

BULGARIA

Can it implement the 2030 Agenda as upper middle income country?

Plamenka Markova and Tania Tisheva
Bulgarian Gender Research Foundation (BGRF)

Bulgaria has come a long way from its turbulent political and economic transition in the 1990s to becoming a member of the European Union (EU) in January 2007. Today, it is an upper middle-income economy of 7.2 million people with a per capita income of USD7,420. (GNI per capita, 2014).

However, since 2008, economic growth has been sluggish and income gains of the bottom 40 percent of the population have been weak. Supported by prudent macro-fiscal management, Bulgaria showed resilience during the global economic crisis with reduced imbalances and a sound public debt level (27.6% of GDP in 2014). Yet, convergence has slowed and Bulgaria's income per capita are just 45 percent of the EU average in 2013. Eurostat data show that in 2014, Bulgaria holds second place in the at-risk-of-poverty-or-social-exclusion scale: Romania (40.2%), Bulgaria (40.1%) and Greece (36.0 %). Given this situation, what must be done to implement the 2030 Agenda?

Bulgaria has come a long way from its turbulent political and economic transition in the 1990s to becoming a member of the European Union (EU) in January 2007. Today, it is an upper middle-income economy of 7.2 million people with a per capita income of USD7,420. (GNI per capita, 2014).

In the decade leading up to EU accession, Bulgaria embraced difficult reforms to build macroeconomic stability and stimulate growth. It built fiscal buffers by accumulating fiscal surpluses between 2004 and 2008, and reduced public debt from over 70 percent of GDP in 2000 to 13.3 percent in 2008, the second lowest debt level in the EU. Between 2000 and 2008, GDP per capita rose

by 6.6 percent per year, the highest growth on record, and convergence with EU income levels accelerated.

Since 2008, economic growth has remained sluggish and income gains of the bottom 40 percent of the population have been weak. Between 2008 and 2014 annual GDP per capita growth slowed to just 1.3 percent. About 400,000 Bulgarians lost their jobs, limiting opportunities for the bottom 40 percent. Supported by prudent macro-fiscal management, Bulgaria showed resilience during the global economic crisis with reduced imbalances and a sound public debt level (27.6% of GDP in 2014). Yet, convergence has slowed and Bulgaria's income per capita are just 45 percent of the EU average in 2013.

Eurostat data show that in 2014, Bulgaria holds second place in the at-risk-of-poverty-or-social-exclusion scale: Romania (40.2%), Bulgaria (40.1%) and Greece (36.0 %). What led to this situation?

One factor concerns employment. The situation in the labour market in the last six years has been shaped by a number of fundamental factors:

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

2. The lack of synch between labour demand and supply worsened, marking the Bulgarian labour market as structurally weak, with a high proportion of disheartened people, long-term unemployed, and segments suffering more than one form of inequality, all making for low competitiveness and poor adaptability of the labour force to changes in the labour market.

3. Shortcomings in reform of the education system

have also contributed to this. On the one hand, the relatively entrenched drop-out rates in secondary education persist; on the other, there is a structural mismatch between jobs being sought and those available and practical skills. Highly educated people have more chances, while the rate of unemployment among those with primary and basic education increases. An acute shortage of skilled labour in industry but also in the services sector is observed, which hampers opportunities for growth in production and labour productivity.

4. Despite various interventions to rein them in, the shadow economy and undeclared work have remained the most durable segment of the labour market over the last twenty years. This adds to the uncertainty about what is actually happening in the economy and whether the statistics and indicators are giving a true picture. Not only is the shadow labour market in competition with formal labour markets (primary and secondary), but it is to a large extent embedded within them and, depending on the state of the economy, is able both to absorb labour from them and channel it to them.

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

Overall, the employment rate for men was higher before the crisis by around 9 to 11 percent (see Table 3), but this gap then gradually narrowed and is now at 5 to 6 percent

for ages 20-64, which shows there was also a gender disparity aspect to job losses, mainly the result of a strong decline of employment in the male-dominated construction and industry sectors. Given that labour accounts for most household income Bulgaria, it is not surprising to find that a worsening labour market was the most important contributor to poverty increases after 2008.

