

# Impact of the Economic Crisis on the National System of Industrial Relations in Bulgaria: **Policies as a Key Instrument for Recovery**







# **Impact of the Economic Crisis on the National System of Industrial Relations in Bulgaria: Policies as a Key Instrument for Recovery**

2012



“The Impact of the Economic Crisis on the Industrial Relations National Systems: Policy Responses as Key Recovery Tools”

This project is funded by the European Union

Impact of the Economic Crisis on the National System of Industrial Relations in Bulgaria:  
Policies as a Key Instrument for Recovery

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ISBN 978-954-9821-41-3

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## **CONTENTS**

### **ABSTRACT**

#### **CHAPTER 1. FRAMEWORK OF INDUSTRIAL RELATIONS IN BULGARIA**

- 1.1. Legislative and political framework of industrial relations
- 1.2. Main actors in industrial relations
  - 1.2.1. Trade unions and workers' representatives
  - 1.2.2. Employers' associations
  - 1.2.3. Central and local government
- 1.3. System of collective bargaining

#### **CHAPTER 2. CRISIS AND CHALLENGES FACING THE SOCIAL DIALOGUE**

- 2.1. Impact of the crisis on the economy and employment
- 2.2. Social dialogue and industrial relations in the context of crisis
  - 2.2.1. National level
  - 2.2.2. Intersectoral level
  - 2.2.3. Sectoral level and enterprise level

#### **CHAPTER 3. IMPACT OF SOCIAL DIALOGUE AND POLITICAL RESPONSE**

- 3.1. Changes in the legislative framework
- 3.2. Fiscal instruments
- 3.3. Changes in collective bargaining and flexibility of wages
- 3.4. Social dialogue and political solutions to reform the public systems

### **CONCLUSIONS AND RECOMMENDATIONS**

### **BIBLIOGRAPHY**

## **ABSTRACT**

This report has been developed in compliance with the requirements for conducting a study on **Impact of the Economic Crisis on the National System of Industrial Relations in Bulgaria: Policies as a Key Instrument for Recovery**. Its aim is to present the impact of the crisis and the impact of austerity measures in particular on the industrial relations in Bulgaria by outlining the key challenges facing the national system of industrial relations. It also outlines the political response of the main players in industrial relations and proposes some recommendations for a more efficient social dialogue for recovery from the crisis.

After the beginning of the democratic changes in CEE countries in 1989 trade unions were among the first civil society organizations to change most dynamically and in many countries were the main driving force behind the process of transformation. In Bulgaria this process was very strong. Establishing trade union pluralism in Bulgaria contributed in reality to the trade unions' turning into key actors in the process of reforms, especially during the years of preparation and introduction of the new system of industrial relations. The policy of supporting reforms at an acceptable social cost and of establishing a new consensual culture of labour relations through social dialogue also added to their reputation, and allowed them to take the lead in constituting the new system of industrial relations and social partnership.

At national level the institutional and legislative framework of industrial relations has been set up and social dialogue is developing regardless of some difficulties and obstacles in certain periods. Besides, the crisis has put to the test the already established mechanisms and even the very spirit of social partnership at different levels. This report presents the emerging and development trends of the national system of industrial relations in Bulgaria and outlines their dynamics in times of crisis.

### **The focus is on:**

- Legislative and institutional framework of industrial relations at different levels
- Key actors in the national system of industrial relations
- Mechanisms and forms of social dialogue and collective bargaining at different levels as a response to the challenges of the crisis
- Recommendations on building an effective system of social dialogue to recover from the crisis

### **In view of this, the structure of the report is as follows:**

Chapter one reviews the main parameters of the framework of the national system of industrial relations in Bulgaria, including the legislative and political framework of industrial relations. It briefly describes the historical prerequisites, legacy and trends

which determine today's development of the organizations of the social partners and the state of industrial relations in Bulgaria. It touches upon issues related to the main players in industrial relations, institutions, mechanisms and procedures of social dialogue, as well as the system of collective bargaining.

Chapter two focuses on the crisis and the challenges facing social dialogue, in particular – on the dynamics of the economy, employment and development of social dialogue at different levels of the country's system of industrial relations.

Chapter three considers the impact of social dialogue and political response, including changes in legislation, fiscal instruments, changes in collective bargaining and flexibility of payment. Special attention has been given to social dialogue and political decisions on reforming education, pension and health systems in times of crisis.

At the end, there are conclusions and recommendations on future development for increasing the efficiency of industrial relations in order to recover from the crisis and overcome its challenges.

**The study methodology, as agreed between the partners on the project includes:**

- Desk survey and analysis of studies, legislation and main documents of the organizations of the social partners and the bodies for social dialogue, including sectoral collective labour agreements, statistical data, etc.

- Informational semi-standardized interviews with social dialogue participants: representatives of the administration, of trade union federations, employers' organizations which participate in the social and civil dialogue at national and branch levels. Practices in the brewery industry, construction, chemical industry, metallurgy, machine-building, wood processing and paper production are a special object of study.

- Case studies: "Stomana Industry" – Pernik; "Agropolychim AD" – Devnya and "Mondi Stambolijski EAD".

- Secondary analysis of studies by the Institute for Social and Trade Union Studies (ISTUS) and other research institutions in the sphere of crisis and industrial relations.

The study allows for outlining the context within which industrial relations develop, as well as the new challenges in times of crisis and the possible solutions agreed for quicker recovery from the crisis.

# CHAPTER 1. FRAMEWORK OF THE INDUSTRIAL RELATIONS IN BULGARIA

## 1.1. Legislative and political framework of industrial relations

Establishing a new system of industrial relations and increasing the role of social dialogue is a part of the democratic changes at the beginning of Bulgaria's transition towards a market economy. Social dialogue and collective bargaining played a crucial role in keeping the social peace, regulating relations between the workforce and the capital and in achieving a balance of their interests.

The term "industrial relations" denotes the interaction between the government, trade unions and employers as regards and in relation to arranging labour relations and matters of standard of living of workers and employees. These relations are based on the common will of the three parties to cooperate and consult with each other. There is a range of classifications of the models of industrial relations and social dialogue which focus on different criteria: actors, level at which the dialogue takes place, rate of centralization, etc. Due to the relatively strong trade unions and the structural insufficiency of employers' organizations at the time when the system of industrial relations emerged in Bulgaria, a neo-corporate model was established, in which the state and the trade unions were leading parties in the dialogue.<sup>1</sup>

The development of actual employers' organizations took time but their establishment created opportunities for developing the system of industrial relations in the country. In effect, social dialogue in Bulgaria emerged on a blank spot, without past traditions or experience. One of the uncontested achievements of democracy in the country was namely the transition from centralized, state-determined labour relations to industrial relations based on the principles of modern social dialogue and social cooperation as well as the establishment of social dialogue institutions on different levels.

### **The main prerequisites for this are as follows:**

- developing market relations and the overall economic environment;
- developing the regulatory base and liberalization of labour legislation;
- legitimizing the statute of social partners and institutionalizing their structures;
- the attitude of the government to social dialogue at national level, urged by the pressure of trade unions, employers' structures and EU accession criteria.

Due to the specific situation in the country at the beginning of the transition period, related to liberalization of the economy and massive strikes in enterprises, the focus was both on tripartite negotiations and on development of the legislative framework for industrial relations. This framework is based mainly on the Labour Code (LC) and a

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1 Teodor Dechev. Evolution of the model of industrial relations in Bulgaria – 1989 - 2002



number of related regulatory legislative documents. Over the years the Code has been amended and expanded many times in order to reflect the changes in society and the political situation, and the transposition of European legislation. Changes in legislation ensured the development of social dialogue and its institutionalization as the basis for the new system of industrial relations.

In compliance with the legislative framework and the Bulgarian practice, the system of social dialogue is organized along the following levels:

- **At national level social dialogue is conducted within The National Council for Tripartite Cooperation**, set up in 1993. It has standing committees on different subjects.
- **At sectoral/branch level** there are 51 sectoral/branch councils for social cooperation with the participation of representatives of the respective represented sectoral/branch employers' organizations and trade unions. In some sectors there are representatives of the state as an employer.
- **At district level** there are district councils for tripartite cooperation.
- **At municipal level** there are 82 councils for social cooperation. Representatives of municipal authorities take part in the negotiations on budgetary activities (education, health care, culture, administration).
- **At enterprise level** the participants in the negotiations are the employer and the existing trade union(s).

Only employers' and workers' organizations, as well as their members, which have been recognized as representative national organizations can take part in the social dialogue on national and sectoral levels, as stipulated in the criteria for representativeness set down in the Labour Code.

In recent years the tripartite cooperation at national level is expanding. New mechanisms are developed, such as: participation of the social partners in the work of the Parliament through a Consultative Council to the Labour and Social Policy Committee, and special working groups developing new labour and social legislation. The social partners participate in the management and supervision of a number of bodies in the sphere of employment, social and health insurance and vocational education and training, established along a tripartite principle, as well as in the Monitoring Committees of Operational Programmes.

Establishing the Economic and Social Council (ESC) in 2003 and the National Institute for Conciliation and Arbitration to a great extent completed the process of institutionalizing the system of industrial relations. Creating the ESC as a new form of dialogue and consultations meets the need for changing the social communication in the country and for ensuring independent debate and democratic participation in decision-making through civil dialogue in compliance with European practices.

Despite the well-established institutional framework of the social dialogue in the country, there are still a number of problems and challenges.

**Tripartite cooperation**, despite being relatively well-established in terms of institutions, is still conducted just formally and in many cases – inefficiently:

- *opinions* and proposals of the social partners on main issues regarding the development of the country are *neglected*;

- *the government adopts decisions unilaterally*, only informing the social partners afterwards;

- *using instruments, which are well-tested in European industrial relations*, such as national agreements and social pacts was delayed, and only as late as 2006 the Social and Economic Pact was signed, but has not been fully implemented;

- *fragmentation of the social partners and social partnership* – the number of social partners participating in the National Council for Tripartite Cooperation (NCTC) is 8, which makes the process of consolidating positions on important issues in the bodies for social dialogue difficult, increases confrontation, and decreases the efficiency of social dialogue.

There is still imbalance between the levels of social dialogue. The employers' organizations and trade unions are more to blame for this than the state. Breaking free from "the shadow of the state" can only be done if the social partners have a clear social mandate by their members to hold binding negotiations, in other words, if they are representative enough. The development of autonomous bipartite dialogue at sectoral level is considered the weak link in the system of Bulgarian industrial relations. This is largely due to the employers' structures at branch level which are not well-established or efficient. Many of them base their representativeness only on their membership in the representative national organization and on the absence of trade union organizations in a number of branches. If the interests of workers and employers meet at this level, it would allow for the necessary flexibility of industrial relations, especially in the conditions of crisis.

## **1.2. Main actors in industrial relations**

### **1.2.1. Trade unions and workers' representatives**

After the democratic changes in CEE countries which started in 1989, trade unions were among the first civil society organizations to change most dynamically and in many countries were the main driving force behind the process of transformation. In Bulgaria this process was very strong. "Podkrepa" Labour Confederation emerged semi-legally a few months before the changes as an opposition organization upon the model of the Polish "Solidarność" with initial aim to protect the civil rights of the workforce, and within a short period of time attracted a significant number of members.

