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## POST-CRISIS RECOVERY AND EFFICIENCY OF THE LABOR MARKET IN BULGARIA

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### Abstract

*The report explores the impact of the crisis on the labor market efficiency in Bulgaria and the trends for its recovery. The main focus is set on one of the sub-criteria of the seventh pillar of the competitiveness evaluation, examined annually by the World Economic Forum. In particular, subject of the study are regulations applied in the minimum wage field, crisis and post-crisis social dimensions connected to the consequences and recovery trends in households income, unemployment and employment indicators. By means of the methods and instruments of the theoretical and empirical descriptive analysis it is proved that in the field of minimum wage there is an improving efficiency and flexibility of the Bulgarian labor market, which does not yet occur as a prerequisite for a considerable increase in the competitiveness of the Bulgarian economy. Among retaining factors, the ongoing processes of rising unemployment and limited employment growth under the conditions of a positive economic growth after the crisis 2009 can be outlined.*

**Keywords:** economic crisis, competitiveness and efficiency of the labor market, minimum wage, employment, unemployment

**JEL Classification:** O40, J21, J23, J31, J80

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## Introduction

Assessment of effectiveness of government activities and competitiveness of the economy can be built based on a complex set of criteria. One of them is closely related to the labor laws of the country, with the mechanisms for regulation, providing conditions for smooth and efficient functioning of the labor market. In this direction an accumulation of various additional sub-criteria could also be defined, as they require an account. The most important of these are summarized in the seventh pillar of competitiveness assessment of the economy, tested periodically for 148 countries in the world by the World Economic Forum (WEF) and reflected in the Annual Competitiveness Report. Among those of particular importance some followed and established rules for determining and amending the salary and particularly the minimum wage can be highlighted. These rules should encourage people to employment and work, rather than create serious difficulties and obstacles to business activity.

The main objective of this study is to outline the trends in these areas, progress (or lag) in regulatory requirements and the general regulations of the labor market, particularly in Bulgaria. In parallel, some economic and social problems existing in our country can be identified and analyzed, on the resolution of which is necessary to focus on government and legislative actions and measures in the coming years. Moreover, after the spread of negative impulses of the last (global) economic crisis which hit hard the labor market in Bulgaria, serious prolonged rise in unemployment and a drop in employment has been strongly pronounced.

## Labor market efficiency and competitiveness of the Bulgarian economy

In recent years, the positions of Bulgaria on developed and monitored by the WEF total of 10 sub-criteria of the seventh pillar („Labor Market Efficiency“) are characterized by diverse trends (see. Table 1). On part of them our country achieved a remarkable improvement and it now occupies higher positions, while on others it has dropped down in the ranking of 148 countries surveyed in the world. It should be noted that the problems in the regulation and functioning of the labor market affect the estimates of the difficulties and the conditions for doing business in Bulgaria. It is therefore not surprising that two of the most frequently cited 16 problematic factors refer to poor work ethic and restrictive labor regulations, although they are set by Bulgarian entrepreneurs to more remote positions (respectively 7th and 9th place) in 2013 (The Global Competitiveness Report 2013-2014).

**Table 1. Efficiency of the labor market in Bulgaria**

<b>7<sup>th</sup> pillar: Efficiency of the labor market</b>			
<b>№</b>	<b>Sub-criteria</b>	<b>Value** (index)</b>	<b>Position (among 148)</b>
7.01	Cooperation in labor-employer relations	4,1	99
7.02	Flexibility of wage determination	5,3	<b>49</b>
7.03	Hiring and firing practices	4,0	70
7.04	Redundancy costs, weeks of salary	7,5	<b>22</b>
7.05	Effect of taxation on incentives to work	3,3	109
7.06	Pay and productivity	4,2	<b>48</b>
7.07.	Reliance on professional management	3,7	112
7.08.	Country capacity to retain talent	1,9	142
7.09	Country capacity to attract talent	1,9	144
7.10	Women in labor force, ratio to men	0,88	<b>39</b>

Source: The Global Competitiveness Report 2013-2014, World Economic Forum, p. 139, pp. 487-497

\*\* Applied by WEF scale extends indices in the range from 1 to 7, where 7 represents the highest competitiveness, and 1- respectively, the lowest.

In the considerate criterion (7th pillar) Bulgaria shows a relative competitiveness - achieved an index of 4.36 points and ranks in summary 61st place among 148 countries surveyed by the World Economic Forum (The Global Competitiveness Report 2013-2014). This result could be assessed as relatively good, as far as a number of others involved in the same group of 30 countries<sup>2</sup> remain after us in the efficiency labor market ranking. Among them are such as Albania, Indonesia, Macedonia, Serbia, Romania, South Africa, Thailand and others. However, our country lags far behind those European countries where the labor market is the most highly effective.

Significant contribution of reaching this position is due to our successes in one part (four) of the ten sub-criteria related to the seventh pillar. Consistent with the methodology of evaluation applied by the WEF, our country shows good comparative advantages in these sub-criteria. They are connected with flexibility in determining wages (7.02. - Index 5.3), income and labor productivity (7.06.- Index 4.2), cooperation in relations between workers and employers (7.01.- with index 4.1) and practice of hiring and firing workers (7.03.- index 4.0).

<sup>2</sup> In the Annual Competitiveness Report countries are divided into five groups. Bulgaria is included in the group of countries in the second phase, which show effectiveness ("Efficiency-driven Economies"). See: The Global Competitiveness Report 2013-2014, World Economic Forum, p. 11, [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2013-14.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf)

When entering deeper into the achievements and problematic aspects of the effectiveness of the labor market in Bulgaria an analysis is required to be made of the most important sub-criteria and their current status in recent years, appearing in the legislative decisions and in the empirical aspect.

