

Center for Economic Development

**EU Enlargement and its Impact on the Social
Policy and Labour Markets of Accession and
Non-Accession Countries**

**Bulgaria
Country report**

Sofia 2003

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1. Macroeconomic Picture and Stage of EU Accession

1.1. Macroeconomic background

Bulgaria's economic development after signing of the Currency Board Agreement in 1997 is characterized by fiscal stability, low inflation, continuous GDP growth, stable and liquid banking sector, developing but still inefficient in terms of operation capital market, and unbalanced labor market.

Major objectives of 2002 **fiscal policy** included maintenance of balanced budget, low budget deficit, and fiscal stability. First summarized data about the 2002 fiscal program reveal that budget parameters have been fulfilled. According to preliminary data, **the deficit realized** amounts to BGN 218.3 m, or 0.7 percent of GDP, with planned deficit amounting to BGN 257.3 m, or 0.8 percent of GDP. Annual economic growth is expected to exceed latest official estimates of 4.2 percent.

Despite the more pronounced price raise in the beginning of 2002, prices generally increased at a declining pace throughout the year, compared to the two previous years. **The average annual inflation** is 5.8 percent, and **the accumulated inflation for the year** (December 2002 compared to December 2001) amounts to 3.8 percent, which is the lowest figure since 1999. **Food prices taken on an average annual basis** are by 4.2 percent lower in 2002 compared to 2001. There is however a material average annual growth of non-food prices (+10.4 percent) and of service prices (+11.4 percent).

In 2002 **the total amount of the state and state-guaranteed debt** decreased by BGN 2 600 m, dropping down to BGN 18 180 m at year-end.

Restructuring and privatization of the state sector continued in the past 2002 with a view to establish efficiently operating private property and to attract more foreign direct investments to the economic sector. Yet a conclusion can be made that 2002 was the most unsuccessful year for Bulgarian privatization since 1995. According to data by the Privatization Agency, only 275 privatization transactions were signed as at 31.12.2002 and the annual plan was fulfilled at 41.4 percent.

In 2002 there was not any considerable improvement **of the conditions for development of the small and medium-sized business in the country**. The trend of absence of well-directed tax policy in support of small and medium-sized business, which is Bulgaria's major employment source, continued in 2002 and reveals a need of further governmental efforts along these lines. Government support to small and medium-sized enterprises was manifested in the first place in the National Strategy for Encouragement of SME Development in Bulgaria 2002-2006 accompanied with a Working Program, which was approved by the Council of Ministers on March 28, 2002. The Strategy contains seven basic priorities, which focus on developing stable and transparent regulations for SMEs; implementing a policy to improve the financial environment; promoting the introduction of modern technologies and contemporary business models in the sector; improving the access of SMEs to foreign markets; efficient information and consulting services; and implementing a policy to improve the conditions for development of the business in a regional aspect.

The state of the banks in Bulgaria remains stable, with excellent measures of capital adequacy and liquidity, and well-functioning banking supervision. However, the banking system of Bulgaria remains insignificant in terms of the amount of assets and the share of provided loans in GDP. According to BNB data, as at end of December 2002 banking system assets amounted to BGN 14 557 124 thousand and deposits amounted to a total of BGN 11 282 160 thousand. Loans to the non-government sector manifest a clear upward trend throughout the year, with new loans negotiated by commercial banks in 2002 amounting to a total of BGN 5 189.7 m, whereas in 2001 these amounted to a total of BGN 3 084.21 m (registering a growth of 68.27 per cent).

A couple of positive trends were observed in the **capital market** in 2002 - exchange trade in compensatory instruments started, the SOFIX index registered an upward trend, market capitalization increased. Nevertheless, the role of the capital market in Bulgaria's financial sector remains insignificant.

The 2002 volume of **foreign direct investments** reached only USD 458 m, registering a drop by USD 354.9 m compared to 2001. The 2002 structure of foreign investments differs from that in 2001 in the higher volume of proceeds from privatization (a higher number of relatively small transactions), the higher amount of payments under inter company loans (as a result of foreign investors' retaining new investments with simultaneous payment of old loans) and the higher (nearly 6 times) amount of reinvested profit. Given the instability of world economy and international financial markets, the scarcely known and under-regulated Bulgarian market with rather weak financial intermediation system and a judicial system subjected to justified criticism do not create conditions to attract **significant** volume of foreign direct investments.

The past year **2002 can be characterized as a year of transition in Bulgarian social policy** and a striving to achieve better economic and social policy coordination in the next years. According to data from labor force surveys, in 2002 unemployment levels are lower compared to the previous year but exceed 2000 levels. Nevertheless, unemployment registered a downward trend throughout the year. Labor market policy and social assistance are the two key areas where the Government should focus their attention. In the 2003 budget funds for social payments and curbing unemployment increase by nearly BGN 900 m compared to 2002. The relative share of social expenditures in the 2003 budget is 38 percent of total non-interest bearing payments or around 14 percent of GDP. The new social policy approach implies more active measures to decrease unemployment, a differentiated approach to every unemployed person, consistent fiscal decentralization in the social area, and obligatory assessment of the social effect of all economic measures implemented in the country.

1.2. Stage of EU accession

2002 negotiations for Bulgaria's accession to EU resulted in 23 temporarily closed chapters. Bulgaria closed 6 chapters by the end of the Spanish Presidency (30 June 2002) and another 3 during the Danish Presidency (1 July – 31 December). The 2002 Regular Report of the Commission on the Progress of Bulgaria stated for the first time that Bulgaria is a functioning market economy. The 2001 assessment classified Bulgaria as a country close to the functioning market economy.

The European Council in Copenhagen (12-13 December 2002) adopted important to Bulgaria decisions. Bulgaria will become EU member in 2007, provided that by that time it

fulfills the membership criteria. The road map given by the European Commission sets clear goals for Bulgaria and enables the country to determine its own pace in the process of EU accession. It is indicated in the conclusions of the European Council in Copenhagen that “finalization of the negotiations for accession with ten candidate countries accelerates the perspectives for accession of Bulgaria and Romania as part of the same irreversible enlargement process”.