The Central Council of Bulgarian Trade Unions at the end of 1989 started radical restructuring through working for organizational and political independence and having as a main goal the protecting the interests of the workforce. In February 1990, the Extraordinary Congress of Bulgarian Professional Unions (BPU) turned into a Constituent Congress of the **Confederation of Independent Trade Unions in Bulgaria** (CITUB). CITUB has undergone enormous changes, and succeeded to transform, establish itself, and

keep its position as the biggest trade union organization in the country with its own place and role in the public environment.

Establishing trade union pluralism in Bulgaria contributed to turning trade unions into key actors in the process of reforms, especially in the years of preparation and implementation of the new system of industrial relations. The policy of supporting reforms at an acceptable social cost and of establishing a new consensual culture of labour relations through social dialogue also strengthened their reputation, and allowed them to take the lead in constituting the new system of industrial relations.

Currently trade unions' domain is shared between two trade union confederations which have been recognized as representative - Confederation of Independent Trade Unions in Bulgaria and "Podkrepa" Labour Confederation, as well as a number of other small trade unions which have not been recognized as representative.

According to the last census in 2007-2008, CITUB has 328, 232 members and "Podkrepa" Labour Confederation - 91, 738. In the years of transition there is a continuous trend of decline in trade union density. Experts estimate this density to be 19-21 %.

**Representation of workers and employees** through other channels, besides trade unions, is quite complicated and carried out through:

- Representatives of the workers and employees in accordance with art. 7 (2) of the Labour Code. They are elected by the general assembly to represent their common interests on labour and social insurance relations before employers or governmental bodies.
- In enterprises numbering 50 or more workers and employees, as well as in departments of enterprises which are organizationally and economically autonomous and number 20 or more workers and employees, in accordance with art. 7a of the Labour Code, the general assembly elects representatives on information and consultancy.
- Representatives of workers and employees are also elected in Committees/ Groups on Labour Conditions, as stipulated in the Law for Healthy and Safe Labour Conditions.

### **1.2.2. Employers' associations**

Unlike trade unions which can boast over a hundred year tradition, real employers' associations<sup>2</sup>, partners in industrial relations, did not exist before the changes in 1989. In the conditions of 100% state ownership, command and administrative management of the economy, the system ensured party control over nearly all top positions participating in the decision-making processes.

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<sup>2</sup> The existing Bulgarian Chamber of Commerce and the Economic Chamber created in 1980 did not have the characteristics of employers' organizations participating in industrial relations.

The intense processes of privatization and restructuring lead to important changes and differentiation of employers' interests. Their representation turned out to be a much more complicated process than expected. The logic of constructing "bottom-up" and the institutionalization of the employers' side in the emerging system of industrial relations caused fragmentation of employers' interests, which lead to the creation of a considerable number of organizations. However, the growing diversity of employers' organizations, the fragmentation of their organizational structures and the possibility of dual or triple membership raises the question of legitimacy of representation. It also poses the question of the efficient participation at different levels in the system of industrial relations, at sectoral/ branch level in particular.

The criteria for representativeness of employers' organizations which allow them to participate in the tripartite bodies for social dialogue and in other bodies, established along the tripartite principle, are regulated in the Labour Code. Currently six employers' organizations are recognized as representative at national level: Bulgarian Industrial Association (BIA), Bulgarian Chamber of Commerce and Industry (BCCI), Union for Private Economic Enterprise (UPEE), Bulgarian Union of Private Entrepreneurs "Vazrazhdane" (BUPE), Confederation of the Employers and Industrialists in Bulgaria (KRIB) and Bulgarian Industrial Capital Association (BICA). The first four were recognized in 1993 and the latter two – at the end of 2004 when the first official census of employers' organizations was held.

Over the last years there are two opposing trends in the development of employers' organizations.

The first one outlines the institutionalization of representation of employers and the differentiation and consolidation of interests. It is seen in the creation of Association of Employers' Organizations in Bulgaria (AEOB) in 1995 on the initiative of BCCI. This trend of self-identification of the nature and essence of the organizations continues when the Union of Employers in Bulgaria (UEB) and the Bulgarian International Business Association came together to form organization of large and medium business in May 2006 and with the formation of Confederation of the Employers and Industrialists in Bulgaria (KRIB). Bulgarian Industrial Association and Bulgarian Industrial Capital Association signed an Agreement for partnership with the aim of representing more efficiently their common interests and goals. The process of consolidating employers' interest will obviously lead to similar processes in the sphere of small business, as is the practice in other EU member states. Alongside this trend, there is a second one – of escalating conflicts between employers' organizations. Since 2006 five of the nationally representative employers' organizations are in conflict with KRIB.

It is expected that the census of employers' organizations, which aims to prove their representativeness at national level and is conducted in the first half of 2012, will change the employers' landscape. It is expected that some organizations will lose their statute of being representative due to the new, stricter criteria.

### **1.2.3. Central and local government**

The state participates in all bodies of tripartite cooperation through its bodies and representatives – Council of Ministers, individual ministries and ministers, district and municipal governor, mayors of municipalities/ their representatives, depending on the level on which cooperation is carried out.

In the social dialogue the state has a regulatory role and the role of an employer. It not only discusses matters in the bodies for tripartite cooperation but makes the final decisions.

### **1.3. System of collective bargaining**

The processes which started after November 1989 laid the foundation of democratization of the political system and of transition from planned to market economy. This created the necessary prerequisites for recovering collective bargaining in the context of the new industrial relations<sup>3</sup>. Shaping the labour market and market economy requires introduction of new rules, regulations and interactions between the state, employers and trade unions as representatives of hired workers and employees.

Collective labour bargaining is one of the main elements of the system of industrial relations, in particular, of the so-called “bipartite social dialogue”. The Labour Code says that collective labour bargaining is the right of trade unions and the obligation of employers and the signed collective labour agreement is mandatory in nature.

The legislative framework of the system of collective bargaining is defined in the Labour Code, chapter four. Initially the framework of collective labour legislation was set up in 1993 but it was amended in 2002, 2006, 2008 and 2010. This provides institutionalization of the system of collective bargaining and clearly determines:

- subjects of bargaining;
- levels of bargaining;
- scope of bargaining;
- procedures of bargaining;
- force as regards the parties;
- other requirements, rules and conditions.

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<sup>3</sup> The beginning and basis of collective bargaining in our country is the General Agreement between CITUB, the Government and the National Council of Business Leaders which was signed in March 1990. It stipulates the set-up of the system for coordination of interests and collective bargaining, including amendments to the Labour Code.

The amendment of the Labour Code which came into force in 1993 created the necessary legal guarantees for turning collective bargaining into the main mechanism for regulating labour relations:

- For the first time collective labour agreements became a norm for regulating industrial relations;
- A lot of space for bargaining opened up at the expense of drastic curbing of the imperative provisions in the Labour Code since 1986, which did not provide real “space” for collective bargaining;
- A new model of legal regulation of labour relations was created. Law kept its regulatory importance but it stipulates minimum norms for labour protection and defines the minimum level of rights of workers and employees and working conditions, leaving space to negotiate better conditions through collective labour agreements.<sup>4</sup>

The Labour Code clearly defines the levels of collective bargaining – enterprises, branches/sectors and municipalities, and since 2010 the district level has been included as well.

It envisages a procedure, typical for European countries – extension of application of the agreement or clauses of the agreement to all enterprises in the sector/branch if required by the parties to the collective labour agreement. Since 2003 the collective bargaining at branch/sectoral level has been expanded and includes annual bargaining of minimum social security thresholds by economic activity.

Regardless of the different attitudes to collective bargaining by different governments and employers, even in times of crisis, it continues to be an active instrument of industrial relations, creating opportunities to increase the competitiveness of the Bulgarian business and at the same time - protect the socio-economic rights of workers and employees.

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<sup>4</sup> See Kamenov, D., E. Ribarova, N. Daskalova, T. Mihaylova, Foundations of Industrial Relations. Study book, CITUB, 2010; Handbook of the Trade Unionist, CITUB, 2007

## **CHAPTER 2. CRISIS AND CHALLENGES FACING THE SOCIAL DIALOGUE**

### **2.1. Impact of the crisis on the economy and employment**

After three consecutive years (2006 - 2008) of high economic growth of more than 6%, in 2009 GDP marked a decline of 5.5 %. The most severely hit sectors were agriculture, industry and trade. In these, gross value added declined respectively by 9.5%, 8.2 % and 8.0%. The attempts to recover the Bulgarian economy over the next two years were not very successful. In 2010 the insignificant economic growth of 0.4% was accompanied by a drop of minus 17.9 % in construction, and continuing declines of GVA in industry and agriculture. It was only in 2011 that some indications of recovery of industry were present (growth of GVA in this sector by 9.1 %), but overall, all other sectors stagnate. The economic growth over the last two years is due solely to increase in exports while domestic consumption, after a drop of 7.3 % in 2009, remains low. Investment activity continues to decline. Gross capital formation reports considerable declines for three consecutive years – minus 17.6 % in 2009, minus 18.3 % in 2010 and minus 9.7 % in 2011. This model of economic growth does not provide perspectives for the country because since the beginning of 2012, export shows a decreasing trend. It is obvious that without increase in domestic demand (consumer and investment), the Bulgarian economy will continue its futile efforts to move up from the bottom. If we consider income distribution, despite some insignificant changes, compensations of employees over the last three years have been barely 37-38% of GDP. This is one of the lowest EU rates and shows that employees participate little in the distribution of the product.

Exports increase over the last two years improving substantially the trade balance. Furthermore, the low trade deficit is the main factor for the positive position of the current account balance for the first time at the end of last year. Budget deficit in 2010 under the Consolidated Fiscal Programme amounted to BGN 2, 822.8 million, which is 4% of GDP. Over 90% of the deficit was covered by domestic funding. The government measures for fiscal consolidation and the goal for achieving a balanced budget in 2014 predetermined a trend towards curbing the budget deficit. In 2011 it is 2.1% and the budgetary framework for 2012 envisages the amount of 1.3 % of GDP.

Inflation in the country has been influenced by three main factors – international prices of energy carriers, the policy of state-regulated prices (most tangible in the increase of excise rates up to the agreed minimum European levels) and the contracted domestic consumption. Annual average inflation (consumer price index) in 2010 dropped to 2.4 but increased nearly twofold (4.2) in the following year, due mainly to the impact of continuously rising prices of oil and the energy carriers. With the government official policy of income freeze, this impacted adversely household budgets.

The relative share of population at risk of poverty and social exclusion in 2010 is 41.6 % and monetary poverty is at 20.7% (highest EUROSTAT data for EU-27, SILC). The process

of impoverishment is related to deepening social inequality – the Gini coefficient for income differentiation of households is one of the highest in Europe (33.2 in 2010).

The crisis affected severely the labour market, impacting mostly on decreasing employment and less so on the labour price. As regards the labour price, the dominating general attitude of employers is to freeze salaries (with some exceptions up or down, depending on branch specifics). For three years, since the onset of the crisis, jobs decreased by over 411 thousands, and employment went down to its 2004 level.