### ***Indicators of flexibility and efficiency of the Labor market in Bulgaria***

The most frequently used criterion for established and functioning flexible labor market suggests companies to be able to easily and inexpensively change both the amount of labor, as well as the exhausted staff hours hired (Dimitrov, Nikolova, Dimitrova 2006). As a rule, increasing the flexibility of the labor market is considered as a prerequisite for increasing its efficiency, as well as for creation of conditions to achieve lower unemployment and higher income generated per employee. Consistent with the previously said, the analysis of labor market flexibility includes mainly:

- The existing regulations and institutions in the labor market that might facilitate or respectively hinder employers in selecting the optimum used amount of labor and working time;
- Wage flexibility that enables entrepreneurs to adjust relatively easily their labor costs, even where their opportunities for changing used labor force are limited;
- Flexibility of companies, which includes the ability of their operational management to change the organization of work, to use external executors with non-standard working hours, etc.;
- Labor force flexibility, reflected in the ability of employees or job seekers to adapt relatively quickly to the changing labor market conditions. Typically, in this regard are explored opportunities for labor mobility in territorial and professional terms (by changing qualifications), cases of a change of employer, even without a change of residence or profession, as well as internal mobility (within the company).

## **Minimum Wage**

### ***Legal framework and rules***

In accordance with the Bulgarian legislation rendered labor under an employment contract is recompensed (Art. 242 of the Labour Code). The amount of remuneration is determined by the duration of the work or the work done, agreed between the worker/employee and the employer and cannot be less than envisaged in the collective agreement (Art. 247 of the Labour Code) and the minimum wage.

Bulgaria is one of the majority of EU member states where there is a statutory practice of determining the minimum wage (MW) at national level. It is established in Art. 244 of the current Bulgarian Labour Code, according to which its amount and its change is determined by the Council of Ministers.<sup>3</sup> Specific for Bulgaria is the fact that the amount of the national statutory minimum wage is set by the government, not on the basis of a unilateral decision, but after consultations and agreement with trade unions and employers' organizations.<sup>4</sup> Therefore it is a subject of a conclusion of a tripartite agreement which is legitimized by a Government Decree. This statutory minimum wage applies to all categories of workers. An exception to this rule is allowed only for interns who can receive other, slightly lower salaries during a fixed period of their studies.<sup>5</sup>

By 2015, in total of 22 of the 28 member states of the European Union the minimum wage is legally determined. In essence, the minimum wage is not defined in Austria, Denmark, Italy, Finland and Sweden, and in the three countries of the European Economic Area - Iceland, Norway and Switzerland. In some of these countries, however, there are also limits to the minimum wage of workers - they are negotiated through collective agreements, as are with a specific size in different economic sectors and industries (Statistics of Minimum Wages).

The Bulgarian Labour Code also sets forth another mechanism to regulate the relationship between employers and employees - through a system of collective bargaining agreements (CBA). The legal framework of the CBA and the collective agreements are determined in Art. 50-60 of the Labour Code. On the basis of collective agreements issues are settled of labor and social security treatments of employees who are not covered by provisions of the

<sup>3</sup> In the text of Art. 244 noted that: "The Council of Ministers shall determine: 1. the minimum wage at national level; 2. the species and minimum amount of additional salaries and compensations on employment relationship, as they are not defined by this Code."

See: Labour Code, p. 78, <http://www.mlsp.government.bg/BG/law/law/index.htm>

<sup>4</sup> According to Art. 3 of the Labour Code: „The State shall exercise the regulation of labor and directly related relations, security relations and living standard issues in cooperation and consultation with the representative organizations of workers and employers. The range of issues of living standards, the subject of consultation shall be determined by the Council of Ministers on a proposal from the National Council for Tripartite Cooperation.“ In addition, the Labour Code (Art. 37) entitles the trade unions „to participate in the preparation of projects all internal rules and regulations that relate to labor relations, for which the employer must invite them.“

See: Labour Code, p. 2 and p. 11, <http://www.mlsp.government.bg/BG/law/law/index.htm>

<sup>5</sup> According to Art. 233a, para. 1 of the Labour Code „Apprenticeships is the performance of work under the guidance of the employer or a person designated by him – mentor, in order to absorb the practical skills acquired profession or specialty.“ Art. 233b, paragraph 1 specifies that „the employer may conclude an employment contract with a condition of probation with a person of the age of less than 29, completed secondary or higher education and without work experience or professional experience in the acquired profession or specialty.“ It is regulated possible apprenticeship contract to be concluded with a person only once, as its duration should be not less than six months and not more than 12 months.

See: Labour Code, p. 76, <http://www.mlsp.government.bg/BG/law/law/index.htm>

law (art. 50, para. 1 of the Labour Code). A requirement has been introduced pursuant to which the collective agreement cannot include provisions that are less favorable to employees than those established by law or by a collective agreement with which the employer is bound (Art. 50, para. 2 of the LC). The legal base provides that collective agreements can be concluded by individual companies, as well as sectors, industries and municipalities (Art. 51, para. 1 of the Labour Code). Company-level collective agreement is concluded between an employer and a trade union (art. 51, para. 1), and sectoral and branch level collective agreements are concluded between representative organizations of workers and employers (Art. 51b, para. 1). The legislative framework of the CBA provides flexibility when modifying the terms of the contract, which is set in the period of its validity. According to Art.54, para. 2 of the Labour Code a collective agreement is considered to be concluded for a period of one year, insofar as it does not specify another term, but for not more than two years. However, it is provided and the parties may agree on a shorter duration of its individual provisions, in accordance with Art. 56, para. 1 of the LC, CBA may at any time be amended by mutual consent of the parties pursuant to its conclusion.

