4.62	4.65	3.31	2.83	2.37	2.05	
3 month interbank offered interest rate	Bulgarian National Bank		%							3.80	2.39	1.94	1.97	2.06	
credit to households; % of GDP	Bulgarian National Bank		%						2.3	3.1	4.3	7.2	11.4	16.5	
credit to households; annual growth rate	Bulgarian National Bank		%						18.5	51.0	48.3	80.7	74.8	58.4	
average annual exchange rate - local currency per 1 euro	Bulgarian National Bank		%						1.95583	1.95583	1.95583	1.95583	1.95583	1.95583	
<b>Balance of payments</b>															
Goods exports	Bulgarian National Bank		million euro				3746.9	3733.7	5253.1	5714.2	6062.9	6668.2	7984.9	9454.1	
Services exports			million euro				1602.7	1686.2	2366.2	2428.7	2455	2728.6	3261.8	3444.3	
Goods imports			million euro				4075.3	4741.4	6533	7492.6	7940.9	9093.8	10938.4	13823.2	
Services imports			million euro				1249.4	1380.5	1818.6	2097.7	1949.6	2175.9	2569.3	2777.5	
current account			million euro				-28.5	-586.9	-761.4	-855.2	-402.5	-972.3	-1131.3	-2530.6	
worker remittances			million euro				170.2	233.3	305.9	472.5	531.7	613	815.1	765.5	
capital and financial account			million euro				171.3	803.3	924	754.9	1842.8	2324.9	2910.8	2873.6	
direct investment in reporting country			million euro				605.1	866	1103.3	903.4	980	1850.5	2727.5	1789	

## Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Labour market indicators</b>	LFS, National Statistical Institute														
participation rate															
total >15		end of year			52.5	51.6	50.4	49.2	47.5	48.1	48.4	48.5	49.4	49.6	
		average for the			:	:	:	:	:	:					
age 15-64		year			:	:	:	:	:	:	60.7	60.9	61.8	62.1	
age 15-24					33.3	31.6	32.4	31	27.8	28.5	27.9	27.4	29.3	28	
age 24-55					86.7	85.8	82.7	81.2	79.1	80	79.5	78.3	79.5	80.3	
age 55-64					22.1	23.5	22.7	22.7	23.5	28.9	30.5	34.8	35.4	38.3	
employment rate															
total >15					45.4	43.9	42.4	40.8	39.6	38.7	40.3	42.3	43.6	44.7	
age 15-64					:	:	:	:	50.3	49.7	50.8	52.7	54	56	
age 15-24					22.3	20.3	20.7	19.6	18.3	17.1	18	19.8	21.4	21.6	
age 24-55					77	74.7	71.2	69.1	67.6	66.1	67.6	69.3	71.2	73.1	
age 55-64					20.1	21.4	20.3	19.7	20.3	24.2	26.2	31	31.8	35.4	
unemployment rate															
total 15-64															
age 15-64					13.5	15	16	17	16.4	19.5	16.8	12.7	11.8	9.9	
age 15-24					33	36	36	36.7	34.2	40.1	35.4	27.7	27	22.8	
age 24-55					11.3	13	13.9	14.8	14.6	17.5	15	11.5	10.5	9	
age 55-64					8.7	8.7	10.8	13.1	13.8	16.3	14.1	10.7	10.2	7.2	
participation rate															
male >15					57.4	56.7	55.6	54.5	52.4	52.4	53.2	53.7	55	55.4	
age 15-64					:	:	:	:	:	:	65.2	65.4	67.6	67	
age 15-24					34.7	33.2	33.8	33.9	29.5	29.9	30.2	29.5	31.3	31.5	
age 24-55					89.2	88.4	85.8	84.3	81.9	82	81.8	81.4	83	83.6	
age 55-64					36.5	37.9	36.9	36.9	37.1	40.7	42.5	45.8	47.1	51.7	
employment rate															
male >15					49.6	48.4	46.6	45.1	43.7	41.8	43.9	46.8	48.2	49.8	
age 15-64					:	:	:	:	54.6	52.7	54	56.1	57.7	59.9	
age 15-24					23.1	21.2	21.4	21.1	18.9	16.9	18.3	20.5	22.6	23.9	
age 24-55					79	77.3	73.8	71.7	70.1	67.3	69.2	71.9	74	76.2	
age 55-64					33.1	34.5	33	32.1	32	33.8	36.3	41.2	41.8	47.7	
unemployment rate															
male 15-64															
age 15-64					13.5	14.7	16.1	17.3	16.5	20.4	17.6	13	12.5	10.1	
age 15-24					33.3	36.1	36.8	37.6	36	43.4	39.4	30.3	27.8	24	
age 24-55					11.3	12.7	13.9	14.9	14.7	18	15.4	11.7	11	8.9	
age 55-64					9.2	8.9	10.6	13.1	13.8	17.1	14.7	9.9	11.3	7.4	
participation rate															
female >15					48	46.8	45.5	44.2	42.9	44	43.9	43.6	44.3	44.2	
age 15-64					:	:	:	:	:	:	56.4	56.6	57	57.3	
age 15-24					31.7	30	30.9	27.9	26	27	25.6	25.3	27.2	24.5	
age 24-55					84.4	83.3	79.5	78.4	76.2	78	77.2	75.7	75.9	77.1	
age 55-64					9.2	10.8	10.3	10.6	12	18.1	20.5	25.5	25.7	26.8	
employment rate															
female >15					40.3	39.7	38.4	36.8	36	35.8	37	38.2	39.3	39.9	
age 15-64					:	:	:	:	46.3	46.7	47.7	49.2	50.5	52	
age 15-24					21.4	19.3	20.1	18	17.7	17.2	17.8	19.1	20.1	19.3	
age 24-55					74.8	72.2	68.7	66.5	65.1	64.9	66	66.7	68.4	70.1	
age 55-64					8.6	9.9	9.1	9.3	10.3	15.4	17.8	21.5	23.5	24.8	

## Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
unemployment rate															
female 15-64															
age 15-64					13.4	15.3	15.9	16.8	16.2	18.5	15.8	12.4	11.1	9.7	
age 15-24					32.7	35.8	35	35.7	32.1	36.4	30.5	24.6	26	21.2	
age 24-55					11.3	13.3	13.9	14.8	14.7	16.9	14.6	11.4	9.9	9.1	
age 55-64					6.9	8.4	11.8	13	13.9	14.8	13	11.8	8.5	7	
participation rate by educational categories															
Higher					79.7	78.7	77.4	77.5	74.1	72.2	72	72	73.4	71.7	
Upper secondary					63.9	62.8	61.5	62	62.6	62.1	62.8	62.8	63.5	64.2	
Lower secondary					:	:	:	30.6	27.5	27.6	28.1	27.9	27.8	27.7	
		*Until 1998													
Primary or lower*		Lower secondary and lower			32.2	30.5	28.1	14.5	12.6	12.2	13.6	13.8	15.6	16.1	
employment rate by educational categories															
Higher					76	73.9	72.2	72.1	69	65.6	67	67.5	69.1	68.7	
Upper secondary					55.5	53.2	51.8	52.9	53.1	50.2	51.8	55.5	56.6	58.5	
Lower secondary					:	:	:	22.5	20.1	19.2	20.6	21.8	22.4	23.1	
		*Until 1998													
Primary or lower*		Lower secondary and lower			25.2	23.5	20.7	8.1	7.4	6.2	7.5	9.7	10.8	10.5	
unemployment rate by educational categories															
Higher					4.6	6.1	6.7	7	6.9	9.1	6.7	6.3	5.9	4.1	
Upper secondary					13.1	15.3	15.7	15.9	15.2	19.1	15.8	11.6	11	8.9	
Lower secondary					:	:	:	26.4	27.1	30.3	27.2	22	19.6	16.9	
		*Until 1998													
Primary or lower*		Lower secondary and lower			21.5	22.7	26.4	44.2	41.3	49.5	49.4	30.1	31.2	35.1	
participation rate by place of residence															
urban					57.2	56.4	55.8	54.1	52.5	52.6	53.2	53.8	54.1	54.2	
rural					43	41.9	39.3	38.7	36.9	37.5	38.1	38.6	38.8	38.9	
employment rate by place of residence															
urban					50	48.4	47.6	45.8	44.9	43.6	44.6	46.7	48.2	49.4	
rural					36.1	34.7	31.4	30.3	28.8	28	29.1	32.3	33	33.6	
unemployment rate by place of residence															
urban					12.6	14.1	14.6	15.4	14.5	17.6	16.9	11.6	10.9	8.8	
rural					16	17.3	20.1	21.9	22	25.3	22.8	16.3	15	13.7	
number of unemployed in Labour Force Survey															
registered	Employment agency				488,700	534,100	556,100	576,900	536,700	636,500	544,200	411,400	391,000	328,500	
number of unemployed obtaining unemployment benefit	Employment agency				432,308	523,507	465,202	610,551	682,792	662,260	600,524	500,664	450,560	397,340	
	Employment agency				178,004	157,675	136,333	178,369	196,931	160,595	116,328	87,193	87,443	77,120	
<b>Active Labour Market Policies</b>	Employment agency														
number of unemployed taking part in ALMPs															
Total									59,759	48,085	127,302	216,478	218,675	201,454	
Public work programs									39,028	26,241	88,815	147,205	147,481	133,997	
Subsidies for employment									4,906	11,540	19,385	31,057	39,768	39,598	
Training									15,825	10,304	19,102	38,216	31,426	27,859	
expenditures on ALMPs															
BGN millions									61.3	52.5	54.8	154.5	223.8	208.9	
Share of total LMPs									29.6	23.8	26.2	59.4	68.8	69.7	

## Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Regional labour market</b>															
employment rate by regions, NUTS 2										44.4	46.8	47.2	48.9	50	
max										32.6	31.5	35.3	35.7	35.2	
min										4.2	4.8	4.1	4.5	5.1	
standard deviation															
unemployment rate by regions, NUTS 2										25.8	23.9	19.4	17.6	13.3	
max										13.7	9.9	11.1	9.3	7.6	
min										4.9	5.3	3.5	3.8	2.4	
standard deviation															
<b>Self-employment</b>															
	National Social Security Institute														
rate of self-employment outside agriculture			Share of total employed						6.6	6.0	7.0	6.0	5.8	5.9	
<b>Legislative and regulatory framework</b>															
EBRD rating of legal extensiveness	EBRD Legal Indicator Survey 2004														
													80		
EBRD rating of legal effectiveness	EBRD Legal Indicator Survey 2004														
													45		
Transparency International corruption index	Transparency International														
WB Control of Corruption from Governance Indicators									3.5	3.9	4	3.9	4.1	4	
			percentile rank				-0.5		-0.13		-0.15		-0.04		
WB Control of Corruption from Governance Indicators			percentile rank		29.3		39.3		54.8		53.1		56.2		
<b>Privatisation and private sector development</b>															
EBRD index of small-scale privatisation	EBRD Transition Report 2006														
								3.3	3.7	3.7	3.7	3.7	3.7	3.7	
EBRD index of large-scale privatisation	EBRD Transition Report 2006														
								3.0	3.7	3.7	3.7	3.7	4.0	4.0	
EBRD index of enterprise reform	EBRD Transition Report 2006														
								2.3	2.3	2.3	2.3	2.7	2.7	2.7	
EBRD index of competition policy	EBRD Transition Report 2006														
								2.3	2.3	2.3	2.3	2.3	2.3	2.7	
Doing Business', Dealing with licenses - time	<a href="http://www.doingbusiness.org/ExploreTopics/StartingBusiness/">http://www.doingbusiness.org/ExploreTopics/StartingBusiness/</a>														
Doing Business', Starting a business - duration												32	32	32	
Doing Business', Starting a business - no. Of procedures	<a href="http://www.doingbusiness.org/ExploreTopics/StartingBusiness/">http://www.doingbusiness.org/ExploreTopics/StartingBusiness/</a>														
												11	11	11	
WB Regulatory Quality from Governance Indicators	<a href="http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=21">http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=21</a>														
			Percentile Rank (0-100)	44.8			65.2		54.5		69.9		69.5		
WB Government Effectiveness from Governance Indicators	<a href="http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=21">http://info.worldbank.org/governance/kkz2004/country_report.asp?countryid=21</a>														
			Percentile Rank (0-100)	33.5			13.7		48.9		59.7		54.8		

## Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Structure of the economy</b>															
Value added by sector (% of total value added in the economy)	National Statistical Institute														
Industry							31.5	28.9	30.1	29.6	29.1	29.7	29.9	30.4	
Services							49.7	54.8	56	57	58.8	58.7	59.3	60.3	
Agriculture							18.8	16.3	13.9	13.4	12.1	11.6	10.8	9.3	
Value added by sector - annual growth rates	National Statistical Institute														
Industry							2.8	1.8	5.0	3.9	5.0	4.2	5.4	5.1	
Services							11.9	-6.8	11.1	4.1	4.6	6.8	5.8	7.3	
Agriculture							-1.8	5.9	6.4	4.7	5.1	4.0	5.7	6.6	
							1.2	5.5	-10.3	0.3	5.5	-1.0	3.0	-8.6	
Private sector share in: gross value added, employment, investments, imports and exports by sectors	National Statistical Institute						62.4	64	69.6	71.4	73	73.7	77.2	79.4	
SME share in employment and gross value added by sectors															
employment	National Statistical Institute		%					46.6	50.5	52.5	54				
gross value added			%					31.2	29.5	34.4	36.8				
Share of State Owned Enterprises in employment, gross value added, states subsidies and enterprise payment arrears by sectors	National Social Security Institute														
employment									54	45	41	37.8	36.7	35	31.7
gross value added			%		44.1	36.6	37.6	36	30.4	28.6	27	26.3	19.8	17.7	
Agriculture sector: number of farms, output, employment and productivity by size and ownership															
number of farms	Ministry of Agriculture											654,808			
<b>Financial sector</b>															
EBRD index of banking reform	EBRD							2.7	3.0	3.0	3.3	3.3	3.7	3.7	
EBRD index of reform of non-banking financial institutions	EBRD							2.0	2.0	2.0	2.3	2.3	2.3	2.3	
Interest rate spread (GCR)	<a href="http://www.aeaf.minfin.bg/bg/documents/Pok.zip">http://www.aeaf.minfin.bg/bg/documents/Pok.zip</a>								9.0	8.5	6.7	6.1	6.0	4.9	
Domestic credit and loans as share of GDP (including consumer loans and mortgages)	Bulgarian National Bank								17.8	20.2	23.7	29.7	35.9	43.6	
Share of population with access to basic banking services (including bank account)															
Share of 3 largest banks in total assets	Bulgarian National Bank								49.9	46.1	43.3	40.5	36.4	33.6	
Share of 3 largest banks in total deposits	Bulgarian National Bank								51.2	48.1	44.6	41.9	37.8	33.5	



Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Education</b>	National Statistical Institute														
enrolment rates at various stages of formal education															
in primary education				92.8	94.9	95.5	96	96.8	96.4	96.3	98.5	99.8	100.3	99.7	
in secondary education				61.4	61.5	61.5	61.3	61.6	63.1	64.7	68.3	74.9	77.1	77.3	
in tertiary education				18.8	20.6	21.4	21.6	23.4	24	23	22.8	23.9	24.1	25.8	
educational outcomes															
IEA and OECD															
TIMSS (mathematics)															
Range				11	17							24			
Scores				527	511							476			
TIMSS (sciences)															
Range				5	17							24			
Scores				545	518							479			
PISA(maths)															
PISA(science)									33						
PIRLS (reading)															
									30						
										4					

## Annex 2.2: Demography

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2010	2015	2020	2025
<b>Population structure by age and gender</b>																				
total			thousands	8,384	8,341	8,283	8,230	8,191	8,149	7,891	7,846	7,801	7,761	7,718						
female			thousands	4,281	4,263	4,238	4,216	4,199	4,182	4,050	4,029	4,010	3,993	3,975						
male			thousands	4,103	4,077	4,045	4,014	3,991	3,967	3,841	3,816	3,791	3,767	3,743						
<15			thousands	1,481	1,437	1,387	1,341	1,301	1,266	1,181	1,143	1,105	1,073	1,047						
15-24			thousands	1,227	1,224	1,222	1,213	1,192	1,170	1,103	1,088	1,077	1,062	1,047						
25-45			thousands	2,274	2,273	2,263	2,260	2,271	2,278	2,191	2,195	2,197	2,202	2,200						
45-64			thousands	2,130	2,127	2,115	2,110	2,101	2,104	2,080	2,083	2,087	2,092	2,094						
over 65			thousands	1,272	1,477	1,296	1,305	1,325	1,330	1,335	1,336	1,334	1,331	1,329						
<b>Fertility</b>																				
average age of mothers at first birth				22.1	22.4	22.7	22.9	23.0	23.5	23.8	24.0	24.3	24.5	24.8						
<b>Life expectancy</b>																				
		Average for period of 3 years																		
total, at 60			:				17.8	17.8	17.9	17.9	18.0	18.0	18.2	18.2						
female at 60			:				19.5	19.5	19.6	19.6	19.8	19.8	20.2	20.2						
male at 60			:				15.8	15.8	16.0	16.0	16.1	16.1	16.3	16.3						
<b>Migration</b>																				
total immigration	2001 census data		total number for 1992-2001 period Persons							17,000										
total emigration	2001 census data		total number for 1992-2001 period Persons							196,000										
total immigration			:										91,757							
emigration by education	Study of International Organization of Migration, 2004, representative sample																			
ISCED 0-2			%											24.9						
ISCED 3-4			%											55.9						
ISCED 5-7			%											19.2						