**Table 1: Number of employed persons (in thousands) and employment coefficients (2008 - 2011)**

Indices	2008	2009	2010	2011
Employed persons at 15 years of age or older	3360,7	3253,6	3052,8	2949,6
Employed persons between 15 and 64 years of age	3306,2	3204,8	3010,4	2908,3
Employed persons between 20 and 64 years of age	3275,8	3178,6	2993,9	2896,9
Employment coefficient (15+)	50.8	49.4	46.7	45.6
Employment coefficient (15-64)	64.0	62.6	59.7	58.5
Employment coefficient (20-64)	70.7	68.8	65.4	63.9

*Source:* National Statistics Institute: Labor Source Survey.

Two industrial branches were most severely hit as regards employment. Absolute decrease of employed persons in the manufacturing industry is by 168.1 thousand, or 21.8% . In construction, the number of jobs dropped by 115 thousand (-33.8%). Together these two branches account for 72% of the drop in employment. Losses in other economic activities are considerably smaller. Three branches (water and sewage, trade and repair works, administrative and auxiliary activities) have reported an increase between 1.6 and 10.8%.

In view of professional qualifications, as expected, the biggest drop in employment is in professions which do not require special qualifications (minus 34%). This is a natural response – in the context of the crisis, the business first dismisses low-qualified workforce. Drop in the number of employed qualified production workers and machine operators is much smaller (about 20%), while employment of analytic specialists has even increased by over 9 %.

There are no significant changes in the status structure of employment. The decrease rate in the number of employers, self-employed persons and employees is more or less similar – respectively minus 11.9 %, minus 14.7% and minus 12.0 %. In 2001, 87.8% of people in employment are employees, 7.5 % are self-employed, 3.7 % are employers, and unpaid family workers are 1%. There is certain specifics in the distribution of employed by gender and status. Women employers and self-employed women are considerably less than men – only 30.3 % of employers and 37.6 % of self-employed are women. Among employees, their relative share is nearly the same as that of men (49.4 %), while women certainly dominate among unpaid family workers (60.8%).



In general, the employment coefficient is higher for men by about 8-10 percentage points but in the last three years this gap is shrinking, which shows that decreased employment comes with certain gender differences.

When recession started, it caused the first waves of mass lay-offs at the beginning of 2009. This led to an increase of the unemployment coefficient to 6.8%. The trend became stronger in 2010 when the unemployment coefficient sharply rose to 10.2% and reached 11.2 % in 2011.

**Table 2: Unemployed persons at 15 years of age or older (in thousands) and unemployment coefficients (2008 - 2011)**

Indices	2008	2009	2010	2011
Unemployed persons at 15 years of age or older	199,7	238,0	348,0	372,3
Unemployment coefficients (percentage)				
Overall:	5.6	6.8	10.2	11.2
By gender:				
men	5.5	7.0	10.9	12.3
women	5.8	6.6	9.5	10.0
By age:				
15-24	12.7	16.2	23.2	26.6
25-34	5.7	6.9	11.4	13.2
35-44	4.3	5.5	8.1	9.1
45-54	4.9	5.8	8.7	9.3
55 and older	5.2	5.9	8.9	8.7

Source: National Statistics Institute: Labor Source Survey.

One can see certain specifics in the dynamics and structure of unemployment:

**First.** In times of increased demand for workforce (e.g., 2008) construction and industry take up mostly unemployed men which leads to a lower unemployment coefficient for men compared against women. However, the crisis impact caused fast changes. The sharp decline in these two sectors of the national economy dismisses back to the labour market mostly male workforce. Men unemployment between 2009 and 2011 is considerably higher than unemployment among women – by over 2 percentage points.

**Second.** Once again, the problem of youth unemployment is brought to the fore, after Bulgaria achieved good results. (in 2008 it decreased to 12.7%). Within two years only, though, unemployment coefficient in the 15 to 24 age range rose nearly twofold and in 2011 reached the critical 30%. Without a doubt, the crisis hit most severely young people who are at great difficulty to find jobs after graduating from high school or university.

**Third.** Comparison between employment and unemployment data shows drastic quantitative discrepancies between those leaving employment and those entering unemployment groups. For a three-year period employment has decreased by 411 thousand people while unemployment has increased only by 173 thousand people. This shows that there are dynamic processes related to considerable in size and frequency transitions both in the status of the workforce and in the economic activity of the population. These processes are: decrease of registration rate of the unemployed, increase of grey employment, rise of emigrant flows and last but not least – increase of discouraged persons.

**Fourth.** Only in 6.4% of the cases unemployment can be defined as current, i.e., related to dissatisfaction with working conditions and desire to change the employer. In its predominant part (41.9 %) unemployment is caused by layoffs and dismissals, and in 18.9% - by completion of temporary or seasonal job. Unemployed persons looking for their first job are also in a difficult situation – their relative share is 17.5% of all unemployed. Largely, these are young people looking for professional realization on the labour market after graduating from school or tertiary education institution.

**Fifth.** The qualitative characteristics of the unemployed deteriorate considerably. This is a clear sign of the weak competitiveness of the Bulgarian labour market. About 1/3 of the unemployed have basic or lower education. The unemployment coefficient of persons with basic education is 23%, while the coefficient of persons with primary or lower education is 49% (data for 2011). Respectively, the employment coefficient of these persons is extremely low – 18.4% for those with basic education and only 8.5 % for those with primary or lower education. In effect, this means that their chances of professional realization at the primary labour market are very slim.

**Sixth.** As a result of the negative trends of the labour market the relative share of long-term unemployed persons (12 to 23 months) is 23.3% while of those who have been unemployed for two or more years - 32.9%, or over 56% of the unemployed have largely lost their working habits and skills. This means that their adaptation and reintegration will require further funds and efforts. The long-term unemployment coefficient of 2.9% in 2008 increased to 6.3% in 2011 and is considerably higher for men (7.0%) than for women (5.5 %).

The official policy of “income freeze” introduced in mid 2009 affected not only social transfers but the minimum monthly wage (MMW) as well as salaries funded by the state budget. In the end, this policy largely impacted remuneration in the private sector, too.

✓ In the period 2009 - 2011 the MMW was frozen at BGN 240 (123 euro) in the context of overall restrictive government policy as an anti-crisis measure. Under strong pressure from the trade unions and despite the disagreement of some employers' organizations, a two-step increase of the MMW was negotiated with the government. The first step was an increase to BGN 270 since September 1<sup>st</sup> 2011, and the second one – to BGN 290 since May 1<sup>st</sup> 2012. Despite these positive steps, the average monthly size

of MMW in 2011 (BGN 250) amounts to only 35.4 % of the average gross salary for the country (BGN 707) and this ratio is not expected to change significantly in 2012.

✓ Salaries in the budget sector increased by diminishing rates – by 8.5% in 2009, by 6.2 % in 2010, and by only 1.7% in 2011. This increase resulted from staff optimization and annual bonuses received in some departments, not from bargained or planned increases in the budget. In the context of the crisis the number of jobs in budget-funded activities declined by about 12%.

✓ The decline in employment in the real sector, too, was accompanied by considerable structural changes. With the increasing economic difficulties all enterprises first let go low-qualified workforce and managed largely to keep high-productive and qualified workforce. These structural changes, not taking into consideration the negative social effect, had a positive influence on some indices at the macroeconomic level. Labour productivity rose. There was also a slight increase in the relative share of labour compensation in GDP.

✓ There was a tangible impact on the average monthly wage for the country, which continued growing, but more slowly compared to the pre-crisis period. The paradox of “frozen individual salaries and growing average monthly wage” was often brought to the fore by employers’ organizations as an argument that labour remunerations grow anyway, i.e., there is no need for new negotiations and agreements on monthly wages. Over the last two years growth rates of the real value of the average monthly wage for the country dropped to about 4%.

**Table 3: Dynamics of the average monthly wage for the country (AMW)**

Indices	2008	2009	2010	2011*
AMW – annual size (BGN)	6538	7309	7777	8487
Nominal growth (%)	26.5	11.8	6.4	9.1
Real growth (%)	12.6	8.8	3.9	4.7

Source: National Statistics Institute.

\* Preliminary data

## **2.2. Social dialogue and industrial relations in the context of crisis**

### **2.2.1. National level**

With the first symptoms of the coming economic crisis, which were felt in Bulgaria at the end of 2008, the social partners started intensive discussions on issues regarding employment, working hours and social security. They proposed to the government of the Triple Coalition, which was in power from July 2005 to July 2009, that an anti-crisis plan be developed.

Employers insisted on undertaking measures related to the finance system, banks and loans, as well as initiating taxation changes and activities focused on energy efficient products and technologies.

Trade unions had to change their priorities and instead of demands for increase of incomes, they put first the issue of keeping jobs, financial stabilization, monitoring economic development together with the social partners, decrease of the informal economy by extending sectoral/ branch collective labour agreements. Trade unions (CITUB in particular) offered to the government and social partners the following – upon cuts of working hours, in view of keeping employment, companies will receive state subsidies.

Only few of the proposed measures were included in the decisions of the government. At the end of 2008 the mandatory minimum reserves of commercial banks in the central bank were decreased from 12 to 10 %. This freed extra credit resource and allowed for introducing a full guarantee for individuals' deposits up to EUR 50, 000. A programme for promoting the temporary introduction of part-time working hours (4 hours) in enterprises was implemented. The employer pays the remuneration for 4 hours and the state pays additionally up to BGN 120. The employer can implement the programme for three months. The funding provided this implementation for 18, 000 jobs.

Until the autumn of 2009, social partnership at national level had its highs and lows in the context of a growing economic crisis and with the frequent absence of nationally representative trade union confederations. In November 2008 they made the decision to denounce their signatures and withdraw from the Pact for Economic and Social Development of Bulgaria until 2009 (signed in 2006) due to systemic violations of the Pact by the Government, and to leave the National Council for Tripartite Cooperation. Despite this fact, experts of both confederations continued their work in individual commissions and working groups of the NCTC.

After the elections and formation of the new government in September 2009 the activities of NCTC were renewed with the participation of all social partners. At the beginning of their mandate the political party Citizens for European Development of Bulgaria (GERB) demonstrated political will to recover the cooperation between government representatives and nationally representative organizations of employers and trade unions. The dialogue at national level within the work of the NCTC was quite active. Everybody agreed with the idea to optimize the social dialogue in trying to manage the crisis through creating a standing working group to the NCTC and enhancing the role of the Councils for Social Cooperation in branch ministries for developing sectoral (branch) anti-crisis programmes. Discussions of anti-crisis (stabilization) measures were initiated in the specially created working group to the NCTC. It adopted 32 anti-crisis measures by full consensus. They became part of the nine-month governmental anti-crisis programme (August 2009 – April 2010). Some of the most important economic and structural measures were:

- establishing an anti-crisis Committee to the NCTC aiming at developing national anti-crisis measures;
- organizing branch meetings to develop branch anti-crisis measures; implementation of complex measures to curb the grey economy, including curbing tax evasion and strengthening border control against smuggled and dumped imports;
- expanding the food voucher system to cover employees in the budget sector as well;
- extension of sectoral/ branch collective labour agreements for which there are proposals by the social partners, parties to the agreements.