Monitoring of Bulgaria’s EU Accession Negotiations¹

Chapter	Status (31 December 2002)
1 Free Movement of Goods	Temporary closed
2 Free Movement of People	Temporary closed
3 Freedom to Provide Services	Temporary closed
4 Free Movement of Capital	Temporary closed
5 Company Law	Temporary closed
6 Competition Policy	Open
7 Agriculture	Open
8 Fishery	Temporary closed
9 Transport Policy	Open
10 Tax Policy	Temporary closed
11 Economic and Monetary Union	Temporary closed
12 Statistics	Temporary closed
13 Social Policy	Temporary closed
14 Energy	Temporary closed
15 Industrial Policy	Temporary closed
16 Small and Medium-Sized Enterprises	Temporary closed
17 Science and Research	Temporary closed
18 Education and Training	Temporary closed
19 Telecommunications	Temporary closed
20 Culture and Audiovision	Temporary closed
21 Regional Policy	Open
22 Environment	Open
23 Consumer Protection	Temporary closed
24 Justice and Home Affairs	Open
25 Customs Union	Temporary closed
26 Foreign Relations	Temporary closed
27 Common Foreign and Security Policy	Temporary closed
28 Fiscal Control	Temporary closed
29 Fiscal and Budgetary Issues	Open
30 Institutions	Temporary closed
Total chapters closed	23

¹ Report by the Centre for Economic Development, *Bulgarian Economy in the Fourth Quarter of 2002. Bulgarian Economy in 2002 (Summary)*, “Agency Economica” Ltd., 2003

2. Labor Market

2.1. Current situation - factors and problems

The restructuring of Bulgarian economy after 1989, with a view to create efficiently functioning market economy able to cope with the competitive pressure of market forces in the Single Market of the European Union and get successfully integrated in the global economy, outlined a couple of negative trends in the labor market in recent years. These are manifested first of all in the heavy unemployment, the rather low standard of living, the large share of the shadow economy amounting to 25-30 percent of GDP according to expert estimates, the increasingly higher deficit in the Pensions Fund which does not allow to reduce the social security and tax burden and to increase pensions, as well as the social isolation in a still unfavorable economic environment.

There are a couple of **negative factors**, which have an impact on the labor market flexibility. These include:

- Heavy unemployment among people of older age as a result of the demographic aging population process and the higher retirement age required to get pension rights;
- Mass layoffs as a result of structural and privatization processes in the economy and of social security, education and healthcare reforms;
- Loss of skills and working habits as a result of labor force reorientation from the industrial to the agriculture sector in search of an escape strategy;
- Low education and qualification level of the unemployed, which requires considerable financial resources to meet the needs and requirements of employers;
- Large share of permanent unemployed who have lost their working habits, which impedes their adaptation to the work force demand on the labor market;
- The low income levels of the population and the rather low standard of living make university students and pensioners actively look for jobs and employed persons look for a second job;
- Implementation of new technologies in production which also results in lower number of the employed and unbalanced labor market;
- The large shadow economy share and the heavy tax and social security burden, which result in poor collection of State Social Security contributions, thereby impeding payment of pensions to current pensioners, generating social tension and discouraging bona fide payers;
- Large share of disabled people in Bulgaria in recent years, which requires special incentive measures for employment of underprivileged people and their successful integration in the labor market.

Demographic trends in Bulgaria have an unfavorable impact on the labor market performance. The aging of the population and the negative natural increase have a negative impact on the proportion of working-age population to the number of the pensioners, which together with the high unemployment rate and high gray economy share leads to low collection of the social security contributions to the Social Security and therefore to ever increasing deficit of “Pensions” fund, covered by a state budget subsidiary.

Demographic Indicators

	2000	2001	2002
Population, as of 31.12, number	8 149 468	7 891 095	7 845 499
Life expectancy, total, years	71.7 *	71.8**	71.8***
Life expectancy, female, years	75.3	75.2	75.3
Life expectancy, male, years	68.2	68.5	68.6
Average age of the population, years	39.9	40.4	40.6
Population under, at and over working-age, total	100.0	100.0	100.0
Population under working-age, %	16.8	16.3	15.9
Population at working-age, %	58.3	59.2	60.1
Population over working-age, %	24.9	24.5	24
Total fertility rate (per 1000 people)	9.0	8.6	8.5
Death rate (per 1000 people)	14.1	14.2	14.3
Natural growth (per 1000 people)	-5.1	-5.6	-5.8

Note: * Data refer to the period 1998-2000
 **Data refer to the period 1999-2001
 ***Data refer to the period 2000-2002

Source: National Statistical Institute

According to December 2002 statistical data, Bulgaria's **economically active population** is 48.4 percent of the population at 15+ age. The country's **manpower reserve** amounts to 509.3 thousand people at the age between 15 and 64 years, who do not actively look for jobs. A conclusion follows that Bulgarian labor supply is not optimized, which is a result of both low payment rates, which discourage national labor force supply, and labor force education and qualification which do not fully meet employers' requirements.

Structural and privatization processes result in **labor force reorientation from the public to the private sector**. In 2001 the employed in the private sector accounted for 60.3 percent of total employment and only a year later their share increased to 62.6 percent. The share of the employed in the public sector dropped down from 39.5 percent in 2001 to 37.2 percent in 2002. **Small and medium-sized enterprises are the basic national employment source**. They account for around 99 percent² of total enterprises in the country (enterprises having 250+ employees are included) and their share in total employment is 50.7 percent. Bulgarian Government appreciates their significant role in solving the unemployment problem, but the trend of failing to implement a well-directed policy to encourage small and medium-sized businesses and to promote employment continues. Measures adopted to reduce administrative barriers and to facilitate the access to

² Report on SMEs in Bulgaria – 2001, Agency for Small and Medium-sized Enterprises, www.asme.bg

loans are certainly important for the sector, but there is also a need to improve the coordination of the different government institutions directly concerned with the implemented policy for promotion of the SME sector, which would improve the efficiency of their actions. According to the labor force survey conducted by NSI in December 2002, the service sector accounts for more than half of the employed (58.6 percent), industry - for 32.8 percent, and agriculture - for 8.5 percent only.