## Annex 2.3: Living conditions

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Income distribution</b>															
absolute poverty rate at general poverty line (Poverty rates by poverty line equal to two-thirds of average consumption per capita 1997)	WB-BIHS		%	5.5	:	36	:	:	:	12.8	:	:	:	:	
absolute poverty rate at food line	WB-BIHS		%	2.9	:	20.2	:	:	:	7.5	:	:	:	:	
Laeken indicators (Eurostat Methodology)															
At-risk-of-poverty rate anchored at a moment in time	NSI		%	:	:	:	:	:	8.4	20.2	13.3	8.4	8.9	11.5	
Gini coefficient	NSI		Coefficient	29.3	27.98	27.83	26.39	25.58	25.43	25.7	25.77	24.45	26.4	24.89	
Dispersion of regional employment rates, total NUTS2 level	Eurostat		Coefficient	:	:	:	:	:	10.3	7.7	7.6	6.8	7	:	
Dispersion of regional employment rates, female NUTS2 level	Eurostat		Coefficient	:	:	:	:	:	11.7	9.7	9.2	8.8	8.9	:	
Dispersion of regional employment rates, male NUTS2 level	Eurostat		Coefficient	:	:	:	:	:	9.4	6.4	6.8	5.8	5.9	:	
Health and care in Enlarged Europe.															
European Foundation for Improvement of Living and Working Conditions, 2004, p.38															
Self defined health status by income level (% of being fairly or very satisfied with their own health by quartiles of household-equivalence income)															
total			%								59.5				
lowest			%								47.1				
second			%								51.8				
third			%								56.1				
highest			%								82.7				
difference highest-lowest			%								35.6				
Early school leavers not in education or training	NSI		%	:	:	:	:	:	23.6	20.3	21	22.4	21.4	20	
Persons with low educational attainment	NSI	Persons aged 25-64		:	:	:	:	:	32.9	28.9	28.5	29	28.4	:	
<b>Access to goods and services</b>															
percentage of households having electricity	Census 2001		%							99.8					
percentage of households with improved water source	Census 2001		%							93.9					
percentage of households with improved sanitation	Census 2001		%							89.9					
percentage of households with centralized collection of garbage	NSI		%								81.1	82			
percentage of settlements without pharmacy				:	:	:	:	:	:	:	:	:	:	:	87.5
percentage of households having a home telephone	Census 2001		%							72.5					
percentage of households with internet access	NSI		%									5.2	9.6		
<b>Work-life balance</b>															
weekly working hours, both genders	NSI-Labour Force Survey (LFS)	full time employees	hours	:	:	:	:	:	:	40.9	40.9	40.9	41.1	41.1	
weekly working hours, female	NSI-LFS	full time employees	hours	:	:	:	:	:	:	40.6	40.7	40.7	40.9	40.9	
weekly working hours, male	NSI-LFS	full time employees	hours	:	:	:	:	:	:	41.3	41.3	41.1	41.3	41.2	
frequency of difficulties reconciling work and family life (Proportion of employed who have difficulties reconciling work and family life several times a week)	EQLS 2003														
to tired to do household jobs			%									37			
difficulties in fulfilling family responsibilities			%									20			
difficulties in concentrating at work			%									3			

Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Housing and local environment</b>															
number of rooms per persons	EQLS 2003		Number									1.3			
living space per person	NSI-SYB		sq.m.	16.9	17	17.2	17.3	17.5	17.6	19	19.2	19.3	19.5	19.7	
proportion of persons living in own homes	EQLS 2003														
own without mortgage			%									85			
own with mortgage			%									1			
tenant, paying rent to private landlord			%									4			
tenant, paying rent in social/voluntary /municipal housing			%									2			
accommodation is provided rent-free			%									6			
other			%									2			
complaints about environmental problems (noise, air pollution, water quality, etc) (Proportion of respondents who claim environmental problems)	EQLS 2003														
noise			%									18			
air pollution			%									23			
lack of green space			%									18			
water quality			%									28			
at least two problems			%									24			
	EurLIFE database														
	<a href="http://www.eurofound.eu.int/areas/qualityoflife/eurlife/index.php#Domains">http://www.eurofound.eu.int/areas/qualityoflife/eurlife/index.php#Domains</a>														
safety of neighbourhood (Definitions of EurLIFE)															
unsafe to walk around at night			%									61			
vandalism and theft in area			%								20				
distance to the nearest police station			%								68				
physical distance from services (Definitions of EurLIFE)	EurLIFE database														
cash dispenser			%								76.8				
shop			%								99.8				
nursery			%								85.1				