In late 2009 and early 2010 trade unions (CITUB and “Podkrepa” Labour Confederation) expressed their dissatisfaction with the implementation of the agreed commitments under the anti-crisis measures and came up with proposals for updating the anti-crisis programme in the short and long term in order to deal with the crisis and to implement a new model of sustainable growth. The social partners reached a consensus and adopted General Programme of Measures to Deal with the Crisis. The government had to start urgent negotiations with the social partners in the Programme and, at the end of March 2010, 59 anti-crisis measures were negotiated.

The parties to the agreement signed tripartite National Agreement for New Strategy for Financial Stabilization of State Social Security and improvement of pensions legislation. Nevertheless, there were ups and downs in the dialogue and partnership on national level. They were very obvious in the prolonged heated discussion on pension reform. The signing of the Agreement on Pension Reform in 2010 was also the result of a national protest rally organized by CITUB under the slogan: “NO to pension and healthcare reforms which cut rights”. The participation of over 15, 000 people dissuaded the government from initiating reforms unilaterally without considering the rights of workers and employees in Bulgaria and without looking for dialogue. The end-result was the signing of the agreement.

Within the framework of the **Global Pact for Employment** in March 2011 the government and the social partners approved a document entitled “Review of Bulgaria in consideration of the Global Pact for Employment”. It contains a detailed analysis of the economic development and labour market development, and recommendations for future policies. These recommendations were further developed in March 2012 at the Conference on Jobs and Incomes which was organized by the International Trade Union Confederation and the two national trade union confederations.

The lack of effective social dialogue and the unilateral plans of the government on matters of crucial importance to the society caused constant outbreaks of conflicts.

Protests related to healthcare were provoked by the closing of small hospitals as part of the reform (which was not consulted with the social partners and branch organizations). There were similar problems with the structures of the Bulgarian Academy of Sciences. There, whole institutes were closed down, others – merged together and a huge amount

of jobs were cut. Systemic lack of budgetary funding caused mass discontent and protest demonstrations of research scientists from the Bulgarian Academy of Sciences between 2010 and 2011.

After presidential and local elections were held at the end of 2011, marking a landslide victory of the party in power GERB, the government violated the social dialogue and undertook some actions against trade unions. These actions were directly related to the plans to remove the so-called “classification based on time on the job”, to raise unilaterally retirement age from 2012 and to violate the National Agreement for “New Strategy for Financial Stabilization of State Social Security and for Improvement of Pension Legislation“ signed by the social partners and the prime-minister in the autumn of 2010. After an in-depth analysis of the cooperation and interaction between the social partners, CITUB and “Podkrepa” Labour Confederation decided to withdraw their delegations from the NCTC and the District Councils for Tripartite Cooperation and to organize national protests.

Social tension at the end of the year escalated with the organized effective strike of the employed in the railway transport system. The conflict dates back to March 2011 when the government and the management of the railway company announced plans to take a loan from the World Bank for stabilizing Bulgarian state railways under the condition to cut labour costs by 30%. In effect, that would have meant considerable layoffs and freezing of salaries.

The railway workers held a one-hour strike as a warning in March. The strike ended by signing a Memorandum of Understanding for the Development of the Bulgarian Railway Sector. The government violated the agreed items of the Memorandum by undertaking measures to restructure and lay off workers in the company on a mass scale. The trade unions organized and conducted the longest railway strike in the history of Bulgaria. It lasted 26 days and losses amounted to more than BGN 2 million. During the strike there were attempts for lock-out which is forbidden by law, and court proceedings were initiated against workers on strike and their organizers. The strike ended with the signing of collective labour agreements in the companies of the sector.

The social dialogue at national level has its institutions and is well-structured but is still not efficient enough. Equality of the parties to the dialogue and compliance with European principles and rules of dialogue have often been put to the test at the attempts of the government to bypass the social partners and to exercise functions which are object of the structures of social dialogue. There is no connection or coordination between the established tripartite structures at the various levels of social dialogue – national level, sectoral/ branch level and district level.

### **2.2.2. Intersectoral level**

During the years when social partnership at national level was blocked (until mid 2009 and at the end of 2011), there was a strengthened bipartite dialogue at national as well

as sectoral and branch levels. The social partners negotiated the anti-crisis measures in 2009.

A testimony to the expansion of influence and sustainable development of the bipartite social dialogue are the signed autonomous National Agreements regulating home-based work (introducing Convention 177 of ILO) and teleworking (introducing the Framework Agreement of the European social partners of 2002). Furthermore, amendments to the Labour Code related to the transposition of the Temporary Agency Work Directive of the EU were made.

After the trade union confederations left the NCTC at the end of 2011 a number of bipartite meetings were held. Their aim was to fill in the vacuum caused by the blocking of the tripartite dialogue which resulted from the unilateral actions of the Government. After negotiations, employers and trade unions reached an agreement on common proposals in three areas:

1. Undertaking measures to stabilize the pension system.
2. Legislative changes improving the system of tri- and bipartite dialogue (amendments to the Rules of Procedure of the NCTC to guarantee efficiency and transparency of its work, equality of the social partners and adherence to the rules on the part of the state).
3. Legislative changes related to the development of industrial relations.

The proposed changes aimed to stabilize the social security system and improve the quality of social dialogue in the country as well as to guarantee that the commitments agreed on by the social partners will be taken into account during the legislative process. After the final proposal package was prepared with consensus between the social partners, it was presented to the Prime Minister. The agreement of the government to hold negotiations on the issues raised was the reason for the trade unions to return to the tripartite council.

### **2.2.3. Sectoral level and enterprise level**

From the start of the financial and economic crisis in the country the social partners focused their attention on the development of sectoral/ branch anti-crisis measures and packages of measures to cope with the consequences of the crisis, taking into consideration the specifics of the crisis in every distinct branch. Such measures were developed by the social partners in the machine-building industry, construction, chemical industry, wood processing and furniture industry, paper industry, brewery industry, water and sewerage sector, and others.

The signed Agreement on Anti-Crisis Measures for the Brewery Industry focuses on the role of information and consultancy between employers and trade unions, as well as on corporate social responsibility as factors which can counteract the crisis and ensure

more sustainable competitiveness of enterprises. The parties agreed to conduct an internal audit on health and safety on the workplace. As regards incomes, it was agreed to develop internal rules for labour assessment taking into account labour productivity, inflation, qualification and functional mobility of workers. As regards flexible organization of working hours the Agreement envisages to calculate overall working hours, taking into consideration work-private life balance.

The social partners in the Branch Council on Social Partnership in the Chemical Industry decided that the Council should exert the functions of an anti-crisis council and should hold monthly meetings to review and monitor the current information on crisis impact in the branch. Measures are focused at strengthening the government policy in price formation for energy carriers because the branch is one of the big consumers of natural gas. The social partners expressed demands for stronger customs control on the imports of ammonium nitrate. The representative of Ministry of Economy, Energy and Tourism took the commitment to recover traditional orders of individual enterprises in the branch such as caoutchouc producers. The council promised to assist the business for active participation in grant schemes under Operational Programme "Competitiveness" and assigned to social partners at enterprise level to continue the dialogue in seeking flexible mechanisms and protective anti-crisis measures in enterprises.

One of the most severely affected by the global financial crisis branches is construction. Having analyzed the state of the branch, the impact of decreasing foreign and domestic investments, the adverse conditions for granting loans to business and the unfair competition of external contractors, mostly from non-EU countries, the social partners came up with Anti-Crisis Programme. It contains 14 measures which aim to create adequate competitive environment; to accelerate absorption of funds under European programmes; shorten the lagging behind and guarantee rhythmical payment to construction companies by budgetary spending units. The government shall state that non-EU companies should not participate in public procurements tenders, if they use direct or indirect aid through public resources in any form, and thus violate or present a threat to competition.

The aim of the agreements in the cellulose–paper industry and in the wood processing and furniture industry is to minimize losses of enterprises and personnel. The social partners agreed to prevent layoffs on a mass scale and drop of income of the employed. If crisis situations should occur, the social partners will assist the transition to decreased number of working hours and application for subsidized employment of personnel. If possible, they shall assist in the dissolution of contracts with external companies and delegate responsibilities to the personnel available. They also agreed to assist in market research and changing part of the nomenclature in accordance with the shrinking of consumer demand; in ensuring sustainability of employment through increasing staff expertise in view of higher adaptability, productivity and competitiveness, including through developing and applying for projects funded by European funds.

During the crisis period (2009 - 2011), there is sustainability in the development of collective bargaining at sectoral/ branch level (see Table № 4).



**Table № 4: Main trends in collective bargaining**

Year	Overall number of collective labour agreements	Sectoral collective labour agreements	Branch collective labour agreements
2009	73	10	63
2010	71	8	63
2011	69	8	61

*Source:* General Labour Inspectorate, database for collective labour agreements

In the difficult economic situation the intensity and dynamics of the negotiation process remain unchanged when compared against the former agreement periods. Timely renewal of collective labour agreements in force and the maintenance of their number create opportunities to keep the basic key parameters from the previous labour contracts.

In 2010 and 2011 the importance of branch collective bargaining increased due to the extension of four collective labour agreements – in the water and sewage system, the brewery industry (the agreement is the first one extended in 2010 and later a new one was signed in 2011, it was extended again with a decision by the minister of labour and social policy), the mining industry, cellulose and paper. Thus, the possibility of extension of sectoral and branch collective agreements upon request by the parties to the agreements, which was stipulated in the Labour Code back in 2003, was applied for the first time. This assisted the inclusion of 38 thousand more people in the coverage of collective labour agreements and in the context of crisis keep the coverage practically unchanged (over 30%).

The economic crisis increased the responsibilities of employers and trade unions by sectors to keep jobs and solve employment issues. In all renewed collective labour agreements at this level the parties bind the signing with the specific financial and economic situation in the branch and the specific enterprise and with the most immediate perspectives for development expected in the short term. In this sense, employers commit to ensure the necessary conditions for employment and normal fulfillment of work obligations. It is a set practice for employers' structures to discuss projects and plans for changes in the production and management structures in advance with the trade unions when such projects and plans will substantially impact the specificities of labour relations and employment in the company.

As an anti-crisis measure, more than 2/3 of sectoral/branch collective labour agreements (Sectoral/Branch CLA) stipulate that upon temporary scarcity of funds to pay salaries and upon fulfillment of labour obligations in good faith, monthly payment of labour remuneration is guaranteed within a concrete agreed amount, with the remaining amount still owing, together with the legal interest.

It is important to mention the agreements achieved in some Sectoral/Branch CLA in order to curb the consequences of the economic crisis in the sector/ branch or the companies affected. Thus, for example, Sectoral CLA in Trade makes it mandatory for enterprises and companies affected by the crisis to sign agreements between workers

and trade unions with concrete measures to keep employment and not allow for a drop in remuneration. Tourism focuses on using opportunities to assign different work to workers and employees within the same or other enterprise, temporary freeze of salaries at a certain level – in the cases, where the alternative is to cut jobs, taking unpaid leave of absence by those employed in the affected activities and if the unpaid leave should continue for more than 30 days, benefits are paid by funds of the enterprise. In cases of “inevitability” the number of staff is cut after a written agreement is reached with the trade unions. The workers and employees who are laid off are sent to the labour exchange and after a certain time period are again hired to work for the company. The Federation of the Trade Union Organisations in the Forestry and Wood processing Industry (FTUOFWI) has signed concrete agreements for anti-crisis measures with the employers. In Branch CLA-knitwear some agreements focus on greater flexibility of the processes of employment in the sector and mobility of the workforce. In the sectors farming, food industry, tourism, etc, temporary, seasonal or short-term jobs and activities are the object of agreement and require the signing of temporary labour contracts. The agreed measures in the CLA of DSK Bank AD are quite interesting. They envisage prevention of job cuts, including temporary use of part-time working day/ week and application of flexible employment – hiring through agencies for temporary work, seasonal hiring, hiring per hour.