The basic labor market problem is **the high unemployment level**, which, according to Employment Agency data, is 16.27 percent as of December 2002. There is slight improvement compared to December 2001 (17.87 percent), but it is insufficient for the effective operation of Bulgaria's labor market. According to the labor force survey, in December 2002 the number of unemployed was even higher – 16.8 percent of the economically active population. The lower unemployment level registered at the end of 2002 is a result of the new measures implemented by the Ministry of Labor and Social Policy and of the social policy in the labor market area, and namely the launch of a couple of national programs (From Welfare Benefits to Employment, Beautiful Bulgaria, JOBS, Support for Retirement, etc.) which constitute active measures to fight corruption and promote employment. Their objective is to restore the working habits of the unemployed; to create employment; to provide retirement support for unemployed persons who need 12 months of additional social security length of service to get the required points and age to acquire a right to a pension from the State Social Security System; to create temporary employment and training in construction and tourism, and last but not the least, to promote the economic development in regions with heavy unemployment by creating stable environment in support of small and medium-sized enterprises which are the basic national employment source.

A very important unemployment problem is **the large number of the long-term unemployed (for one or more years)** in the country, who account for 65.8 percent of the total number of unemployed (December 2002 Labor Force Survey). These people have lost their working habits and need special measures to improve their qualification and to get retrained in accordance with current employers' labor force demand. The fact that the share of long-term unemployed in the total number of unemployed increases every year raises concerns. In 1999 long-term unemployed accounted for 52.5 percent of the total number of unemployed, in 2000 – for 58.6 percent, in 2001 – for 63.2 percent, and in 2002 - for 65.8 percent.

The high youth unemployment rate in the country is another embarrassing fact in the field of unemployment. In 2002 15.8% of all unemployed are youth people aged between 15 and 24. Although ever since 1997 the youth unemployment is continuously falling, its rate in the country is still very high. The reason for this unfavorable fact lies in the lack of practical experience of the youth, which requires an adequate state interference for encouragement of the entrepreneurs to provide internships for the youth.

Youth Unemployment

	1997	1998	1999	2000	2001	2002
Youth unemployment (age group 15-24) as % of total unemployment	20,7	16,9	17,3	15,5	14,4	15,8

The education level of the unemployed in Bulgaria allows to be assessed the conformity level of the education provided in the country, which determines the labor supply, and the requirements and needs of employers, which determine labor demand. According to the Labor Force Survey, in December 2002 11.9 percent of the unemployed have higher education, 53.3 percent have secondary education, and 34.8 have primary and lower level of education. The education structure of the unemployed reveals a need of further investments in human capital to enable the unemployed to meet labor market needs and make the labor market and effectively operating one. A glance back a few years ago reveals since 1997 a continuous growth of the share of unemployed with higher education (1997 – 8.4 percent, 1998 – 8.5 percent, 1999 – 8.0 percent, 2000 – 8.9 percent, 2001 – 11.2 percent, 2002 – 11.9 percent) and secondary education (1997 – 50.7 percent, 1998 – 50.7 percent, 1999 – 52.5 percent, 2000 – 53.1 percent, 2001 – 54.6 percent, 2002 – 53.3 percent) in the total number of unemployed and decrease of the share of unemployed with primary and lower education level (1997 – 40.9 percent, 1998 – 40.8 percent, 1999 – 39.5 percent, 2000 – 38.0 percent, 2001 – 34.3 percent, 2002 – 34.8 percent). The conclusion is that in Bulgaria educated talented people cannot get full realization at the labor market. This unfavorable trend is a result of both the low payment levels countrywide which ensure low standard of living and inability to get return of investments in human capital, as well as of the economic restructuring after 1989 which requires labor force retraining for successful realization in the service sector which in 2001 accounted for 46 percent of the total number of employed in Bulgaria.

Income policy is an integral part of labor market policy. Major priorities of income-related social policy include ensuring income growth, introducing flexible forms of payment - per hour, part-time, etc., as well as poverty monitoring, defining the poverty threshold and developing a national policy to overcome poverty. These objectives are laid down in the 2002 New Social Policy on the income of the population. In Bulgaria the minimum wage is determined on a national level. The nominal minimum wage registered a growth of 10 percent in 2002 (from BGN 100 in 2002 to BGN 110 (EUR 55) for 2003), however this increase is insignificant given the low starting basis. Minimum wages by sectors and professions are not determined yet to ensure fair labor force pay dependent on the competitiveness of individual economic sectors and on the labor demand and supply within individual professions, however such negotiations are expected to start in 2003 on the initiative of the Ministry of Labor and Social Policy. After the introduction in 2002 of minimum social security thresholds per sectors and professions on the basis of negotiations between the Government, the syndicates, and the employers organizations, Government intentions are to start since 2003 negotiation of real minimum wage levels per sectors and professions with a view to: ensure more equitable labor pay, raise the real income level and thereby ensure higher standard of living.

In terms of **the structure of total household expenditures**, the share of food expenditures remained traditionally high in 2002. At the same time, the prices of non-food goods and services registered material increase in the previous year, which resulted in general increase of the electricity, telephone, water and maintenance expenditures of households.

In this context the question of further restructuring and privatization of infrastructure sectors and their social acceptability in terms of their effect on prices and household expenditures is of particular concern.

According to the National Statistical Institute's data, in 2002 **the average wage** for the country of those employed under labor and service contracts was BGN 272 (EUR 136). The fact that the average wage in the public sector (BGN 321 (around EUR 160)) is higher than that in the private sector is very interesting. The positive first results of the introduction of minimum social security thresholds per sectors and professions and of the obligatory registration of labor contracts at NSSI since the beginning of 2003 generate optimistic expectations about possible lower social security and tax burden, but only the future can show whether the ruling will have the political will to do that.

The Consumer Survey conducted by NSI in **January 2003** reveals more favorable changes in the financial situation of households and higher expectations about the next 12 months. In January 2003 consumers were more optimistic about unemployment in the next 12 months (the balance indicator registered a drop by 9.0 percentage points), mainly as a result of the active labor market measures implemented by the Ministry of Labor and Social Policy.