CBA system enters our country in the years after the beginning of transition to market economy and is becoming more widely used and spread. However, by 2013 CBA covers (in assessments and studies by trade unions) only about 38-40%, or less than half of the employees. In such conditions, the presence of a legislative certain lower limit of wages through minimum wage adjusts consequently an essential part of the hired labor in Bulgaria and has not lost its importance. It should be taken into account that the national minimum wage is the same for all economic sectors, while in the system of collective bargaining thresholds wage there are differences at a sectoral level.

Along with that in Bulgaria a legally defined minimum insurance income applied, introduced in 2003 (Manual of Information to Provide Better Flexibility and Security in Enterprises 2010). It performs a function that is similar to the minimum wage as a fixed base of the minimum wage for certain jobs in certain sectors of the economy.<sup>6</sup>In fact the minimum insurance thresholds are applied in the country, subdivided particularly by economic activities and qualification occupational groups (classes of NCO - National Classification of Occupations) and combined with a requirement for mandatory registration of labor contracts. These regulations are aimed at reducing or overcoming the cases where employers hire workers at lower wages of their labor - oriented at the level of the minimum wage or on the minimum insurance threshold. The aim is to minimize also this practice where workers are hired without

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<sup>6</sup> For more details on the minimum insurable earnings see: Social Insurance Code, <http://www.nssi.bg/images/bg/legislation/Codes/KCO.pdf>

signing employment contracts. Meanwhile there have been introduced other regulations of the structure and organization of the wages, which are also valid at the moment. They are connected as additional remuneration paid to employees for overtime worked by them night work (art. 261 of the Labour Code) and overtime (Art. 262 and Art. 263 of the Labour Code), by internal substitution (Art. 259 of the LC) and external pluralism (art. 260 of the Labour Code), supplements gained professional experience and expertise, etc.<sup>7</sup>

As a rule, the main purpose of the minimum wage is to guarantee employees the lowest (minimum) wage, but along with that to increase the desire and to encourage people to participate in work activities, to limit the cases where they remain for longer time outside the labor market and rely on social welfare. At the same time there are also other applications and perceptions on the role of the minimum wage. For example, in Spain and Portugal, the minimum wage is seen as remuneration which is sufficient to subsist (living wage), in France and Belgium - the minimum wage is a tool to boost purchasing power. As already mentioned, in other countries - such as Germany, Austria, Italy and the Nordic countries minimum wages are fixed by national or sectoral agreements (Discussions on Minimum Wage remain in Europe 2013).

The level of minimum wage is taken into account and influences the determination of the amount of any other specific pay. It has a particular relevance for those wages the amount of, which amount is closer and similar to the size of the minimum wage. In this aspect in European countries with larger and stronger economies the minimum wage has an important stimulating effect on businesses. Very often, they show a desire to hire workers not at the level of the minimum wage, but on average about 10% higher wages than the minimum for their country. Thus there are other significant considerations for them and this is not the achievement of the lowest labor costs. In this way, companies aim for example to avoid the risk of deterioration of their authority and good market name built over many years, preventing their entry into the group of negatively perceived by society and business „minimum wage employers“ (employers, paying the minimum). Moreover, another positive effect may be highlighted- as a consequence of offering a salary that exceeds the minimum wage, it is possible to employ workers with higher skills, practical knowledges and experience. This reflects positively on the quantitative and qualitative parameters of the performance results, and hence on the competitiveness of the businesses.

<sup>7</sup> See: Labour Code, Section 3: Additional and other remuneration, Art.259- Art.268, pp. 78-80, <http://www.mlsp.government.bg/BG/law/law/index.htm>

## **Amount and dynamics of the minimum wage in Bulgaria**

The amount of the minimum wage has a starting value of household incomes, and the costs of firms for hiring labor resources. Therefore it is compared often with the amount of social benefits, of poverty line and especially of the average wage for the country. These three areas of comparisons show that in Bulgaria the amount of the minimum wage is low, and does not encourage people to start work and at the same time it contributes to some extent to increased employment in the hidden (mostly gray) economy.

In the last 25 years the minimum wage has shown a trend of increase. In the first years of the market transition in Bulgaria, the minimum wage rises slowly and irrevocably, in the period to 2004 (especially in 1991-2004) it amounted to approximately 25-40% of the average wage for the country. After several sharp increases it later reaches about 45-46% of the average wage - for example in 2007 the minimum wage in the country was 180 lev (€ 92) and almost 42% of the national average wage (The Balance in the Social and Economic Sphere today after the Entry of Bulgaria into the EU). In recent years, however, the ratio between the minimum and average wages in the country has changed and it amounted to 39% at the end of 2013, while remaining below the that of most other EU countries (which reaches about 50%).<sup>8</sup> A comparison can be made between the minimum wage and the average monthly cost of living. At the end of 2013, according to the data from the Confederation of the Independent Trade Unions in Bulgaria (CITUB), the cost of living amounted to 564.26 lev, so that the minimum wage of 310 lev for the same period was only about 55% of this allowance and did not cover the minimum costs and standards of nutrition.<sup>9</sup> While there was a gap and a mechanism for linking the minimum wage to the official poverty line was not put in place, therefore it is a relatively common phenomenon in Bulgaria to identify a group of people belonging to the so-called „Working poor.“