Using part-time working hours if the volume of work has decreased is a measure to provide for employment upon deficits in the Branch CLA in sector Water and Sewage as well. There is an innovative text in the Branch CLA of the Agricultural Cooperatives, which envisages that seasonal workers who participate in agricultural campaigns every year, make full use of all clauses of the Branch CLA until they are dismissed and sent to the labour exchange after consultations between employers and trade unions.

In nearly all sectors the practice is continuing of negotiating the criteria for selection of personnel upon layoffs or other dismissals due to structural changes, privatization or financial and economic difficulties. The parties agree on the procedure for termination of labour relations and protection upon dismissals, the order for conducting mass dismissals and in rare cases – on cooperation in finding jobs for the laid off persons or creating conditions for their preliminary pre-qualification – agriculture, metal industry, miners, Bulgarian Telecommunication Company, Bulgarian Posts, construction, state departments, light industry, banks, trade and others.

In individual cases measures for new job openings are negotiated. There are good practices in the Branch CLA metallurgy, according to which the parties agree on mutual measures for impact on the labour market and employment in the branch and the regions in view of achieving sustainable sectoral development and competitiveness of enterprises. Sectoral collective labour agreements in transport and construction include texts protecting the rights of persons working abroad.

In Sectoral CLA for the metal industry there is agreement on the obligations of the parties to create national and regional centres for training and qualification improvement on basic machine-building professions and activities based on more detailed clarification of the problems and needs for staff, and on the basis of the results of the strategy for

development of machine-building. At the same time branch collective labour agreements for the light industry stipulate the creation of buffer branch funds for training which are to be managed by branch chambers and controlled by trade unions and employers. These agreements are a step towards the implementation of successful branch policies for life-long learning and achieving competitive and sustainable industrial growth.

According to the Civil Servant Act, civil servants have the right to trade unions but do not have the right to collective bargaining and strikes. In view of overcoming legislative barriers to collective bargaining in the budget sector, over the last years the branch trade union structures of CITUB in agriculture and state governance expand the practice of signing (additional) agreements for civil servants. These agreements arrange better labour and social conditions as well as protection of collective interest for servants in Executive Agency “Hail Suppression”, Executive Agency “Selection and Reproduction in Animal Breeding”, National Veterinary Medicine Service, Social Assistance Agency, Employment Agency and National Revenue Agency. They present these agreements at the General Labour Inspectorate where they are registered under the regime for CLA. Another aspect of these agreements is that they can be of unlimited duration due to their character of a free agreement between two parties for which there is no imperative provision as regards duration.

**The overall conclusions** on collective bargaining at sectoral/ branch level are that employers and trade unions, taking into account modern realities and as a result of mutual efforts and understanding:

- manage to keep main agreements and key parameters from the previous agreement period in difficult branch negotiations;
- in some sectors, they manage to negotiate a package of protective and anti-crisis measures;
- though rarely, in some sectors they reached an agreement on new essential clauses defining the new vision of CLA (on corporate social responsibilities, the processes of information and consultation, life-long learning, work/private life balance etc).

### ***Social Dialogue at Company Level***

What is typical of social dialogue at company level is its institutionalization, with established committees/ councils for social partnership, where together with the problems of collective bargaining are carried out information and consultation processes between the social partners for all problems in the field of labour and insurance.

During the monitored period the number of registered in the regional labour inspection offices collective agreements in companies has decreased slightly (Table № 5). The main reasons for reducing the number of collective agreements in companies are both the crisis and its consequences in a number of heavily hit by it industries in the real sector (construction, machine building, light industry), as well as the delegated budgets in the public sector (secondary education, healthcare and municipal administration). The

option of not renewing all the collective agreements have been used but rather of signing annexes to them which is provided for in the agreements themselves.

**Table № 5: Information on the number of collective agreements in force in companies by year**

Year	CBA (+ annexes) total	CBA	Annexes
2008	1828	1493	335
2009	1499	1261	238
2010	1596	1321	278
2011	1616	1332	284

*Source:* General Labour Inspectorate Executive Agency

What is typical of collective bargaining at company level is not allowing decrease in the amount of the agreements in the previous CBA and the focus of the agreements to a large extent is related to keeping employment, income and the social benefits for workers and employees. There are clauses agreed on the procedures, and in case lay-offs are necessary, the measures shall be coordinated with the trade unions. The selection criteria are also specified which to a maximum degree shall be in compliance with the need to retain qualified workers and employees - education, professional qualification, additional qualifications related to the job performed, level of performance of the job, etc. In many of the CBA there are clauses that envisage that laid-off workers shall be hired again and the work volume shall be restored once the financial and economic situation of the companies improves.

All collective bargaining agreements in the real sector contain agreements for options to reduce working time which shall be consulted and coordinated with the trade unions.

As regards the agreements for labour payment at company level there is a trend of increasing the amounts of the additional payments at the expense of main salaries – for night shifts, extra hours, working in unfavourable labour conditions, for work experience, etc.

During the crisis a number of companies agreed on social packages for the persons subject to lay off and the focus was on social benefits to the most vulnerable groups of workers. The main agreements are related to offering compensatory payment of a larger number of salaries than planned in the LC, in case of lay-offs.

**Stomana Industry in the town of Pernik** is part of Greek Sidenor Group and is the second largest steel company in Bulgaria. The company's production is almost 85% export-oriented. In November 2008 the management announced its plans to undertake measures to overcome the consequences of the crisis. The decision is motivated by the significant decrease in the demand for products both on the domestic and on the global market, and the collapse of the steel prices globally due to the global financial and economic crisis. The measures include terminating all investment projects and laying off 300 out of 1,100 workers.

The trade union organizations in the company with CITUB and LC "Podkrepa" have initiated negotiations with the employer with demands for compensating the planned lay-offs of workers. The first agreement in Bulgaria was signed for compensatory measures in mass lay-off due to the crisis.

The package of social measures keeps a number of social benefits for the laid-off workers which have been agreed upon in the CBA: for additional healthcare insurance, Christmas bonuses, organizing re-training courses for the laid-off depending on the demand on the labour market as well as payment of 4 to 10 salaries to the laid-off workers, etc.

**Agropolychim AD – Devnya** is owned by the American Acid and Fertilizers (joint venture between Davenport Industries and Yumicor) and produces nitrogen and phosphorous fertilizers for the domestic and global markets. The crisis has affected the fertilizer industry in the chemical sector the most due to the increase in the prices of the raw materials for fertilizer production and of natural gas, as well as the great contraction on the domestic market due to failure to pay the subsidies to the agricultural producers who are the main consumer of fertilizers. According to the forecasts of leading Bulgarian and international experts, the unfavourable condition on the markets will deepen with the crisis.

In this situation the employer and the trade union organizations of CITUB and LC "Podkrepa" are discussing the aggravating trends for the development of the company and their conclusion is that the only option to stabilize the company is streamlining the staff, i.e. mass lay-offs. In order to alleviate the unfavourable consequences of lay-offs, the parties agreed and signed an agreement for laying off of 200 workers, and the workers and employees are suggested to voluntarily leave against a compensation of the amount of five gross monthly salaries. More than 200 Bulgarian workers have benefited from this measure. The parties also agreed that in case of a favourable change of the market conditions and a need for expanding the staff of the company, on a priority basis and in line with the strategy for human resource development in the company, the laid-off workers and employees shall be offered a job corresponding to their education and specialty.

**Mondi Stambolyiski EAD** is a subsidiary of Mondi Group and is the largest paper producing company in Bulgaria. In February 2009 the Board of Directors of the group made a decision to close down or to sell off a number of subsidiaries of the group in Europe – Denmark, France, Hungary, Spain, etc., the Bulgarian company included. This is a result of the plan for restructuring the group in order to limit the effects of the crisis. The difficulties have to do with the more complicated market conditions and the increased price of raw materials needed for the production of paper – timber and energy. The Bulgarian company is in less favourable conditions because timber price has increased manifold and is one of the highest in Europe. The management of Mondi Stambolyiski EAD informs the trade unions in the company about the planned mass lay-off – 350 workers out of 412. The remaining about 60 qualified workers will maintain the production installations and in case the market conditions improve the company can recover its work.

There are three trade union organizations represented in Mondi – CITUB, LC “Podkrepa“ and the Association of the democratic trade unions. Upon their initiative there have been a few meetings with the management at which the trade unions insist that an agreement be made with a package of measures for the laid-off workers. Under the pressure of the trade unions an agreement was signed at the company with a package of compensation measures for the laid-off workers who are most vulnerable on the labour market – in pre-retirement age; disabled and with poor health; family members who work in the company; single parents -breadwinners; mothers with children, etc.

# **CHAPTER 3. IMPACT OF THE SOCIAL DIALOGUE AND THE POLITICAL RESPONSES**

## **3.1. Changes in the legislative framework**

The changes in the labour legislation related to industrial relations of the recent years include mainly transposing the European legislation in a number of areas: rights of posted workers, informing and consulting workers and employees, working time, in particular working part time, leaves, termination of contracts, etc. The changes in the labour and social legislation on employment and labour conditions have been the result of intensive social dialogue and consultations at the National Council for Tripartite Cooperation.

The institutionalization of industrial relations continued, and in 2010 the social partnership at regional level was legally provided for through the possibility for creating a regional council for tripartite cooperation.

In the end of 2011 the National Council for Tripartite Cooperation discussed new criteria for representativeness of employers' and trade unions' organizations that have been into force since 2012 through the respective amendments in the Labour Code, and now serve as the basis for the census of the trade unions' and employers' organizations. The new and stricter criteria for representativeness were accepted, especially by the employers' organizations with great opposition and even led to a President's veto which was not accepted by the Parliamentary majority.

A number of changes have been made to the Labour Code and the Social Security Code related to national autonomous agreements of the social partners for work from home and telework which stipulate the labour and social rights and the labour conditions of workers from home and teleworkers.

Drastic changes have been made in the Labour Code and in a number of other laws related to the regulation of hiring workers through agencies for temporary work and the transposing of the Directive for agencies for temporary employment. Since the social partners could not reach a consensus and could not agree on the transposition of the Directive, it was adopted through relevant legislative changes.

These changes create an opportunity through changes in the legislative framework to implement in practice the principles of flexible security on the labour market.

The new labour inspection legislation (2010) and the tripartite principle as well as the agreement between trade unions and the General Labour Inspectorate in 2009 created the setting to respond to the challenges of the crisis related to non-registered employment and delay and non-payment of salaries in a number of companies.

The social dialogue has also led to changes in legislation, related to the crisis, in other spheres, described in part 3.4.