The survey of Bulgarian consumers calls for the conclusion that the Bulgarian standard of living registers a slow and unsatisfactory raise, which makes Bulgarians unable to pay for quality European goods. UNDP's 2002 Human Development Report characterizes Bulgaria as a state of medium human development, but the country is still far below the human development level of the Czech Republic, Estonia, Hungary, Poland and Slovakia, which are among the ten states to join the EU in 2004 - the fifth wave of EU enlargement.³

Human Development Index

Country	HDI index	Ranking *	Status
Albania	0.733	92	Medium human development
Bulgaria	0.779	62	Medium human development
Croatia	0.809	48	High human development
Czech rep.	0.849	33	High human development
Estonia	0.826	42	High human development
Hungary	0.835	35	High human development
Kazakhstan	0.750	79	Medium human development
Latvia	0.800	53	High human development

³ Source: UNDP; Human Development Report 2002;
*out of 173 countries

Lithuania	0.809	49	High human development
Macedonia	0.772	65	Medium human development
Poland	0.833	37	High human development
Romania	0.775	63	Medium human development
Russia	0.781	60	Medium human development
Slovakia	0.835	36	High human development
Slovenia	0.879	29	High human development
Ukraine	0.748	80	Medium human development

2.2. Policies in the Field of Labor Market

The guidelines of the European Employment Strategy and the EU directives concerning equal treatment, labor force vocational training and other employment-related issues are fundamental documents of Bulgaria's employment policy in a short- and mid-term perspective. The basic objective of labor market policy is to ensure effective labor market, which will guarantee higher employment level for the active population. The collateral objectives of Bulgaria's **employment policy**⁴ set forth in the **New Social Policy Strategy** adopted by the Government in 2002 include:

- New individual approach to every unemployed person;
- Improving employability;
- Promoting entrepreneurship;
- Creating employment for underprivileged people;
- Training and retraining.

2.2.1. Active labor market policies

The enforcement of the Employment Promotion Act (EPA) and the amendments to the Obligatory Social Security Code (OSSC) changed as of 1 January 2002 the active and passive labor market policies sources of financing.⁵ **Active policies** are implemented by the Employment Agency; they cover measures regulated in EPA and are financed on an annual basis through Bulgaria's State Budget Act. Active policy funds cover costs of programs and measures targeting employment, vocational training, as well as the cost of the employment system.

⁴ New Strategy in Social Policy, First chapter, **EMPLOYMENT POLICY**, <http://www.mlsp.government.bg/bg/docs/strategy/strategy-2.htm>

⁵ "Information on the State of Unemployment and Measures for Encouraging Employment in 2002", Employment Agency, 2003 r.

National labor market employability improving programs (current and new projects) include:

- National Program for Computer Training of Young People;
- National Program to Improve Employability and Promote Entrepreneurship of Young People;
- National Program for Educational and Labor Integration of Young People Dropped Out of the Secondary Education System;
- National Program for Education, Training and Employment of Roma People;
- National Program for Employment and Environment Improvement Measures;
- National Program for Alternative Employment of People Laid Off As a Result of the Privatization of Big and Monopolistic Companies;
- National Beautiful Bulgaria Program

A couple of national programs, which are part of the active measures for labor market policy implementation, were launched in 2002. The **National Program From Welfare Benefits to Employment** was launched in October 2002. Its objective is to provide employment and social integration to permanent unemployed on welfare benefits by opening new jobs in socially useful activities. The pilot program was launched in 11 municipalities. It aroused great interest and in November it was started on a national level. **The National Crop Protection - 2002 Program** was launched in July 2002. Its objective is to increase employment by opening additional seasonal jobs in crop preservation activities. The program targets with priority the long-term unemployed and laid off people from the Ministry of Defense and Ministry of the Interior systems. **The National Support for Retirement Program** was also launched in November. Its objective is to provide employment and retirement support to unemployed persons who need up to 12 months length of service to accumulate the required sum of social security length of service and age which gives right to a pension. **The Employment Promotion Act, which took effect as of 1 January 2002**, created preferential treatments, which the unemployed can make use of. These include:

- Getting a single sum of money instead of unemployment benefits, where the unemployed want to start up alone or in cooperation with other persons economic activity for production of goods or services;
- Making use of the opportunities provided under Art. 42 of the Act, which aim at encouraging the territorial mobility of unemployed persons;
- Getting access to loans through the Micro-credit Guarantee Fund up to the amount of BGN 15 000, under preferential conditions for start up or existing business (small enterprise) and on the condition of opening new jobs.

Implementation of **regional employment programs** continued. Each program covers different micro-projects developed in accordance with regional needs and local social and economic specifics.

Business centers and business incubators set up under the **Employment Through Business Support Project** are important tools to improve municipal business environment

targeting the promotion of small and medium-sized enterprises, which are the basic national employment source. Basic services provided to the private business include: consulting, training, supply of useful business information, leasing schemes and technological support in 6 business areas – textile industry, alternative farming, tourism, furniture production, crafts and production of herbal cultures. Good 2002 achievements of the JOBS project resulted in a decision to expand the project and set up business centers in another 10 Bulgarian municipalities, as well as to extend project validity by three years. The 2003-2005 JOBS strategy envisages national coverage of the business centers network, improving network efficiency, network institutionalization by way of a JOBS Association, and establishing new international contacts. The plan is to develop special initiatives targeting vulnerable labor market groups such as young people, Roma people, military people, and women. The project is expected to develop within Government’s active employment policy the support provided to Bulgarian small business and to underprivileged social groups on the labor market.

The last two years witness higher share of labor market active measure costs at the expense of the share of passive measure costs. This is in conformity with the new social policy strategy to promote employment at the expense of the passive social protection of unemployed persons through welfare benefits and money.