The low amount of minimum wage in Bulgaria stands out when compared to the level of the minimum wage determined and applied in other countries in Europe. The comparison shows that according to the amount of the minimum wage, Bulgaria is on the one but last place (immediately before Romania) -

<sup>8</sup> In such comparisons between the minimum and average wages the Index of Kaitz (HymanKaitz) is often calculated. By this index the relative value of the minimum wage is represented, while it is measured by statistical representation of the minimum wage as a percentage of the national average or median wage. The average wage is defined as the average arithmetic quantity of all wages, while the median salary is the midpoint of the distribution of earnings - half of the labor force earns more and half of the workforce earns less than the magnitude of the median wage. See in more details: *The Minimum Wage in Europe in Times of Austerity*, In: *Social Europe*, Institute for Syndical and Social Analyses at CITUB, Issue 4, 2013, p. 35, [http://www.knsbbg.org/images/stories/npravlenia/lzsledvaniya\\_i\\_analizi/Social\\_Europe/Social\\_Europe\\_2013\\_month\\_12\\_br\\_4\\_ISSI\\_KNSB.pdf](http://www.knsbbg.org/images/stories/npravlenia/lzsledvaniya_i_analizi/Social_Europe/Social_Europe_2013_month_12_br_4_ISSI_KNSB.pdf)

<sup>9</sup> See: [http://www.knsb-bg.org/index.php?option=com\\_content&view=article&id=2929:izdrazhka-na-zhivota-prez-dekemvri-2013-g-23-01-2014&catid=271&Itemid=366](http://www.knsb-bg.org/index.php?option=com_content&view=article&id=2929:izdrazhka-na-zhivota-prez-dekemvri-2013-g-23-01-2014&catid=271&Itemid=366)

according to data published by Eurostat (see Table. 2). The regulated and administrative determined lowest level of the wage in Bulgaria is just € 158.5 in 2013, which represents only about 8.5% of the highest minimum wage in the same year - in Luxembourg (€ 1,874.19). The non-weighted average amount of the minimum wage for the remaining reported by Eurostat 22 countries (except Bulgaria) is € 722.54 - comparing the above it shows that the amount of the minimum wage in the country is only about 22%, i.e. approximately one-fifth of the average for these European countries.<sup>10</sup>

**Table2. Minimum wage 2004-2013**

(monthly, euro)

Country/ Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Belgium	1186,31	1210	1234	1259	1309,6	1387,5	1387,5	1415,24	1443,54	1501,82
<b>Bulgaria</b>	<b>61,36</b>	<b>76,69</b>	<b>81,79</b>	<b>92,03</b>	<b>112,49</b>	<b>122,71</b>	<b>122,71</b>	<b>122,71</b>	<b>138,05</b>	<b>158,5</b>
Czech Republic	206,73	235,85	261,03	291,07	300,44	297,67	302,19	319,22	310,23	318,08
Denmark	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:
Estonia	158,5	171,92	191,73	230,08	278,02	278,02	278,02	278,02	290	320
Ireland	1073,15	1183	1292,85	1402,7	1461,85	1461,85	1461,85	1461,85	1461,85	1461,85
Greece	630,77	667,68	709,71	730,3	794,02	817,83	862,82	862,82	876,62	683,76
Spain	537,25	598,5	631,05	665,7	700	728	738,85	748,3	748,3	752,85
France	1215,11	1286,09	1217,88	1254,28	1280,07	1321,02	1343,77	1365	1398,37	1430,22
Croatia	:	:	:	:	:	373,46	385,48	381,15	373,36	372,35
Italy	:	:	:	:	:	:	:	:	:	:
Cyprus	:	:	:	:	:	:	:	:	:	:
Latvia	118,96	114,63	129,27	172,12	229,75	254,13	253,77	281,93	285,92	286,66
Lithuania	130,34	144,81	159,29	173,77	231,7	231,7	231,7	231,7	231,7	289,62
Luxembourg	1402,96	1466,77	1503,42	1570,28	1570,28	1641,74	1682,76	1757,56	1801,49	1874,19
Hungary	201,9	231,74	247,16	260,16	271,94	268,09	271,8	280,63	295,63	335,27
Malta	540,84	555,06	584,24	601,9	617,21	634,88	659,92	664,95	679,87	697,42
Netherlands	1264,8	1264,8	1272,6	1300,8	1335	1381,2	1407,6	1424,4	1446,6	1469,4
Austria	:	:	:	:	:	:	:	:	:	:
Poland	175,25	207,86	232,9	244,32	313,34	307,21	320,87	348,68	336,47	392,73
Portugal	425,95	437,15	449,98	470,17	497	525	554,17	565,83	565,83	565,83
Romania	68,03	78,7	89,67	115,27	138,59	149,16	141,63	157,2	161,91	157,5
Slovenia	470,99	490,07	511,9	521,8	538,53	589,19	597,43	748,1	763,06	783,66
Slovak Republic	147,68	167,76	182,15	220,71	241,19	295,5	307,7	317	327	337,7

<sup>10</sup>The subjective notion of Bulgarian workers, studied from the CITUB and published in „Syndical Barometer- 2014“, showed that the mean value of the required minimum wage should be for this year around 530-550lev“.