The situation of the labour markets shows some tendencies for improvement: in 2014, employment (for people aged 20 - 64) increased by 1.6 percentage points to level of 65.1 percent and continues to grow in 2015 reaching 68.8 percent in the third quarter of 2015. Bulgaria has the lowest labour productivity within the whole EU and in 2014 the highest level of the gap between wages and productivity was measured.

Wages, social inequalities and poverty

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

Bulgaria still faces challenges regarding the employment of some groups such as low-skilled adult workers (31.5%), residents of rural areas (55%) and Roma (22%). The opportunities for employment of these groups were severely affected during the crisis and those prospects had been already poorly developed due to the accumulated structural disadvantages. This structural challenge impedes the effective adaptation of these groups to the labour market.

Table 1: Labour market indicators in Bulgaria

| Main labour market indicators, 2014 and 2015 | 2014 | 2015 | Change (2015 minus 2014) |
|--|--------|--------|-----------------------------|
| Activity rate (15 - 64) - % | 69.0 | 69.3 | 0.3 |
| Employed persons aged 15 and over - in thousands | 2981.4 | 3031.9 | 50.5 |
| Employed persons aged 15 - 64 - in thousands | 2927.4 | 2973.5 | 46.1 |
| Employed persons aged 15 - 24 - in thousands | 152.7 | 143.2 | -9.5 |
| Employed persons aged 15 - 29 - in thousands | 464.9 | 465.9 | 1.0 |
| Employed persons aged 20 - 64 - in thousands | 2916.4 | 2963.2 | 46.8 |
| Employed persons aged 55 - 64 - in thousands | 511.2 | 530.1 | 18.9 |
| Employment rate (15 and over) - % | 48.0 | 49.1 | 1.1 |
| Employment rate (15 - 64) - % | 61.0 | 62.9 | 1.9 |
| Employment rate (15 - 24) - % | 20.7 | 20.3 | -0.4 |
| Employment rate (15 - 29) - % | 38.0 | 39.2 | 1.2 |
| Employment rate (20 - 64) - % | 65.1 | 67.1 | 2.0 |
| Employment rate (55 - 64) - % | 50.0 | 53.0 | 3.0 |
| Unemployed persons - total - in thousands | 384.5 | 305.1 | -79.4 |
| Unemployed persons aged 15 - 64 - in thousands | 381.3 | 302.5 | -78.8 |
| Unemployed persons aged 15 - 24 - in thousands | 47.6 | 39.6 | -8.0 |
| Unemployed persons aged 15 - 29 - in thousands | 100.1 | 78.4 | -21.7 |
| Unemployment rate - % | 11.4 | 9.1 | -2.3 |
| Unemployment rate (15 - 64) - % | 11.5 | 9.2 | -2.3 |
| Unemployment rate (15 - 24) - % | 23.8 | 21.6 | -2.2 |
| Unemployment rate (15 - 29) - % | 17.7 | 14.4 | -3.3 |
| Long-term un-employment rate - % | 6.9 | 5.6 | -1.3 |
| Discouraged persons - in thousands | 192.1 | 172.9 | -19.2 |
| Discouraged persons - (15 - 64) - in thousands | 188.7 | 170.0 | -18.7 |

Source: NSI Labour Force Survey 2015 Main Results; www.nsi.org

Table 2: Average annual wage (in BGN), annual inflation (%), nominal and real wage growth (percentage change over previous year)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------------------------|------|------|------|------|------|------|------|-------|
| Average annual wage (in BGN) | 6538 | 7309 | 7777 | 8230 | 8773 | 9301 | 9860 | 10724 |
| Annual inflation (%) | 12.3 | 2.8 | 2.4 | 4.2 | 3.0 | 0.9 | -1.4 | -0.1 |
| Nominal wage growth (%) | 26.5 | 11.8 | 6.4 | 5.8 | 6.6 | 6.0 | | |
| Real wage growth (%) | 12.7 | 8.7 | 3.9 | 1.6 | 3.5 | 5.1 | | |

Source: National Statistical Institute

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

However, it should be noted that some sectors of industry were unscathed by the crisis, did not experience this artificial effect and have actually seen rising wages along with increasing jobs.