1998-2002 Active and Passive Labor Market Measures

Year	1998	1999	2000	2001
Total expenditures	100%	100%	100%	100%
Active measures expenditures	31.2%	25.9%	17.8%	23.6%
Passive measures expenditures	57.5%	58.7%	78.2%	75.6%
Other expenditures	11.3%	15.4%	4.0%	0.8%

Two new social measures have been introduced since 2003 on the initiative of the Ministry of Labor and Social Policy (MLSP) and the National Social Security Institute (NSSI) - minimum social security thresholds per sectors and professions and obligatory registration of labor contracts at the NSSI. The objective of these measures is to create conditions for fair labor market competition, to improve the security of workers and employees, the collection of the contributions to the State Social Security funds and of tax liabilities to the budget, and last but not the least, to curb shadow economy in the country.

According to the survey **“The Size and Development of the Shadows Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What do we really know?”**⁶ of Friedrich Schneider⁷ **the size of the shadow economy** in transition

⁶ Invited paper prepared for the Roundtable Conference: “On the Informal Economy”, Sofia, Bulgaria, April 18-20, 2002, <http://www.csd.bg/news/bert/presentations.html>

countries registered increasing growth in the last 12 years. The average size of the shadow economy in the 9 CEE countries covered by the survey increased from 23.4 percent (of official GDP) in the period 1990-93 to 29.2 percent (of official GDP) in 2000/2001. The fact that in 2000/2001 Bulgaria was ranked second after Macedonia (45.1 percent of GDP) by size of the shadow economy among CEE countries with a level of 36.4 percent (of official GDP) generates concern. The high level of the shadow economy in Bulgaria repels foreign investors and impedes effective labor market functioning. **According to the above survey, in 1989/1999 30.4 percent of Bulgaria's active population (age 16-65) was employed in the shadow economy, which has a negative effect on the collection of social security and tax liabilities, lowers the trust in the pension reform and creates a burden for the state budget to cover the increasingly higher deficit in the Pensions Fund.**

The Size of the Shadow Economy in Transition Countries

		Size of the Shadow Economy (in % of GDP)				Shadow Economy labor Force in % of Working-age Population ⁸
		Average 1990-93	Average 1994-95	Average 1990-93	Average 2000/01	1998/99
Former Soviet Union						
1.	Armenia	39.4	40.3	40.1	45.3	40.3
2.	Azerbaijan	43.8	59.3	45.1	60.1	50.7
3.	Belarus	34.0	39.1	35.6	47.1	40.9
4.	Estonia	33.9	38.5	34.3	39.1	33.4
5.	Georgia	43.6	63.0	45.1	66.1	53.2
6.	Kazakhstan	32.2	34.2	31.9	42.2	33.6
7.	Kyrgyzstan	34.1	37.2	35.2	39.4	29.4
8.	Latvia	24.3	34.8	25.7	39.6	29.6
9.	Lithuania	26.0	25.2	26.0	29.4	20.3
10.	Moldavia	29.1	37.7	29.3	44.1	35.1
11.	Russia	27.0	41.0	27.8	45.1	40.9
12.	Ukraine	38.4	47.3	29.4	51.2	41.2
13.	Uzbekistan	20.3	28.0	22.1	33.4	33.2
Unweighted		32.8	40.4	32.9	44.8	37.1
Average:						
Central and Eastern European Countries						
1.	Bulgaria	26.3	32.7	27.1	36.4	30.4
2.	Croatia	23.5	28.5	24.6	32.4	27.4
3.	Czech Republic	13.4	14.5	13.1	18.4	12.6

⁷ Professor Dr. Friedrich Schneider, Department of Economics, Johannes Kepler University of Linz, Altenbergerstrasse 69, A-4040 Linz Aufhof, Austria. Phone: 0043-70-2468—9210, Fax: 0043-70-2468-8209. E-mail: friedrich.schneider@jku.at

⁸Working age population means population between the age of 16 and 65.

4.	Hungary	20.7	28.4	22.3	24.4	20.9
5.	Macedonia	34.5	40.3	35.6	45.1	35.1
6.	Poland	20.3	13.9	22.3	27.4	20.9
7.	Romania	26.0	28.3	27.3	33.4	24.3
8.	Slovakia	14.2	15.2	15.1	18.3	16.3
9.	Slovenia	22.4	23.9	22.9	26.7	21.6
	Unweighted	22.4	25.1	23.4	29.2	23.3
	Average:					

New measures fiscal results as of 27 March 2003 reveal that in January 2003 payments to all social security and health insurance funds were by BGN 37.5 m higher compared to the same month of 2002. In February 2003 payments are by BGN 32.8 m higher compared to the same month of the previous year, and in March - by BGN 22.4 m higher compared to February 2002. **According to National Social Security Institute (NSSI)'s data, by March 27 payments to social security funds increased by BGN 92.7 compared to the same period of 2002.** Estimates show that in the first two months of 2003 the income for the purposes of social security of persons on labor and service contracts increased by nearly 10 percent compared to 2002. The basic wage declared in existing labor contracts is by 4 percent higher compared to that reported by NSI for October 2002. Luckily the fears of mass reappointment of workers and employees on positions and occupations of lower pay and lower social security thresholds and wages did not come true. According to NSSI's data, 38 000 of registered unemployed turned out employed under labor contracts and around 250 000 people came out of the shadow economy.

Another initiative of the Ministry of Labor and Social Policy involves, starting from 2003, annual negotiations between syndicates and employers' organizations to determine minimum wages per sectors and professions, which would improve labor market flexibility, and providing guarantees for higher living standard of the labor force in the future.

The new social policy strategy envisages active business support measures with a view to combine the economic and social functions of the implemented labor market policy. Starting from 2003, companies, which invest in regions of heavy unemployment (more than 50 percent of the average for the country), shall be exempt from profit tax for a period of 5 years. Where companies employ permanent unemployed at 50+ age, or partially disabled unemployed, they will pay lower taxes because the double amounts of the wages and social security contributions for the employees belonging to the above groups will be deducted from the corporate profit prior to taxation, provided that such persons are employed for not less than a year.

Only around BGN 14 m (EUR 4 m) out of the BGN 20 m (EUR 10 m) planned under the **Micro-credit Guarantee Fund** program have been utilized. Over 1400 projects, which are expected to generate more than 3000 jobs have been approved.