See: [http://www.knsb-bg.org/index.php?option=com\\_content&view=article&id=2971:knsb-iskapovishenie-na-minimalna-rabotna-zaplata-i-dohodite-ot-trud-06-03-2014&catid=242&Itemid=280](http://www.knsb-bg.org/index.php?option=com_content&view=article&id=2971:knsb-iskapovishenie-na-minimalna-rabotna-zaplata-i-dohodite-ot-trud-06-03-2014&catid=242&Itemid=280)

Finland	:	:	:	:	:	:	:	:	:	:
Sweden	:	:	:	:	:	:	:	:	:	:
United Kingdom	1054,2	1134,67	1212,61	1314,97	1242,24	995,28	1076,46	1136,22	1201,96	1249,85
Iceland	:	:	:	:	:	:	:	:	:	:
Liechtenstein	:	:	:	:	:	:	:	:	:	:
Norway	:	:	:	:	:	:	:	:	:	:
Switzerland	:	:	:	:	:	:	:	:	:	:
Montenegro	:	:	:	:	:	:	:	:	:	:
Macedonia	:	:	:	:	:	:	:	:	:	199,48
Serbia	:	:	:	:	:	:	:	:	:	:
Turkey	238,77	266,15	333,46	301,77	354,34	309,94	338,33	384,89	362,84	415,52

Source: Eurostat

**Table 3.** Minimum wage as a percentage of the average wage 2000-2009

Country/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Belgium	48,8	47,5	47,6	46,2	45,5	45,7	45,5	45,3	47,3	:
<b>Bulgaria</b>	<b>32,2</b>	<b>35,4</b>	<b>38,8</b>	<b>40,4</b>	<b>41,4</b>	<b>46,6</b>	<b>44,7</b>	<b>42,1</b>	<b>40,4</b>	<b>39,0</b>
Czech Republic	31,0	34,2	36,9	38,1	38,4	39,1	39,7	38,1	35,0	34,1
Denmark	:	:	:	:	:	:	:	:	:	:
Germany	:	:	:	:	:	:	:	:	:	:
Estonia	:	:	30,5	32,4	34,6	33,2	30,5	30,4	34,1	:
Ireland	:	:	:	43,4	:	:	39,7	38,6	:	:
Greece	56,0	52,9	54,7	48,8	47,7	48,7	47,7	46,4	49,5	:
Spain	34,7	34,2	33,5	32,9	33,6	35,1	35,8	36,5	36,5	:
France	:	:	:	:	:	:	:	46,9	46,5	:
Croatia	:	:	:	:	:	:	:	:	37,8	37,8
Italy	:	:	:	:	:	:	:	:	:	:
Cyprus	:	:	:	:	:	:	:	:	:	:
Latvia	34,8	39,7	37,4	39,9	41,9	36,2	33,3	34,2	37,4	41,3
Lithuania	44,9	44,7	43,7	42,1	45,4	44,9	42,1	38,7	40,1	42,3
Luxembourg	:	:	45,5	46,6	46,0	46,8	46,2	46,8	46,2	47,2
Hungary	:	:	42,1	42,2	41,2	41,3	41,7	39,8	38,8	:
Malta	44,6	36,9	44,9	48,2	47,4	50,5	50,4	49,0	50,2	49,3
Netherlands	:	:	49,3	47,7	46,1	45,5	44,1	44,2	44,2	43,9
Austria	:	:	:	:	:	:	:	:	:	:
Poland	:	:	33,0	33,9	35,1	33,7	36,1	32,4	35,7	41,0
Portugal	43,6	43,3	43,0	40,7	40,0	40,5	40,7	41,6	39,9	40,9
Romania	26,3	30,9	31,3	37,3	34,4	32,6	30,2	29,1	30,5	:

Slovenia	43,5	44,5	45,3	45,8	45,9	46,2	45,2	43,4	43,5	45,8
Slovak Republic	:	:	32,4	34,0	34,1	34,4	34,8	:	33,5	35,7
Finland	:	:	:	:	:	:	:	:	:	:
Sweden	:	:	:	:	:	:	:	:	:	:
United Kingdom	34,2	33,0	34,6	34,5	36,5	37,9	37,9	38,9	38,2	38,6
Iceland	:	:	:	:	:	:	:	:	:	:
Norway	:	:	:	:	:	:	:	:	:	:
Switzerland	:	:	:	:	:	:	:	:	:	:
Macedonia	:	:	:	:	:	:	:	:	:	:
Turkey	:	:	:	:	48,4	:	48,5	:	46,8	:

Source: Eurostat

Disturbing is the fact that in Bulgaria the absolute number and the relative quota of employees who work by low wages is relatively high. It is customary to be considered as underpaid those workers who receive below 67% of median income for the country - under 352 lev for Bulgaria. When applying this criterion, it is clear that about 600,000 workers, or 27.5% (nearly one third) of those employed full-time in our country fall into this category of low-paid workers - receiving the amount of the minimum wage or similar amount of wage (Price of Labor and Wage Systems in the Real Sector of Bulgaria). It was also found out that about 25% of the workers contributed in 2011 to the minimum insurance threshold, which is the highest level since the introduction in 2003 of the minimum insurance income (Ganev 2012). This induces an inadequate level of purchasing power and household consumption expenditures, contains the demand and limits the stimulatory effects of consumption on production growth and competitiveness of the Bulgarian economy. Although according to a research made by the Institute for Market Economy the risk of poverty for unemployed is 7 times higher than that for workers (Ganev 2011). It is obvious that a raise in wages along with creating more jobs is really necessary, which will contribute to an accelerated economic growth, reduction of unemployment and poverty in the country.