Cases in point are the IT sector, the pharmaceutical and paper industries, wood processing, and some mechanical engineering branches.

Wage disparity is high in Bulgaria in terms of both jobs/qualifications and sectors/branches.

According to Eurostat data, 27 percent of workers are "low-paid", their salaries below 67 percent of the median for this indicator, and Bulgaria is one of the three countries with the highest proportion of low paid workers.¹

In terms of the average wage (EUR 396 per month in 2013), Bulgaria continues to be the lowest among EU Member States. Its position is also unenviable when it comes to the average wage in purchasing power parity (PPP) compared with most EU countries. For example, it amounts to 25 percent of average wage (PPP) in industry

and services in Germany, 26 percent in the Netherlands, 31 percent in Finland, 41 percent in Malta and 50 percent in Portugal.²

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

The crisis and the measures taken to freeze income exacerbated social inequality and the chances of nearly half of the population to get out of the trap of poverty and social exclusion.

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

¹ www.ec.europa.eu/eurostat/statistics-explained/index.php/File:Estimated_hourly_labour_costs.2015

² "The Economic and Social Situation in Bulgaria" Contributions from the Workers' Group Dr Lyuben Tomev – Research Fellow, Director of ISTUR) p.11-12.

Table3: Inequality and poverty

| Indicators | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------|------|------|------|------|------|
| Income quintile share ratio (S80/S20) | 6.5 | 5.9 | 5.9 | 6.5 | 6.1 | 6.6 |
| Gini Coefficient | 35.9 | 33.4 | 33.2 | 35.0 | 33.6 | 35.4 |
| Population at risk of poverty or social exclusion (%) | 44.8 | 46.2 | 49.2 | 49.1 | 49.3 | 48.0 |
| Employed at risk of poverty (%) | 7.5 | 7.4 | 7.7 | 8.2 | 7.4 | 7.2 |

Source: Eurostat, SILC

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

Bulgaria is one of the countries in which the risk of poverty or social exclusion for the population is above the EU average (see Table 3). According to EU-SILC data, in 2013, 48 percent of people were living in poverty or social exclusion, with 21 percent at risk of poverty (so-called monetary poverty). Due to chronic underfunding and underperformance of important social areas such as education, health, social security and social assistance, the risk of secondary poverty is very high. Social protection expenditure accounts for only 17.4 percent of GDP, compared with the EU average of 27 to 29.5 percent.

In 2014 the share of people at risk of poverty or social exclusion is 40.1 percent, that is, still among the most unfavourable in the EU. The share of persons living in households with low intensity of economic activity has decreased, but the proportion of people living in the conditions of monetary poverty has increased and the depth of the poverty had increased for all groups except for the elderly people. Among the main reasons for the high risk of poverty are limited public spending and low level of efficiency of the social protection system for reducing income inequality.

The pension system is under strain and there is strong pressure to raise the retirement age and increase the insurance period in a situation in which:

- the proportion of average monthly pension to average monthly salary across all pension types is 36.4 percent;
- the proportion of pensioners to insured persons is 80.4 percent; but also
- life expectancy (70.9 years) is far below the EU average.³

According to the two Bulgarian trade union confederations, the main reason for the shortfall in the pension system is the unprecedented and sustained reduction in the contribution rate for pensions from 32 percent in 2000 to 17.8 percent today, 5 percent of which is paid into the supplementary private Universal Pension Funds (UPFs), which are mandatory for insured persons born after 31 December 1959.⁴ In addition, a measure was introduced in 2000 requiring Category I and Category II workers to make a further contribution of 12.7 percent to compulsory private occupational supplementary pension funds instead of the National Social Security Institute scheme.

The education system also suffers from a number of shortcomings, such as insufficient funding, low quality of education provided, difficult access to different levels of education for particular population groups (material status, ethnicity, etc.). In 2013, a disturbingly high proportion of young people were neither in education (8%) nor employed (25.9%) and the merely

3 Contributions from the Workers' Group– Dr Lyuben Tomev, "The Economic and Social Situation in Bulgaria," p.13.

4 Становище на КНСБ по проектозакона за изменение и допълнение на КСО, 13 05 2015; available at www.knsb-bg.Org/index.php/deinosti.

symbolic percentage of people undertaking lifelong learning (1.7%) casts doubt on whether this way of retaining and acquiring knowledge is generally working.