2.2.2. *Passive labor market policies*

Passive policies are implemented by way of measures for social protection in the event of unemployment and are financed from the new Unemployment Fund set up within the State Social Security (SSS) system since 2002. A positive change of labor market policy from

payment of unemployment benefits to providing employment was observed in 2002. The purpose of this change is to create temporary employment, preserve the working habits of the unemployed and promote their entrepreneurial spirit and initiative.⁹ According to Employment Agency's data, 2002 registered a drop down of the number of unemployed on benefits by 15.7 percent (from 161 864 in 2001 to 136 476 in 2002). The relative share of people on unemployment benefits in the average annual number of registered unemployed follows the downward trend of the average annual number of people on benefits, registering a drop by 3.4 percentage points compared to 2001.

Simultaneous implementation of measures to promote both labor force demand and supply involves a good economic-social policy balance. Subsidized employment is a successful temporary measure to conquer the heavy unemployment problem and improve Bulgaria's labor market flexibility, but it should be accompanied by a policy to promote the opening of permanent and efficient jobs

2.3. Challenges of EU Accession Regarding Labor Market Flexibility

Since 2000 Bulgaria develops in cooperation with the European Commission Joint Assessment of Employment Policy Priorities (JAP), which is reflected in the National Employment Strategy. **With a view to Bulgaria's future participation in the European Social Fund, the country has the task to strengthen its administrative capacity**, to be able to plan, manage and assess in the future the co-financed programs of the European Social Fund, considering the European Employment Strategy, the National Action Plan for Employment and the Social Inclusion Process.

On 20 February 2003 EC published a report on the situation of the labor market in EU candidate countries, which revealed the great difference in the unemployment levels of the countries and the need of urgent measures to increase employment, mostly in the service sector, to improve the qualification level and to avoid reliance on agriculture and traditional industries. The objective of EC's report is to serve as guidelines for working out the national development plans of EU candidate countries, the employment and human resources policy, including a plan to utilize the European Social Fund. **According to the European Commission, there are four basic strategic priorities in the labor market area, to which EU candidate countries should pay special attention.** These include:

- Increasing labor supply and engaging a significant number of the active population in the labor market, as a precondition for economic and social development;
- Improving the employment level, which along with higher labor productivity is a key factor for strong economic growth, real equalization of income levels and achieving European employment targets set forth in the Lisbon and Stockholm strategies;
- Labor market operation should be dependent on economic restructuring and the labor market should enable people to manage economic reforms and transform their industries from obsolete into modernized ones;
- Improving the level of qualification and skills as a counterbalance of the aging labor force and future challenges resulting from the need to increase productivity within a competitive and enlarged single market.

⁹ Encouraging Employment Law, Published in Official Gazette, Issue 112 from 29.12.2001, in force from 1.01.2002, modification and supplement, Issue 26 from 21.03.2003

Labor market related issues are discussed in Chapter 13: Social Policy and Employment of the European legislation. Bulgaria closed temporarily this chapter on 22 April 2002. This chapter covers areas where there is extensive secondary legislation at EU level, such as health and safety labor law and equal treatment of men and women, areas such as social dialogue, employment, and social protection where policies to harmonize national legislation on the basis of the Treaty establishing the European Community (EC). There is a need to develop a homogenous social framework in accordance with the principles and standards of the EC Treaty.

To harmonize some aspects of **labor law** at central level, EU has issued directives in the areas of: collective redundancy, protection of the right of employment in the event of new owner, employers' obligation to inform their employees about the conditions under which their labor contracts can be signed, guarantees for employees in the event of employers' bankruptcy, job description and organization of working time.

The Amsterdam Treaty added to Community's objectives in the social area the promotion of the **equality of men and women**. The implementation in practice of the principle of equal opportunities for men and women in all public activity areas is formulated in the **Community's Framework Strategy for Equality of Men and Women (2001-2005)**. Effective European legislation in this area includes guaranteed equal treatment under conditions of employment and holding a professional position, social security, systems of professional social security, maternity, protection of pregnant women, young mothers and suckling mothers.

The Amsterdam Treaty enabled the Community to combat **discrimination** in the field of employment, as well as in all other social and economic areas. Current EU legislation includes Directive 2002/43/EC, which prohibits racial and ethnic discrimination in the field of employment, education, social security and healthcare, access to goods, services, and home; as well as Directive 2000/78/EC, which prohibits discrimination in the field of employment on account of religion and beliefs, disability, age and sexual orientation.

The Single European Act (SEA) gave new orientation to social policy in the field of **health and safety of work**. European legislation contains directives which fix minimum EU standards of health and safety in the workplace, which result in less accidents at work, less occupational diseases and less labor force injuries in EU Member States, and in higher employment level of the active population and more effective labor market, accordingly.

In the area of **employment** EU candidate countries should develop labor market policies, which would enable them to guarantee effective balance of labor force demand and supply at their domestic markets. Their new labor market policies, complying with the European Employment Strategy, must develop fast enough to allow full participation of the corresponding country in the Single European Market. Last but not the least, candidate countries must develop special policies and measures targeting unskilled active population to enable the latter to get successful realization at the labor markets of developed countries.

Effectively operating **judicial and administrative structures** are an important guarantee for the successful operation of labor markets in candidate countries, as well as for compliance with employment and social policy legislation.

Negotiations on Chapter 13: Social Policy and Employment have been temporarily closed. Bulgaria has been granted a transitional period till 31 December 2010 to implement tobacco growing legislation, particularly that about the maximum tar content of cigarettes.

The **2002 Regular Report on Bulgaria's Progress Towards Accession** states that Bulgaria must make further efforts in the areas of anti-discrimination, equal opportunities, labour law, health and safety at work, with a view to harmonize Bulgarian with EU social policy and employment legislation. There is a need to enhance social dialogue at national as well as at company and sector level with a view to negotiate fair payment levels and to ensure good conditions at work for the labour force. The scope of active measures targeting the labour market, and the number of the unemployed covered by vocational training programs is insufficient. There is a need to make these programs conformable to labour market requirements and needs with a view to guarantee successful integration of the unemployed in this labour market. It is important to review the benefit systems with a view to create incentives for the unemployed to actively look for jobs or start up their own business. In view of the future management of European Social Fund activities after Bulgaria's accession to the EU, the Ministry of Labour and Social Policy must improve its capacity and cooperation with relevant authorities. The European Commission recommends to develop the socio-statistical schemes for poverty and social isolation in accordance with general EU social isolation indicators, with a view to take more effective future decisions to conquer social isolation and poverty, and to assess implemented measures. Bulgaria does not have yet a comprehensive anti-discrimination law or anti-discrimination authority for enforcement of such law.