One of the issues that have been discussed in recent years is the minimum limit of wages to become more widely applied even at a European level.<sup>11</sup> For example, in a study from 2005 a group of German, Swiss and French researchers offer EU Member States to set as an objective for creation of schemes for minimum wage, which in the short term will ensure the workers 50% of the average wage at a national level. It is envisaged that in the long run this percentage will increase to 60%, the objectives established at the

<sup>11</sup> See more details for example in: Enrique Fernandez - Macias, Carlos Vacas-Soriano, A Coordinated EU Minimum Wage Policy?, Cornell University IRL School, October 2013, <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1306&context=intl>

European level, and the introduction in the separate countries should set the national traditions and practices (Schulten et al. 2005).

The need for proper and careful interpretation of the role of the minimum wage in relation to the informal economy should be taken into consideration. It is known by definition that the level of minimum wage is determined by the payment of the unit of simple, unskilled labor, employed full-time. In this sense, the expansion of opportunities for the implementation of flexible forms of employment - part-time and fixed-term contracts (under which work only about 2% of employees in Bulgaria)<sup>12</sup> can help facilitate firms' costs for payment of salaries. Similarly, it increases the opportunity for the companies to respond more quickly to changes in market conditions and to lay off workers by crisis symptoms, which increases their competitiveness.<sup>13</sup>

Compared to the average for EU people, those who work part-time in Bulgaria are in significantly lower numbers. For example, in Austria, Belgium, Germany, Ireland and other EU countries with stable economies and effective labor market they are between 21% and 28% of all employees. In other countries - such as Spain, Italy, Luxembourg, Portugal, France, they are less (ranging between 12% and 20% of all employees), but significantly more than the number and proportion of under-employed workers in our country. In addition, it should be noted that in our country, the relative share of employees who have a second job remains so far insignificant - they are less than 1% of all employees. In comparison, in other EU countries their relative share is much higher - for example, in Poland (7.6%), Portugal (6.8%), the Netherlands (6.6%) and others.

The minimum wage and its administrative determination are often perceived as a vulnerable point of the flexibility of the labor market, as an element of its strict regulation, which creates difficulties for businesses. In the Bulgarian conditions the amount of the minimum wage is low and it is not fixed, however its increase is in conformity with the need to compensate its real devaluation under the influence of inflation. In the period after 1998 changes in the level of the minimum wage are regularly and frequently carried out to a preliminary drawn and announced by the government plan. This increases the degree of predictability of changes in the minimum wage. It becomes possible for businesses to plan the anticipated changes in costs of labor input. Along with this it should be taken into account that labor market regulations have

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<sup>12</sup>In the period 2008-2011 the number of part-time employed in Bulgaria decreased by 3.1 thousand. Their relative share of all employed persons aged 15-64 increased, reaching 2.2% in 2011, while the average share in EU for the same year is 18.8%. See: Updated Employment Strategy of the Republic of Bulgaria, p. 13, [http://www.bia-bg.com/uploads/files/events/STRATEGY\\_ZAETOST\\_actualisation-03.2013.pdf](http://www.bia-bg.com/uploads/files/events/STRATEGY_ZAETOST_actualisation-03.2013.pdf)

<sup>13</sup>See more details in: Vladimirova K., M. Atanassova, Flexible Forms of Employment in SMEs: State and Development Opportunities, Yearbook of UNWE, 2008, p. 5, <http://yearbook.unwe.bg/2008/01.pdf>

specific implications and are not equally accepted by the businesses when if the economy is in the process of growth or in crisis. In terms of growth many companies generate growing revenues and profits, so that labor regulations are less burdensome to entrepreneurs. In times of crisis, most of the companies experiencing financial difficulties, and the provisions of labor law fail to prevent the firing of workers and the rise in unemployment.

It can be concluded that in the area of minimum wage there is a certain flexibility of the Bulgarian labor market, which however is not enough to enhance our competitiveness, despite the efforts exerted by the Bulgarian government and the sufficiently advanced legislation in this area.<sup>14</sup>“More flexibility, less social security burden and less administrative barriers to new entrepreneurs“ are necessary, which is also the main conclusion of the analysis by Christopher Pissarides of the first five years after the adoption and implementation in Europe of the Lisbon strategy (Pissarides 2006) .

## **Crisis and post-crisis parameters of unemployment and employment**

Despite the achieved progress in one part of the criteria for the effectiveness of the labor market, the social dimensions of the crisis in Bulgaria remain severe and complicated. Along with the low level of the minimum wage there are still no positive trends in the post-crisis changes in unemployment and employment. As a result, Bulgarian households dispose with insufficient income, which limits the domestic demand for goods and inhibits growth of production and economic growth.

In the period after 2001 in Bulgaria was developing a process of steady and relatively high economic growth, along with an outlined trend of a consistent reduction of unemployment (see Table. 4). By almost 20% in 2001, unemployment rose to just 5.6% in 2008, which is close to its natural limits. This trend was reversed with the first symptoms of the crisis - in 2009, when the only one significant decline of GDP (-5%) was scored, the unemployment increased by over one percentage point. Regardless of the gradually recovering conditions of growth in the coming years, the rise in unemployment was not stopped and it reached almost 13% in 2013. This level is over twice higher compared to pre-crisis unemployment rate in the country. For the first time since the crisis, unemployment among people aged 15 and over decreased in

<sup>14</sup>In recent years it has been made a number of significant changes to the labor legislation of our country, aimed at concreteness for example to the regulation of home work, telework and work through enterprises that provide temporary work, some forms of flexible working time arrangements and more. See: Updated Employment Strategy of the Republic of Bulgaria, p. 64, [http://www.bia-bg.com/uploads/files/events/STRATEGY\\_ZAETOST\\_actualisation-03.2013.pdf](http://www.bia-bg.com/uploads/files/events/STRATEGY_ZAETOST_actualisation-03.2013.pdf)

2014, when it was determined according to the NSI (National Statistic Institute) data of 11.4%.