According to the most recent data about women's economic activity, according to the National Statistical Institute of Bulgaria for the period 2011- 2015⁵:

- There were 74, 675 men at managerial positions with gross salary per hour of BGN 8,86 /approx. EURO 4,40 and 58,079 women in such positions with gross salary of BGN 7,68;
- Women are over-represented in the sphere of assistant administrative positions but again with lower pay;
- Women have higher educational status: in 2014 there were 101,303 women with a bachelor degree, 340,671 women with a masters' degree, 9,131 women with a PhD; for men these figures are, respectively, 49,727 for bachelors, 224,074 for masters and 7,783 for PhDs.
- Women have equal, and sometimes higher qualification but their skills are not appreciated enough and their professional development is at a slower pace.
- As a result also in the EU the gender pay gap (GPG) is 16 percent, for Bulgaria this percentage of GPG increased in the period 2008- 2013 to up to almost 14 percent in 2014. Women in Bulgaria receive about 40 percent lower pensions than men.
- GPG in Bulgaria increases with age - from 6.2 percent for under 25 years, to 11.5 percent in the age group 25 -34 years, and up to almost 20 percent for the age group 35- 44 years.

According to data of the Bulgarian National Statistical Institute, the average percentage difference in the salaries of the employed differs in favour of men - for example in 2007 the difference was 10.6 percent; in 2008 - 11.4 percent; in 2009 - 12.5 percent; in 2010 - 12.3 percent; in 2011 - 12.2 percent; in 2012 - 14 percent; in

2013 - 12.6 percent.

The differences are observed in almost all economic activity groupings. The highest differences are found in sectors with different concentrations of women and men due to professional segregation.

These average gender gaps in employment are also more pronounced for particular subgroups, such as employment rates for older workers. Women accumulate lower pension and other benefits where eligibility is earnings-related or based on individual records of employment history because of their lower average earnings, greater likelihood of interrupting their employment or working reduced hours to attend to family care responsibilities, and the higher unemployment rates they experience in many countries. For example a Bulgarian typical woman pensioner retiring at age 60 today will draw a pension equal to 22.4 percent of the average wage at the time while her male counterpart will draw one equal to 30.4 percent. Should they both retire at age 65, the woman's pension would equal 29.2 percent of the average wage while the man's would equal 39.6 percent. In both cases it is assessed that the average woman's pension will be just 74 percent of the average man's.

Bulgaria adopted a National Reform Programme Europe 2020 and a National Development Programme: Bulgaria 2020 (with a Tri-annual Action Plan for implementing the programme, 2016-2018). Debates are underway about preparations for drafting a National Development Programme 2030 in line with the 2030 Agenda and its Sustainable Development Goals (SDGs).

On behalf of the private sector, members of the UN Global Compact (120 companies) demonstrated the will to work actively over the next five years on several key objectives for sustainable development of the country and society. The network adopted a strategic plan of action for the next five years in line with the universally adopted SDGs by 2030.

⁵ www.nsi.bg/en/content/6531-activities

4 Bulgaria

The plan identified the following Bulgarian priorities:

1. Quality health care - ensuring healthy lifestyles and promoting the welfare of all, at all ages;
2. Quality education - ensuring inclusive and equitable quality education and promote opportunities for lifelong learning;
3. Secure jobs and economic growth by promoting steady and sustained growth, full and productive employment and decent work for all;
4. Innovation and infrastructure - building a flexible infrastructure, promoting inclusive and sustainable industrialization and stimulate innovation;

5. Sustainable cities and communities - transforming cities and towns in inclusive, safe, stable and sustainable centres;
6. Responsible consumption - ensuring sustainable patterns of consumption and production;
7. Peace and justice - promoting peaceful inclusive societies for sustainable development, ensuring access to justice for everyone, build effective, accountable and inclusive institutions at all levels.