2. Social Policy

3.1. Current state - factors, problems and policies

Along with income policy and employment policy, which targets higher employment of the active population and effectively operating labor market, Bulgaria's social policy includes three other policies - social security and industrial relations policy, social assistance policy, social dialogue policy.

3.1.1. Social Security

According to the 2002 New Social Policy Strategy, Bulgaria's priority **social security objectives** include:¹⁰

- Updated mechanisms to improve collection and increase proceeds in State Social Security funds;
- Gradual raise of all pensions with no increase of the social security burden;
- Higher pregnancy, birth and child benefits;
- Building an integrated information system for tax administration and NSSI needs;
- Promoting the development of the second and third pillar of the social security system;
- Improved labour legislation.

¹⁰ www.mlsp.government.bg

Bulgaria's transition to market economy, which required set up of effectively operating market institutions in all social and economic areas; demographic problems resulting from the aging population; heavy unemployment as a result of the restructuring and privatization processes called for **reform of Bulgaria's pension system**, which was entirely of a cost-covering type. Bulgaria's current pension model comprises three pillars: obligatory social security, complementary obligatory social security, and complementary voluntary social security. At this stage only the first pillar of Bulgaria's pension system is of a cost-covering type, i.e. collected social security contributions are entirely used to pay the pensions of current pensioners. The other two pillars operate on a capital principle. Social security contributions for State Social Security are distributed in 5 funds: Pensions, General Illness and Maternity, Accident at Work and Occupational Disease, Unemployment, and Non-Work Pensions. Contributions to the Non-Work Pensions Fund are made from the state budget, and those to the Accident at Work and Occupational Disease Fund are entirely for employers' account. The social security burden for all other funds is divided between the employer and the insured person in a proportion 75:25.

State Social Security Fund Contributions for 2002

State Social Security Funds - first pillar of the pension system	Total amount of social security contribution	Amount of social security contribution at employer's expense	Amount of social security contribution at the expense of the insured person
Pensions Fund	29%	21.75%	7.25%
General Illness and Maternity Fund	3%	2.25%	0.75%
Accident at Work and Occupational Disease Fund	0.7%	0.7%	0%
Unemployment Fund	4%	3%	1%
Total:	36.7%	27.7%	9%

The second pillar of the pension system (Supplementary Compulsory Pension Insurance - SCPI) consists of privately managed Universal and Occupational Pension funds (UPFs and OPFs) operating on capital principle. Insurance in a UPF is obligatory for everyone born after 31 December 1959, and persons in first and second work category are insured in OPF. Collection of Supplementary Compulsory Pension Insurance contributions is centralized in NSSI, which then transfers collected contributions to individual accounts of the insured persons in the corresponding funds. The contribution to OPF for first and second category workers amounts to 12 and 7 percent of the income for the purposes of social security, accordingly. These contributions are entirely for employer's account. For insured persons born after 31 December 1959 NSSI transfers 2 percent of the Pensions Fund contribution to the UPF chosen by the corresponding person. Government intentions are to achieve smooth increase of UPF contributions at the expense of Pensions Fund contributions with a view to enable privately managed UPF to realize for the insured persons higher yield of social security contributions invested in profitable and low-risk financial instruments. Thereby every insured person can determine the desired risk/yield ratio by choosing alone a UPF.

The third pillar of Bulgaria's pension system comprises voluntary privately managed pension funds, which operate on a capital principle. Insurance in these funds is voluntary. Every insured person has the right to choose a voluntary pension fund and judge by himself the risk/yield ratio in the investment of his social security contributions.

At this stage Bulgaria has 8 pension insurance companies ("Doverie", "Suglasie", "Allianz Bulgaria", "I&G", "Newton Sila", "Rodina", "BPIC", and "Lukoil Garant – Bulgaria"), each having a universal, an occupational and a voluntary pension fund. At the end of February 2003 the Commission for Protection of Competition allowed the take over of "Bulgarian Pension Insurance Company" by PIC "Doverie", whereby since May 2003 there will be seven funds on the pension services market.

The **Commission for Prudential Supervision Act** was promulgated in Official Gazette, No. 8/28 January 2003 and took effect as of 1 March 2003. The new body integrates the State Commission for Securities, the Agency for Insurance Supervision and the State Agency for Social Security Supervision. The pension services market was hitherto supervised and controlled by the State Agency for Social Security Supervision. The new structure is expected to optimize the administrative capacity and improve the management efficiency of Bulgaria's social security market.

Bulgarian pension reform is well designed but difficult to implement on account of existing demographic problems, inefficient labor and capital markets and unsatisfactory real income level which does not encourage insurance in voluntary pension funds. Privately managed pension funds are still under strong government control aimed to protect the pension savings of people and reduce the social tension in the country generated by the transition to market economy. The new Social Code **liberalizes somewhat** the regime for investment of the funds of insured persons by private pension insurance companies. The share of funds for the purposes of social security, which can be invested in foreign securities with higher yield for the insured persons, is increased, but data about investments by pension funds as of November 2002 reveal that pension insurance companies still refrain from investments abroad and invest funds for the purposes of social security mainly in government-issued-and-guaranteed securities and in domestic bank deposits. Successful capital market operation and a higher real income policy would generate higher confidence in the Bulgarian pension system and would ensure satisfactory pension income for the insured persons. Bulgaria's level of pensions paid from the State Social Security is very low compared to other CEE (USD 42 for 2001¹¹). This is a result of both the large share of Bulgaria's shadow economy and the poor collection of social security contributions by the National Social Security Institute. The two new measures implemented by the Ministry of Labor and Social Policy and NSSI since the beginning of 2003 and concerning the introduction of minimum social security thresholds per sectors and professions and obligatory registration of labor contracts at the NSSI yield positive results and optimistic expectations for lower social security burden and higher pensions.