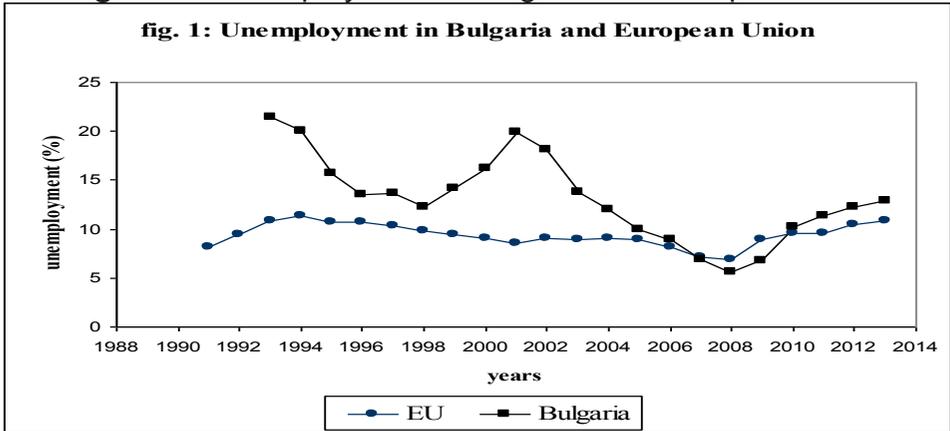
**Table 4.** Unemployment and employment in Bulgaria and European Union (percentages)

Year	Unemployment in Bulgaria	Unemployment in EU	Employment in Bulgaria	Employment in EU
1993	21,4	10,9	45	50,5
1994	20	11,3	45	50,1
1995	15,7	10,7	46	50,1
1996	13,5	10,7	47	50,1
1997	13,7	10,3	46	50,3
1998	12,2	9,8	46	50,7
1999	14,1	9,5	44	51,1
2000	16,2	9,1	42	51,4
2001	19,9	8,6	41	51,5
2002	18,1	9	42	51,2
2003	13,8	8,9	43	51,3
2004	12	9,1	45	51,3
2005	10	8,9	45	51,7
2006	8,9	8,2	48	52,4
2007	6,9	7,1	50	53,1
2008	5,6	6,9	52	53,4
2009	6,8	8,9	51	52,2
2010	10,2	9,6	48	51,8
2011	11,3	9,6	47	51,8
2012	12,3	10,5	47	51,5
2013	12,9	10,9	46	51,3

Source: World Bank data

Comparison with the average unemployment rate for the European Union is not favorable for Bulgaria. It shows that after the beginning of the 90's and until the end of the period the unemployment in Bulgaria is higher (see. Figure 1.) than in the EU27. It exceeds also its level in many other CEE countries, as in 2013 only Slovakia showed higher unemployment compared to Bulgaria, amounting to 14.2%.

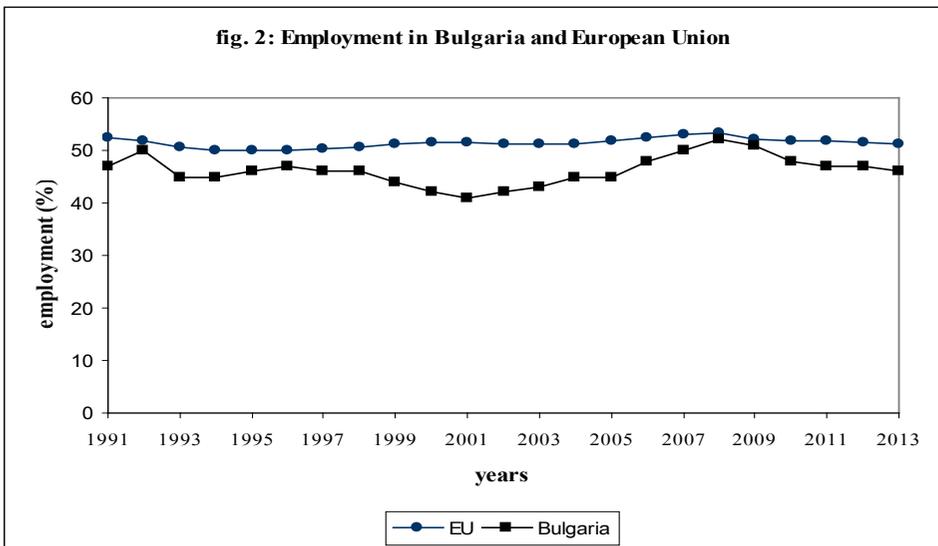
**Figure 1. Unemployment in Bulgaria and European Union**



Source: Data in Table 4.

Similar and also adverse trends are developed in terms of employment of the Bulgarian labor force (see. Table.4 and Fig. 2). This indicator increased after 2001 to reach its highest level of 52% in the year before the crisis (2008). Launched in 2009 the trend of reduction was not resolved until 2013, when the employment of the population of 15 years and more was just 46%. Tangible improvement was noted in 2014, when according to NSI data the employment increased by two percentage points and reached 48%. In all the years of the period the employment was at a lower level compared to the EU average, the difference between their amounts for 2013 achieved more than 5 percentage points.

**Figure 2. Employment in Bulgaria and European Union**



Source: Data in Table 4.