### 3.2. Fiscal instruments

A number of consecutive governments in Bulgaria consistently implemented policy targeted at achieving competitive advantages – in view of attracting foreign investments, believing that this will automatically lead to high and sustainable economic growth, new and better quality jobs, reduction of grey employment. The instruments of these policies were: reduction of direct taxes at the expense of the indirect ones, reduction of the amount of the social security contributions and mainly of the pension contributions, maintaining an artificially low labour price, liberalization of the labour legislation.

The results from the implementation of these policies and instruments can be illustrated by the following facts and statistical data:

- Bulgaria is the country with lowest rates of direct taxes in the EU – 10% tax on profit and 10% flat tax on the income of individuals (with no tax-free minimum).
- The difference in the ratio direct/ indirect taxes is 34.6% in favour of revenues from indirect taxes, whereas the EU average distribution is of only 4.7% a difference in favour of indirect taxation.
- Only in the period 2006–2010 the amount of the pension insurance contribution was reduced by 15 percentage points and the revenues from contributions cover less than half of the pension costs.
- The Bulgarian pension system is turning from an insurance system into a tax-funded system – a transformation that has extremely negative consequences.
- Bulgaria is still the state with the lowest incomes in the EU – in 2011 the total income per person from a household is 161 euros, the average salary 361 euros, and the average pension of 1 pensioner 136 euros.
- For a period of 3 years (2008-2011) the number of employed dropped by 15.4% which means 378, 714 less jobs.

**Against this background the decrease of the foreign direct investments was dramatic – more than 5 times.** The inflow of foreign direct investments decreased not only due to the investors' conservatism and the fear from the crisis. In the case of Bulgaria, the country with the lowest taxes and the lowest incomes, the withdrawal of investors is obviously due to factors of different nature, e.g. clumsy administrative system, high corruption risk, bad infrastructure, low level and quality of public services. It is an illusion to think that low taxes are the decisive factor that attracts foreign investments this is especially not the case with serious and strategic investors.

**The current tax policy not only does not lead to sustainable development, but also exacerbates the problems of poverty and social inequality.** The policy of low direct and high indirect taxes has resulted in a unique structure of tax income, which naturally burdens low and medium-income social groups quite heavily. This “reverse tax structure” in fact aggravates poverty and income differentiation rather than contributing to a



fairer taxation and increasing the solidarity in society for solving the problems of social exclusion.

**Through the gradual reduction of the amount of insurance contributions for pensions the system has gone in the wrong direction to accomplish untypical goals – to stimulate competitiveness and to fight against the grey economy by creating a “stimulating business environment”.** The pension system, its first, solidarity pay-as-you-go pillar in particular, was considered as a back-up for reducing the costs of the business and for creating a more favourable investment climate. The low adequacy of insurance protection has a negative influence in two directions – first, it increases distrust in the solidarity insurance pillar which directly leads to partial insurance and grey employment; second – this is a prerequisite for opening new jobs with low social protection, rather than for generating quality employment.

**In the conditions of real crisis and budget deficit the government declares that no significant changes will be made in the current tax system,** as such a measure would hinder the chances of overcoming the crisis instead of facilitating this process. All main tax rates have been retained – the corporate tax, the individual income tax (10% flat tax), VAT, there is a slight increase only in excise duties due to the country’s commitment to gradually reach the minimum EU rates. In this situation the government focused its efforts in **three directions**: increasing the collection rate of tax revenues and social security contributions; streamlining and restructuring of costs; support to the European initiative for a fiscal pact.

**As regards the first direction** the social partners, when developing the austerity package in March 2010, proposed fiscal supporting measures – sale of prescribed emission units, privatization of minority state shares, taxation on gambling profits, introduction of “luxury” tax, but most of them have not been implemented or their enforcement has been rather slow. In a statement, the Economic and Social Council of the Republic of Bulgaria also focused on the potential ways for restricting VAT frauds, tax and social insurance evasion, which could yield considerable revenues for funding urgent social exclusion policies (ISC/2/006/2009).

The enhanced control of the National Revenue Agency since the middle of 2011 as well as the undertaken actions for connecting the cash registers with the information system of the Agency yielded positive results and generally improved the collectability of tax revenues. In the conditions of fluctuating rates of industrial production and ever decreasing employment, this is truly an achievement, and in the long term the stricter control according to trade unions would mean good opportunities to improve the tax system towards a progressive tax continuum or at least the introduction of a tax-free minimum and an additional second level for the highest income. As to this direction, however, reaching a consensus at this stage seems impossible.

**As far as expenditure is concerned** the biggest structural changes were made in relation to funding the active and passive labour market policies. The budget deficit made the government undertake unpopular measures in the second half of 2009. Initially the

costs for active policies were reduced to 90% of the approved for 2009 BGN 190 million. In August resulting from the additional measures for limiting the interest-free costs and transfers to the republican budget for 2009 a new reduction was made in the budget for active policy. Thus, the revised amount of funds for active policy of the Labour Agency was reduced to BGN 165.8 million. As a relative amount these funds constitute 0.24% of GDP, and after the dramatically cut budgets for 2010, 2011 and 2012 the funds for active labour market policies (only BGN 63-65 million per year) now amount to about and below 0.09% of GDP.

With constantly decreasing resources from the state budget the efficient use of funds from OP "Human Resource Development" 2007-2013 in the best possible way has increasing significance for overcoming the crisis . If in 2009 BGN 8.2 million or 5% of all funds of the operational programme were spent on active labour market policies, in 2010 they increased to BGN 34.1 million (35% of all funds). Thus there was a considerable restructuring of the sources for funding active policies – a trend that continued in the following years.

As regards passive labour market policies, upon trade unions' pressure – after a change in the Social Security Code - the ceiling of unemployment compensation was removed and it was fixed at 60% of the average security income over the past 18 months. This restored the justice and the force of the main security principle, i.e. the compensation amount depends on the security contributions.

These positive changes however were done in an uncertain fiscal environment. In the context of economic growth and low unemployment rate the amount of security unemployment contribution was 3% and every year the fund would end with a surplus. Instead of keeping accumulating additional funds as a cushion against potential negative changes on the labour market, the contribution amount was reduced to 1% as of 1 October, 2007. The problems emerged in 2009 when in the context of a real crisis the funds for passive labour market policies were insufficient. Thus, the amount of BGN 209 million in the Unemployment Fund in 2006 was gradually reduced to BGN 54 million in 2008, and then in 2009 there was a deficit of BGN 70 million which in 2010 and 2011 went beyond BGN 150 million.

***In international perspective*** Bulgaria's government signed the EU Fiscal Pact but made it clear that it did not accept the conditions for tax harmonization and that the country could have financial commitments to the Pact only after it joins the Eurozone. The support for the European Fiscal Pact domestically was reflected in two benchmarks adopted by the parliament – a 2% budget deficit and a ratio of the budget income to GDP of 35%. The third element of this fiscal policy of the government is actually aimed at freezing the parameters of the current tax system and any changes in the future shall be made only with qualified majority of the Parliament. For that purpose however there is a need for certain changes in the country's Constitution. What can really happen right from the start next year, and what trade unions have insisted on the most, is the introduction of the financial transactions tax of 1% rate - a European idea which is not equally approved in the various EU member states, amongst social actors and economic circles.

### **3.3. Changes in collective bargaining and flexibility of salaries**

The economic development of Bulgaria after 2008 – the first stage of the financial crisis and the recession afterwards in some sectors have inevitably affected social dialogue and collective bargaining, even though to a different degree in the different sectors/ branches and companies.

#### ***General development***

There is an increase in the **deregulation of industrial relations**. Its manifestation is not so much in its classical form – such as increased importance of agreements (trilateral and bilateral), of collective bargaining agreements or even for consultations, at the expense of legislation. Rather, there is deregulation which is expressed in modification of the interpretation of legislative norms in the process of collective bargaining and agreements in individual sectors and companies. This for example affects the regular payment of salaries, the amount of remunerations for experience on the job and professional experience, the amount and mechanisms of payment of other additional remunerations – for extra labour and others.

Another trend is **the decentralization of collective bargaining** – shifting the importance of agreements from sector to company level. This trend of course has been observed since the beginning of the new millennium and its development has been relatively slow so far.

The decentralization can be manifested in different dimensions – in some sectors and branches it is objectively defined – due to the specificities of the sector, poor organization of hired workers or of employees or both. In these situations more often than not decentralized collective bargaining is with mutual consent between partners or due to the obvious lack of organized partners on sector or branch level.

In other sectors/ branches the decentralization is more often than not forceful and exclusively an employers' and employers' associations' initiative. In the production of chemical products this has been a constant trend since 2002. Similar is the case in electronics and electrical industry as well as in some of the branches in the light and food industry where employers refuse to negotiate at that level. The processes of reforms and restructuring as well as the financial deficit in the field of culture have been among the main reasons due to which employers have delayed since December 2007 the renewal of 4 branch CBA and 1 sector agreement. There was a breakthrough in 2011 when a sector collective agreement was signed for workers in museums.

There are sectors and branches where there is **no collective bargaining** – neither at sectoral level, nor in companies, since hired workers are not organized in trade unions/ or the presence of trade unions in separate companies is symbolic. This mainly holds for the services – trade at real estates, consultancy business, part of domestic services, great part of financial services (with the exception of some big banks), information technologies and some branches of the food industry – beverage production, meat

production, some branches of the light industry, etc. In the industrial sector this is often due to break-down of trade union structures that existed earlier.

The processes of collective bargaining in most sectors and branches continue **with agreements for sector collective labour agreements** but with some difficulties. The difficulties appear right from the beginning of new negotiations, in the very process and discussion of ideas, and the trends are for reducing some benefits and/or freezing additional remunerations as well as for the modification of some norms in legislation.

The process of **dissemination of the collective labour agreements**<sup>5</sup> and expanding the scope of coverage as to new economic activities and enterprises that started in 2009 is also continuing, though very slowly. There is however a strong opposition amongst employers and their organizations and there is one case of contestation to the court and cancelling a decision of the minister due to breaching the procedure. The main arguments are the extremely high requirements of the sector CLA and the inability to be fulfilled by some employers. There are also reserves expressed by some of the trade unions – they have doubts as regards the meaning and the benefit of this process since this practice does not, in their opinion, lead to expanding the trade unions' membership.

### ***Peculiarities for some sectors and companies***

In the **public sector** (healthcare, education, culture, public administration, etc.) there are negotiations on three levels: sector/ branch negotiations; negotiations on municipal level – in individual municipalities; negotiations in the organisations. For the public administration the negotiations are often quasi-branch – in legal entities that have structures and departments across the country (national agencies and others). The negotiations at company and/or at municipality levels are not ubiquitous, rather the main role is played by the negotiations in the sectors. The specificity of the collective bargaining process is strongly influenced by the limit of the budget funds and the regulatory mechanisms for their distribution. Yet, in these sectors, especially in secondary education and healthcare, there are negotiations on a regular basis and they usually finish with agreements.