## Annex 2.4: Tax-benefit general

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Exchange rate (average annual exchange rate of national currency to euro)								1.95583	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583	1.95583
Average monthly net wage			BGN						175	185	201	217	235	245	
<b>Social protection provisions</b>		National Social Security Institute													
old-age															
number of beneficiaries, total				2,160,466	2,124,869	2,143,012	2,146,702	2,148,726	2,100,511	2,067,338	2,015,249	1,953,288	1,884,669	1,814,525	
number of beneficiaries, female				:	:	:	:	:	1,227,098	1,210,950	1,188,305	1,157,504	1,120,644	1,056,200	
number of beneficiaries, male				:	:	:	:	:	873,413	856,388	826,944	795,784	764,025	758,325	
coverage				106	104	105	106	106	106	107	107	106	105	104	
average benefit in local currency				2,368	4,140	36,565	61	66	80	89	95	103	116	126	
average benefit in euro				:	:	:	:	34	41	46	49	53	59	64	
average benefit as percentage of average net wage									45.7	48.1	47.3	47.5	49.4	51.4	
number of new beneficiaries, total				:	:	:	:	:	117,804	80,639	52,494	55,368	54,784	54,024	
number of new beneficiaries, female				:	:	:	:	:	64,482	40,662	28,434	29,898	30,187	26,658	
number of new beneficiaries, male				:	:	:	:	:	53,322	39,977	24,060	25,470	24,597	27,366	
average benefit of new beneficiaries in local currency				:	:	:	:	:	52	63	91	93	113	120	
average benefit of new beneficiaries in euro				:	:	:	:	:	26	32	46	47	57	60	
average benefit of new beneficiaries as percentage of average net wage									29.7	34.1	45.3	42.9	48.1	49.0	
disability															
number of beneficiaries, total				233,017	256,259	248,751	240,639	231,893	274,638	302,652	328,946	377,472	435,775	487,144	
number of beneficiaries, female				:	:	:	:	:	140,200	156,795	173,474	204,653	242,890	281,011	
number of beneficiaries, male				:	:	:	:	:	134,438	145,857	155,472	172,819	192,885	206,133	
average benefit in local currency				:	:	:	:	:	56	64	70	71	82	99	
average benefit in euro				:	:	:	:	:	28	32	35	36	41	50	
average benefit as percentage of average net wage									32.0	34.6	34.8	32.7	34.9	40.4	
number of new beneficiaries, total				:	:	:	:	:	19,689	36,973	51,868	65,995	79,773	71,569	
number of new beneficiaries, female				:	:	:	:	:	9,326	18,986	27,928	36,997	46,450	39,294	
number of new beneficiaries, male				:	:	:	:	:	10,363	17,987	23,940	28,998	33,323	32,275	
survivors															
number of beneficiaries, total				126,937	118,606	127,715	129,361	126,072	116,889	125,823	127,032	128,034	127,139	128,193	
number of beneficiaries, female				:	:	:	:	:	89,759	96,011	97,465	98,328	98,347	99,571	
number of beneficiaries, male				:	:	:	:	:	27,130	29,812	29,567	29,706	28,792	28,622	
average benefit in local currency				:	:	:	:	:	46	56	62	67	74	83	
average benefit in euro				:	:	:	:	:	24	29	32	34	38	42	
average benefit as percentage of average net wage									26.3	30.3	30.8	30.9	31.5	33.9	
number of new beneficiaries, total				:	:	:	:	:	22,010	32,183	22,617	22,221	22,682	24,837	
number of new beneficiaries, female				:	:	:	:	:	14,950	20,977	14,422	14,380	15,436	16,877	
number of new beneficiaries, male				:	:	:	:	:	7,060	11,206	8,195	7,841	7,246	7,960	