Sharp and substantial increase in unemployment and decrease in employment, occurring still with the initial impulses of the crisis, is not surprising to Bulgaria. In other researches on the effects of the law of A. Okun in Bulgarian conditions, we have already demonstrated a relatively high intensity of the ratio of unemployment to GDP rate (Pirimova 2007). Its expression is strongly marked up to the middle of the first decade of the 21st century bearing in mind the meaningful participation of the labor force in Bulgarian production, implementation of labor intensive type of economic growth.

It should be taken into account that after 2005 the relative weight of the friction component increases in the overall unemployment rate. The reasons for this are mainly related to the deployment of more intense internal and external migration, the gradual expansion of the differences in the amount of wages in economic sectors and occupations, the submitting of higher requirements to the professional skills of workers, the demand for workers with other specialties and qualifications, the necessity to update professional training or retraining of specialists. The relative share of structural unemployment also becomes larger, driven by new stage of sectoral, product and technological reform and restructuring of the Bulgarian production.

Lower unemployment compensations have provided a discouraging effect on the employment. The composition of employees (classified by various criteria) is gradually changing- increasing the participation of certain groups of employees, for which more frequent fluctuations are inherent, change in the workplace and hence a higher level of unemployment. In addition, a considerable part of the employed before the crisis workforce leaves the field of production and does not go return. In some cases these people are transferred to the group of "persons not in the labor force", in others they attempt to develop their own small business or remain long-term unemployed. Among the reasons for this we could add the difficulties encountered in finding other suitable employment, especially for people over a certain age, the gap between demand and supply of labor by separate disciplines and professions, continuing high share of the shadow economy and employment in it, the reduction of real wages and the availability of savings from previous periods, etc.

Indicative for underused overcome crisis trends is now the ongoing increase of the number of temporarily employed. Pressured by the lack or shortage of income, due to uncertainty many people accept proposals for a one off engagement (mostly service), for temporary activities or part-time, including on a per hour and irregular work basis, campaigning commitment without contractual obligations. Even reported (based on concluded civil contracts) parameters of temporary and underemployment are still alarming. Although the

recent improvements of labor legislation in the country as well as the regulation and putting under a tighter control of the labor treatments, the number of the employed unregistered persons is reducing, but it is not completely overcome. Synonymous idea for not completely cleaned elements of the shadow economy in the labor market is developed by persistent differences between the total amounts of earned income and the expenditures of households (to the advantage of the costs). Employment of part-time is temporary and a compromise tackle of the problem with a lack of adequate work. It is often not guaranteed and it is permanently connected to the performance of unpaid activities, and does not ensure a sufficient amount of income.

The services sector has a crucial significance in the modern structure of the Bulgarian economy - its share in GDP generation amounted to 66.6% for 2013. A significant part of the dismissed workers were from the following sectors: trade, catering and hospitality, construction, utilities and household services. These sectors are labor-absorbing, but they provide opportunities for engagement primarily of people without special training, with lower qualifications, for a not too high a salary or by unattractive working conditions. Therefore a gap between supply and demand of labor continues to be maintained. There are already many job vacancies that are however not designed and suitable for graduates. Established conformity between proposed work and skills level contributes additionally to the extension of the duration of unemployment.

The problems of employment and unemployment cannot also find quick solutions because more than 99% of companies in Bulgaria are micro and small enterprises. Therefore in our country dominate companies with extremely tight opportunities for generating employment and growth as well as for their own expansion, characterized by a frequent turnover of employees, reducing their number or firmly established a „family“ employment. The opportunities for higher employment through own business and self-employment are also not used. After the reduction of the number of employees the fewer specialists, who were left to work, are loaded with more requirements, tasks and responsibilities. Increased job intensity is not necessarily tied to wage increases, which often remains unchanged or even reduced. Thus, despite the growing number of functioning companies the principle of compensation will be abandoned with and principle of reduced employment prevailing.

## Conclusion

In recent years a need to achieve both flexibility and security in the labor market (flexibility-security nexus) has grown. The term “flexicurity” (Wilthagen 2002) has been created and started to be increasingly applied.

By the mid-90s flexibility and security stood against each other and were seen as incompatible opposites. There have been made heterogeneous comparisons between divergent practices of the US and Europe. As a result, on one hand, several arguments were presented in favour of the United States model that stands out to give priority to the flexibility of the labor market at the expense of the security (especially employment security and social security). On the other hand, as strong arguments were stressed in favour of the European practices, whose features are a more strictly regulated labor market and wider social security. After the mid-90s the idea of their complementarity was increasingly advocated due to the need to rethink the relationship between economic efficiency and social justice. Security came to be seen as relating to the legal regulation of payment of payroll taxes and compensations and long-term (or even for life) guaranteed employment, as well as in terms of the ability for inclusion in the labor market. Under the new approach the guaranteed job security, which was characteristic and on which the emphasis was put in the past, was replaced by the term „security through fitness for work.“ Therefore, the focus is shifting, in which the work place should no longer be guaranteed, but the ability to find fairly quickly a new job in the labor market. So interruptions of work practice and frequent change of place of work are not perceived negatively. The center of gravity is placed on ensuring transitions between jobs to avoid long-term unemployment and social exclusion. Therefore, the concept of ‚flexicurity‘ is seen as a possible new approach to increase the efficiency of the labor market and to achieve major economic and social objectives.

In a modern labor market the „guaranteed security“ is associated with five components: flexible and reliable contractual arrangements, inclusive strategies for lifelong learning, effective policies on active labor market, modern, adequate and sustainable social security systems and dialogue between governments, social partners and other stakeholders (Flexible Security in Europe—a Critical Approach 2010). Namely, they are reflected in the criteria for the labor market efficiency.

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