There is also peculiarity in **the subsidiaries of multinational companies (MNC)** in Bulgaria. In some of them there are relatively strong trade union structures with influence on the management and well developed collective bargaining and agreement processes as well as relatively high levels of payment, benefits and labour conditions in all aspects. As a rule, the employers from these departments participate in the social dialogue (and in some cases in collective bargaining) on sector level, but they are not keen on strong sector collective agreement. Nevertheless, the clauses on salaries, social benefits, health and safety at work and others in CLA in MNC are significantly better than those in the sector agreements. At the same time they are ready to oppose sector agreements because of separate clauses that they do not fully agree with – for longer leaves, for work

5 The Labour Code contains a clause that gives the Minister of Labour and Social Policy the right to issue decisions for the distribution of collective labour agreements under specific conditions (they shall be signed by all sector organizations that belong to nationally representative trade unions' and employers' organizations on national level and there shall be a general request for distribution).

hours, for employment, as well as in some cases for enhanced protection in case of lay-offs of different categories, including trade unions' and other workers' representatives. In another group of departments of MNC, as well as in a series of other companies with foreign ownership, even if there are trade unions, they are usually weaker and either there are no collective bargaining cases or it is only the sector agreement that is recognized or a priority is given to the consultations for problem resolution. In a number of departments, mainly in the services, there are no trade unions or if there are attempts for establishing, there is a strong opposition from the employers for their "de facto" recognition („de iure" the trade unions do not need recognition pursuant to the Bulgarian legislation).

In the economic sector the most serious issue has to do with **small companies and micro-firms**, since most of them are not members of employers' organizations, and most often their workers are not organized in trade unions. In most cases they are not covered by CLA and in practice hired workers can rely only on observing the LC. One of the outcomes of this situation puts both the workers from these enterprises in less favourable conditions and encourages unfair competition amongst businesses, is to be covered by the force of the sectoral/ branch CLA. It is clear though that this process, even though it has been launched, will be slow and difficult.

### ***Some important trends***

- In 2009-2011, despite the crisis, there **was an increase in the payment** in a number of sectors, including machine building, metallurgy, chemical industry, water supply and sewage, trade, and some additional payments have been increased in these and other sectors. At the same time in a number of cases there have been compromises that had to be made by the trade unions and withdrawal from previous commitments, and the agreement was kept that they would be recovered "when there are financial possibilities". In the mining industry the average salary is by 77 % higher than the average salary in the production and 4.4 times higher than the minimal salary for the country. In metallurgy and metal production salaries are annually indexed and automatically increased based on inflation. In the chemical industry despite the forced decentralization, the actual lack of sector negotiations and the strong differentiation of the salaries in the sector (differences in average salaries, up to a ratio of 1:4), in 2010-2011 the salaries were increased at company level.
- There is a very strong trend of **decentralization in the negotiations for different types of additional remuneration**, which are provided for in regulatory acts but they can vary by sector, company or labour conditions. In some cases this trend also concerns the negotiations for the minimum remunerations. In metallurgy, for example, employers do not want to agree at sector level even on minimum wages that correspond to the respective qualification levels, as well as the minimum amount for further payment for work experience and professional experience, increased amount for extra labour, additional payment for working under risk labour conditions, as well as for drafting a list with similar professions for which

there is transferability and keeping of class qualifications. These conditions are usually agreed at company level.

The main argument of the employers for refusing to agree on minimum salaries are differences in the financial and economic state of the companies, the different policies of building the payment and incentive systems. In addition, according to employers, each company must set the way to promote continuous work. The argument for the extra hours is that there is an entry in the LC and no increase of the amount is needed and as far as the further payment of the working conditions is concerned, their response is that there are investments and there shall be no such payment whatsoever. It is the general conviction among employers that the types and amount of additional remunerations which are regulated should decrease at the expense of the increase in income directly linked to production (basic salary and bonuses).

- Even though more rarely as compared to other countries, **in Bulgaria there are derogations – deviations from the agreements in the sector collective labour contracts.** There are also cases of deviations from the basic salary (for no more than three months), as well as in terms of reduction of bonuses or changes in the working hours. The main arguments which are present in the texts of sector and branch CLA, are – “serious difficulties in the production and the market”, and in most cases employers are obliged to apply those deviations for no more than three months within 1 year or 6 months, even though there are records for longer periods too or the periods have not been fixed at all. The salaries must be paid within three months with interests.

Such deviations are envisaged in some CLA in 2008-2010, when was the first peak of the crisis. Those are cases in the timber and timber processing industry, paper and cellulose, machine building, some branches of the light industry, construction, retail. More often than not the deviations affect the amount of the gross salaries (construction, timber processing and furniture, paper, light industry). For metallurgy the minimal salary for the sector can be reduced in some companies in case of financial problems but this is possible upon discussion and decision of the branch council for social partnership (where the social partners and the government are represented).

In the case of machine building, this affects bonuses, additional payments under LC, working hours. There are also some framework clauses affecting the additional remunerations and the extra paid leaves, but the details must be agreed on in the companies, with some deviations from the sectoral CLA. In addition there are agreements on the minimal level of resources for social, amenity and cultural service, but there is also a clause which allows for a reduction of this minimal level in the companies in cases

of financial problems. For metallurgy the clauses on additional paid leaves even though agreed upon as such in the sector CLA are “open” and companies can diminish them.

In retail there are additional remunerations agreed on at sectoral level but still derogations are possible in individual companies depending on the economic results.

- **Flexible/ floating systems of payment are not so popular in Bulgaria yet,** especially in the public sector. Yet, they are already in use in the private sector – in industry, banks, insurance companies, as well as in the majority of the services, infrastructure and others. In most medium-sized industrial companies no overall systems are used, rather some elements, such as partial payment according to the work done and bonuses for the year. Some companies’ HR managers tend to increase the share of the floating part of the salary (i.e. bonuses, premiums, awards, floating additional remunerations, payable as per regulations, etc.) to the detriment of the basic salary and the “fixed” part of the additional remunerations. In most departments of MNC and in some other big companies there are systems developed by the HR experts and applied in accordance with the internal rules. In companies with high density of trade unions these systems are agreed on or at least are consulted with trade unions. The collective negotiations, especially those in companies, are used for the application of flexible systems of payment/ or more often – of separate elements (in some of the mines, in companies of the processing industry, from the infrastructure sectors, in commercial enterprises, in tourism, in some of the big banks where there are trade unions and in other services). At the same time, in a number of sectors, where there are no collective agreements or no trade unions / or they are of very low density (for example, in the IT sector, in business consultations, in real estate sector, in most banks and in insurance in general, as well as in most small and micro-enterprises) the flexible systems or elements thereof are applied by the management teams unilaterally or in rare cases – upon consultations with other workers’ representatives, if there are such appointed (representatives pursuant to article 7, paragraph 2 of LC or pursuant to article 7a of LC).

Of special interest in this respect is the new system of flexible payment in the public administration, which enters into force as of July 2012. There were serious objections against it by the trade unions and the NCTC could not reach a consensus on it.

In conclusion, Bulgaria is not an exception from the general European trends of deregulation and decentralization of collective negotiations, with an influence on the mechanisms of salary calculation. By and large, the trends are relatively slower and changes take place with some difficulties. The reasons for this are both the opposition by strong trade unions in some sectors, especially the heavy industry and some of the infrastructure sectors, as well as some reserves on the part of employers – due to reluctance to enter into conflicts, lack of obvious need to introduce new forms of payment and agreement, lack of well-developed regulatory base and others.

### ***The challenges of the crisis and new EU financial instruments***

A serious challenge to the system of industrial relations, in particular to the development of social dialogue and the development of collective bargaining in the country, which can change the trends of its development, is the EU response to the crisis. The development of social dialogue and collective bargaining in Europe and in our country in particular, as the latest events show (trade unions' protests against the unilateral decision for raising the retirement age, the strike in the Bulgarian railway state company, etc.), is under threat.

The changed economic conditions place a number of obstacles to trade unions. The European pressure on the growth of salaries and the systems for salary formation, as well as against collective bargaining, comes as a result of the recommendations of the Economic governance and the Euro Plus Pact where the leitmotif is that salaries shall become the main instrument for control through improved flexibility and freezing, which shall contribute to removing the imbalances and to raising the competitiveness. The crisis of the euro and the Eurozone serves as an excuse for avoiding and breaching collective agreements and even questions the validity of the national collective agreements thus undermining the autonomy of the collective bargaining.<sup>6</sup>

The crisis was used to exert further pressure on the labour costs, as a result of which in many countries the salaries were frozen, and in some - even cut, in the public sector in particular, with which the governments clearly intervene in the collective agreements in force. Parallel to this, the crisis also encouraged the use of new forms of collective agreement at company level which give priority to retaining jobs to the detriment of payment, and in some countries there were even changes in the legislative framework of collective agreement, which allow for bigger deviations from the national or sectoral collective agreements.

These are the consequences of the strict austerity policies in the whole of Europe, including the attacks against trade unions, against increasing of salaries, pensions and social services, against the trade unions' right to collective bargaining. Bulgaria is an indicative example in this respect, especially in the last year. The poor financial and economic state in a number of branches of the Bulgarian economy, the new economic management and new financial instruments of Europe to which the current government is strongly attached, raise the question - to what extent the social partners on sectoral/branch level and in individual companies are free to make agreements. The budget policy and the payment policy related to some limitations, restrictions and control are not favourable to the bargaining at these levels. This influences not only the public, but also the private sector in which bargaining faces further difficulties by the scarce presence of trade unions.

The expected difficult recovery from the crisis in the years to come will obviously require the joint efforts and the greater commitment of both the government and the social partners for reaching a consensus through social dialogue. Collective bargaining can be one of the efficient means in response to new challenges.

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<sup>6</sup> See publications on the Information site of CITUB under CLA



### **3.4. Social Dialogue and Political Decisions for Reforming the Public Systems**

As far as industrial relations and collective bargaining affect mainly the employed, their remunerations and labour conditions, important public systems and their reforming are subject to active social dialogue on national and/ or sectoral level, in view of their optimal functioning to the benefit of all citizens. In the transition years, in different periods and with different frequency, processes were carried out of transforming, reforming and improving the pension, healthcare and education systems. As a rule, this used to happen with the participation of the social partners – trade unions and employers’ organizations. Even though the crisis affected these areas differently, after all they are experiencing the consequences of the restrictive policy, of the incomplete reforms or of undertaken urgent and painful recovery measures.

#### ***Pension System***

As most pension systems in the European countries, the Bulgarian pension system thoroughly changed in 2000, faced serious challenges mainly in terms of negative demographic changes. The main problem is the trend for long-term financial instability of the state social security (SSS), which can generate future commitments of the state budget which are impossible. Great part of the financial challenges to the system are a product of objective processes and previous political decisions in the field of pension security which have resulted in: mismatch between revenue and expenditure pension policies; unjustified high increase in the number of the disability pensions; the application of rules in favour of some groups of people with securities; the option for a very early retirement; and finally – limited possibilities of the pension system to play the role of an “automatic stabilizer” in the context of the crisis.

Under the pressure of necessities, the Consultative Council on the Pension Reform set up in 2010 with the participation of the social partners had the difficult task of retaining and improving the architecture of the pension model, fortifying the first pillar, achieving an optimal balance between the three pillars of the pension system, removing all elements of social assistance from the security system, and strengthening the link between social security contribution and the pension amount. It was clear to everyone that there would be inevitable and unpopular decisions – raising the retirement age, increasing the required security experience and cutting security rights.