**Annex 2.5: Tax-benefit IMF2001**

source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Aggregate social expenditure in local currency, IMF Government Finance Statistics 2001 classification</b>													
Ministry of Finances													
Expenditures on ... by consolidated general government													
health		BGN millions						1,071	1,147	1,390	1,658	1,833	2,006
sickness and disability		BGN millions						150	161	182	214	269	303
old age survivors	Old age and disability Included in "old age"	BGN millions						2,473	2,604	2,732	2,921	3,367	3,599
family and children	All social assistance ber	BGN millions						274	421	476	473	502	587
unemployment		BGN millions						207	221	209	260	325	301
Expenditures on ... by central government													
health		BGN millions						497	532	681	737	774	808
sickness and disability		BGN millions						0	0	0	0	0	0
old age survivors		BGN millions						0	0	0	0	0	0
family and children		BGN millions						74	120	340	373	414	491
unemployment		BGN millions						0	0	0	155	224	209
... of which expenditures on ... by social security funds													
health		BGN millions						127	428	585	778	882	1,069
sickness and disability		BGN millions						150	161	182	214	269	303
old age survivors		BGN millions						2,473	2,604	2,732	2,921	3,367	3,599
family and children		BGN millions						96	92	0	0	0	0
unemployment		BGN millions						207	221	209	106	101	91
Expenditures on ... by local governments													
health		BGN millions						446	187	124	143	177	129
sickness and disability		BGN millions						0	0	0	0	0	0
old age survivors		BGN millions						0	0	0	0	0	0
family and children		BGN millions						104	210	135	100	88	96
unemployment		BGN millions						0	0	0	0	0	0



**Annex 2.6: Governance**

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Government effectiveness</b>														
World Bank Governance Matters indices on	<a href="http://www.worldbank.org/wbi/governance">www.worldbank.org/wbi/governance</a>													
government effectiveness			percentile rank (0-100)		33.5		13.7		48.9		59.7		54.8	
regulatory quality			percentile rank (0-100)		44.8		65.2		54.5		69.9		69.5	
rule of law			percentile rank (0-100)		56		52.4		55.1		54.6		55.1	
<b>Social protection performance in old-age pensions (ILO definitions)</b>														
covered wage bill/wage bill (Covered wage as % of the employee's compensation in GDP)	National Social Security Institute, Reference book, 2005, National Statistical Institute, Statistical Reference book, 2005, own calculations	Calculations based on Social contribution rate for the 1st pillar of the employees on labour contract 3rd category of labour and civil servants, representing the largest share of insured	%						48.3	45.1	41.6	44.0	45.2	
percentage of actually contributing insured persons (Number of persons actually contributing as % of the legally targeted population)		agriculture producers excluded	%						85.9	88.2	89.5	89.9	90.1	92.0
percentage of actually contributing employers (Registered employers actually contributing as % of legally targeted employers)	National Social Security Institute, Reference book, 2005		%						87.4	89.7	90.1	91.1	91.9	92.1
percentage of employers inspected (Employers inspected as % of the legally targeted employers)	National Social Security Institute - internal sources		%						11.1	12.5	12.1	11.8	10.9	10.7
percentage of contributions in arrears (Amount of total contributions in arrears as % of the total contributions due)			%						13.9	13.5	12.7	10.8	10.3	9.2
average claim handling time of benefits (Average days between the claim and the first old-age benefit)		Ordinance on Pensions, art.10	days						30	30	30	30	30	30
level of administrative costs (Amount of administrative cost as % of whole insurable earnings)			%						1.23	1.16	1.22	1.29	1.34	1.48
percentage of personnel cost (Amount of personnel cost as % of the amount of total administrative expenditure)			%						56.7	57.1	57.4	58.3	57.6	56.6

Annex 2 | Bulgaria - other indicators

	source	notes	unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
<b>Administrative barriers to firm entry/exit</b> (World Bank definitions)	<a href="http://www.doingbusiness.org">www.doingbusiness.org</a>													
number of procedures of starting a business												10	11	11
duration of starting a business in days												30	32	32
cost of starting a business as % of per capita GNI												8.3	10.3	9.6
time required for closing a business in years												3.8	3.3	3.3
cost of closing a business as % of estate												18	8	9
recovery rate													34.2	33.5
<b>Civil society organizations</b> (European Foundation definitions)	<a href="http://www.eurofound.eu.int/areas/qualityoflife/eurlife/index.php#Domains">www.eurofound.eu.int/areas/qualityoflife/eurlife/index.php#Domains</a>													
membership in an organization			%					2						
religious service attendance			%									4		
activity in charitable or political organization			%					9						

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