After intense negotiations, a lot of protests of the trade unions across the country and a general national protest in the capital city of the two trade union confederations (CITUB and CL “Podkrepa”), November 2010 saw the signing of National Agreement “New strategy for financial stabilization of social security and improving the pension legislation” which resulted in a tripartite consensus for smooth phasing-in of the reform stages. The three most important stages included:

- As of 1 January 2012 an increase in the social security duration for workers of third category of labour by 4 months per year until they reach 37 years duration for women and 40 years for men in 2020.

- As of 1 January 2015 early pensions for workers of first and second category of labour will be paid only by the professional social funds; by then the conditions for retirement of the workers of different categories are kept.
- As of 1 January 2021 increase of the retirement age of women and men by 6 months by the time it reaches 63 years for women (2026) and 65 years for men (2024).

In one year only this National Agreement was suspended by the government (not without external pressure) with the arguments of “deepening crisis” and “necessary urgent measures”. The new decision was – immediate and rapid (by 12 months) increase of the retirement age for all, which the trade unions strongly opposed, but in the end the final draft of the reforms adopted in December 2011 was only “toned down” and it provides for the following:

- As of 1 January 2012 the retirement age shall increase by 4 months in the beginning of each calendar year by the time it becomes 65 years for men and 63 years for women (the age until now was 63 and 60 years respectively).
- As of 1 January 2012 the experience needed for retirement shall increase by 4 months per year by the year 2020 and for men it will become 40 years and for women 37 years (the required experience so far was 37 and 34 respectively).
- As of 1 January 2012 the pension age shall increase by 4 months a year for first and second category of labour and in 2014 it shall become: for first category – 53 years for men and 48 years for women; for second category – 58 years for men and 53 years for women.

The NCTC shall discuss further changes related to the mechanism of updating the pensions, annual indexation and potential legislative changes, regulating the use of the financial funds in the “Silver Fund”. The government’s intention to use part of them as investment instruments is accepted in different ways, both in the country and internationally.

### **Healthcare**

The security-based healthcare system started its intensive restructuring in the middle of 1997, which resulted in the collection of social security contributions as of 1.7.1999, divided on a solidarity principle between the employer and the secured person so that financial resources could be accumulated for the actual start of the reform a year later.

**The model of reforming the healthcare system was unilaterally selected by the government.** The social partners and the society had to take for granted a model of a healthcare system and the resulting changes in this sector on which no serious public debate had been held. The result from this is poor health of the population, no balance between the patients’ and the service providers’ interests, greater commercialization of healthcare to the detriment of its social functions, financial instability of the system,

demotivation, alienation and tension amongst the professional communities, and corruption.

The social partners and the experts are unanimous that **the healthcare system is the worst reformed public system**, and moreover, bad decisions are made in different sectors of healthcare and prophylaxis, as well as in health security. Trade unions have good positions in collective bargaining, but far more limited influence on the healthcare reform. Despite the tripartite principle of managing the National Health Security Fund, there are no significant positive changes as regards accomplishing greater transparency and efficiency of fund spending or guaranteed access to healthcare of adequate quality and quantity.

In 2009 the health security contribution was increased from 6 to 8%, but that did not have any significant effect on the financial security of the healthcare system. That is why it was quite right that within the negotiations on the austerity measures in 2010 the option for another increase of the health security contribution was dismissed. The following problems are all chronic in nature: hospital funding and deficit forming in hospitals, control on the volume and quality of the medical services, regulated and non-regulated payments by patients, clear identification of the non-secured persons and their inclusion in the system.

Public funds for healthcare are not enough, they are used in conditions of inefficient control, of many organizational and management problems. The most important functions of the state as regards the healthcare policy – the estimation of healthcare needs of the population, the strategic planning of healthcare resources and the regulation of agreements with hospitals using public resources results only in statements and in publishing demographic and medical statistics and economic data on the current state of the healthcare system.

The system for voluntary collection of public resources for payment of healthcare activity is extremely inefficient and relies mainly on corporate clients, and not on individually insured persons in the case of free selection of fund. Payments from the voluntary funds duplicate the payments from the NHSF. What is needed for this purpose is adopting a basic (optimal) package of obligatory health security at 100% guaranteed funding from the NHSF, while voluntary health security companies shall provide additional (superstructural) package.

Obviously the creation and presentation of a clear and complete vision for the development of the healthcare sector and for the health security system in Bulgaria should be done and this vision must be based on respecting the opinion of social partners, the interests of society in general, rather than of individual professional communities as frequent practices so far have been.

### **Education**

Following the most massive and continuous strike of teachers of the autumn of 2007, in 2008 there was a reform in the secondary education system through the introduction delegated budgets. The distribution of funds for individual schools is performed according to unified expenditure standards and according to the number of children and students

in them. This practice continued in 2009 too. As a result of the reform more than 5, 000 teachers were laid off and a number of schools were closed down – mainly in villages that could not provide the required number of students. This negative social effect, consumed in advance, to a large extent preserved the sustainability of the education system later in the crisis.

The streamlining of the secondary education system allowed for a fairer and more efficient spending of funds, on the one hand, and on the other – made possible the application of additional stimulating mechanisms for teachers with higher qualification and workload. School principals were given greater freedom in the distribution of funds within the delegated budgets, as well as the option to attract additional funds by applying and participating in external projects.

At the same time however the budget for secondary education in 2009 resulted in a 10% reduction of the universal expenditure standards for funding a child/ student. These amounts were preserved in the course of time which meant that in practice the salaries in secondary education were frozen and the opportunities for improving the school environment were postponed.

The main problem before secondary education is still the drop-outs. Their number was gradually reduced from 22% in 2003 to 13.9% in 2010 and this comes as a result mainly of two types of policies – forceful and stimulating. The first one is fixed by the adopted rule – child benefits shall be paid to parents only if their children go regularly to school, and the second is reflected in the free-of-charge textbooks until 7<sup>th</sup> grade, free-of-charge breakfast, organized transportation, full-time education for first- and second-graders whose mother tongue is different from Bulgarian. In the end however the effect is considered to be unsatisfactory. **Early drop-out from school is one of the biggest challenges before the labour market now and in the future when an acute deficit of quality labour force is to be expected.**

In the field of vocational training progress has been made in terms of implementing the idea of voucher training. Upon a decision of the Monitoring Committee of Operational Programme “HR Development” a system of vouchers was introduced for the training of unemployed and employed which accelerated the absorption of the programme funds. The committee approved the allocation of BGN 100 million for funding projects for extracurricular activities, BGN 30 million for the development of distance training in higher education and BGN 8 million for practice in real working environment for students from secondary schools.

**However, the involvement of the business in vocational training is considered insufficient.**

On the one hand, there is no link between employers and schools which is a prerequisite for mismatch between demanded and supplied skills and knowledge, for the lack of opportunities for production practices and internships. On the other – most companies (mainly medium and small ones) do not pay much attention to maintaining the qualification of their workers and consider the expenses for courses and trainings as a financial burden for the company’s finance. In this sense one should not rely only on the state, besides the state is not flexible enough to react to the dynamically changing conditions.

## CONCLUSIONS AND RECOMMENDATIONS

This report describes the system of industrial relations in the country and the influence of the crisis on the development of social dialogue and collective bargaining at different levels.

The development of the Bulgarian system of industrial relations and the activity of the main social actors are influenced to a large extent by the effects of transition to market economy and the accession to the EU. One of the irrefutable achievements of the democratic development in the country is the transition from centralized labour relations defined and set by the state only to a model of industrial relations based on social dialogue and establishing the institutions to perform it.

The global recession has hit the economic growth of the country quite hard. In Bulgaria as in many other countries around the world the economic crisis resulted in a dramatic drop in domestic demand and investments that had been key drivers of growth before the crisis. In line with the measures for economies of the government, salaries and social payments were frozen against the background of rising prices.

Besides, the worsened labour market conditions since the beginning of the recession are among the heaviest in the EU-27. After five years (2004-2008) in which labour market indicators improved considerably, Bulgaria lost more than 20% jobs during the recession. As a result of this the employment rate dropped, and the unemployment rate (long-term unemployment included) more than doubled. Considerable pressure was exerted on the pension, healthcare and education systems.

The crisis and the strict austerity policy are seriously affecting the system of industrial relations both in terms of environment which results in a new balance of power distribution and in terms of the actors' roles and behaviour within it.

The analysis of the content and what was achieved in the collective agreements at different levels in the context of the crisis allows for several general conclusions to be drawn:

- In the context of stagnation of production and limited financial opportunities the majority of companies have considerably fewer options for bargaining and that results in a number of compromises in terms of the content of the CLA at sectoral level and in companies;
- The social partners, after difficult negotiations in some sectors and in the context of crisis, manage to stick to basic agreements and parameters from the previous cycle of agreement;
- In some sectors there are agreements for austerity packages in the field of employment, working schedules and working hours, qualification and retraining of staff;

- Even though rarely, in individual sectors/ branches there are agreements for higher and more favourable parameters under some of the clauses of the collective agreement, payment included;
- In a number of sectors, to compensate for the lack of increase of salaries, there are agreements for more favourable parameters under other indicators (training, holidays and leaves, etc.), i.e. the so called “trade-off” effect.

In addition, despite the crisis the Minister of labour and social policy for the first time made use of the right to distributing sector/branch collective agreements.

Parallel to this, a number of employers’ organizations and employers are getting keener to have collective agreements in companies.

The practice of some European countries is still insufficiently used in the economic decline, for signing agreements in individual domains rather than complete rejection of collective bargaining. Neither are the so called open clauses made full use of which allow for making agreements that match the different state of the companies in a sector or a branch and this deprives CLA at sectoral level from the necessary flexibility.

What is also needed is taking greater advantage of the European practice for binding payment to productivity and inflation. In addition, collective agreements should not only allow hired workers to contribute to the profit, but also to have proportionate participation in its distribution by agreeing on different schemes for financial participation, especially having in mind some recent regulations in this respect.

The social dialogue had an important role in undertaking measures as a response to the crisis, at least at the initial stages – agreeing on reduced working hours and austerity packages, etc. A lot of those measures have not been implemented, and the government unilaterally changed the agreements accomplished, and signed with the social partners.

The challenges in terms of recovery from the crisis require as regards the functioning of the system of industrial relations that:

- The governments and the social partners shall give priority to the agreed **measures in response to the crisis** and to constant monitoring of their implementation;
- **Shared responsibility and commitment** of the government and the social partners in the process of collective bargaining at all levels;
- The social dialogue and the collective agreement shall be considered **a recovery instrument for economic growth and employment**;
- Smooth transition from priority retention of jobs to the creation of **sustainable and quality employment** during the recovery period;

- Increasing **investments in human capital** with shared responsibility between the state, the employers and the local communities;
- Undertaking **urgent measures and targeted policies to the most vulnerable** and the most affected by the crisis social layers;
- **The application of minimal social standards** in a wide range of fields of increasingly pan-European dimensions.

Based on the need to reach public consensus on these key directions for action of our country, **the CITUB has already proposed that a National Board for Sustainable Development be set up** – similar to the Committees with similar activities that exist in many countries. This initiative is in full harmony with the best European practices and the Europe 2020 Strategy and will support not only the development of the national economy in the period of recovery from the economic and financial crisis, but will also contribute to the development of the national vision for the state policies in a long-term perspective in view of the country's commitments in the field of sustainable development and the environment.

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