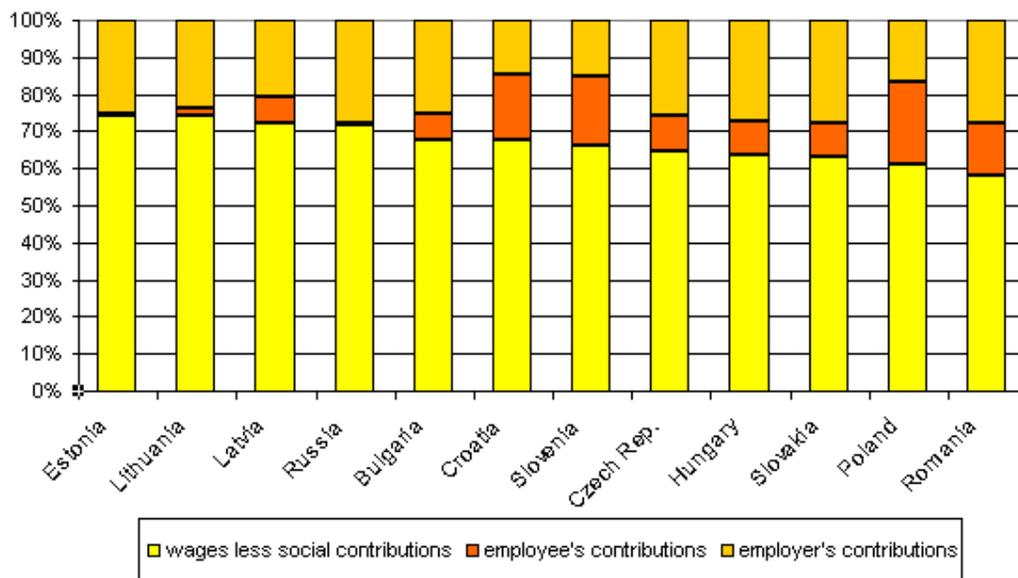
Average Monthly Retirement Pensions in US\$

¹¹ **Source:** Labour Costs in Central and Eastern Europe, CE-Research,, <http://www.databasece.com/pension.htm>.

Country	1996	1997	1998	1999	2000	2001
Bulgaria	-	-	35	36	41	42
Czech rep.	-	-	139	167	160	176
Estonia	-	-	80	95	82	85
Hungary	-	-	122	125	117	134
Latvia	-	-	87	98	94	91
Lithuania	48	61	72	77	78	79
Poland	-	-	186	192	189	222
Romania	-	-	45	45	43	46
Slovakia	-	-	118	109	108	111
Slovenia	-	-	407	412	368	368

Bulgaria's State Social Security burden as a share of the cost of labor is close to the average level for CEE countries, but the social security burden for employers remains too high, which discourages small and medium-sized enterprises from creating employment. Government intentions are for smooth increase by 2009 of the social security burden for employees at the expense of that for employers, achieving in 2009 equal distribution (50:50) of the social security burden between employees and employers. The rather low wage level and the high unemployment level required to keep the employers/insured persons social security burden ratio at the level of 75:25 for another 2 years.

Estimated share of obligatory social insurance contributions in cost of labour¹²



¹² Source: Labour Costs in Central and Eastern Europe, CE-Research

Major problems within the social security system include:

- Poor collection of social security contributions by NSSI, resulting in lower pensions;
- Increasingly higher deficit in the Pensions Fund, which is covered from the state budget;
- High social security burden which encourages inflow of labor force in the shadow economy;
- Discrimination of insured persons, because unlike all other insured persons, government officials and the military are insured for the account of the state budget;
- Persisting strong government restrictions on investments made by pension funds, which impedes the development of national complementary pension insurance;

Major objectives of the new Social Code which took effect since the beginning of 2003 are to create more legal guarantees for the funds of insured persons, to introduce new investment instruments for collected social security payments, to set up a mechanism to guarantee minimum rate of return on investments of obligatory pension funds and generally higher security for pension savings. As of end of 2002 pension funds assets amount to around BGN 310 m. This is a significant financial resource, which should be reasonably invested in the Bulgarian capital market thereby ensuring necessary funds to improve the competitiveness of Bulgarian companies.

Number of insured persons covered by the supplementary pension funds as of 30.11.2002 per pension insurance companies managed by the corresponding funds				
Pension Insurance Companies	Voluntary Pension Funds	Occupational Pension Funds		Universal Pension Funds
		I category	II category	
Total	478 521	16 653	138 193	1 115 494
"Doverie" AD	88 164	7 329	47 658	422 157
"Suglasie" AD	30 373	3 068	26 251	141 678
"BPOD" AD	34 344	1 053	9 939	98 745
SKPOK "Rodina" AD	19 227	692	5 372	61 054
"Allianz Bulgaria" AD	247 920	2 905	31 682	231 102
"I & G" AD	14 293	515	4 974	89 851
"Newton Sila" AD	17 155	592	5 216	31 274
"Lukoil Garant - Bulgaria" AD	27 045	499	7 101	39 633

Available net assets of supplementary pension funds as of 30.11.2002 per pension insurance companies managed by corresponding funds /BGN thousand/				
Pension Insurance Companies	Total	Voluntary Pension Funds	Occupational Pension Funds	Universal Pension Funds
Total	310 341	181 314	91 834	37 193
Doverie AD	75 843	28 172	34 217	13 454
Saglasie AD	28 449	7 233	16 566	4 650
BPOD AD	18 738	10 695	5 050	2 993
SKPOK Rodina AD	14 938	10 219	2 778	1 941
Allianz Bulgaria AD	129 988	97 718	23 818	8 452
I & G AD	15 356	9 732	2 203	3 421
Newton Sila AD	5 598	2 619	2 091	888
Lukoil Garant - Bulgaria AD	21 431	14 926	5 111	1 394

3.1.2. Social assistance

Priorities of social assistance activities laid down in the new Social Policy Strategy include: changing social assistance philosophy from welfare benefits to support for employment; creating a system of care standards for underprivileged people; improving the management structure of the social assistance system by fiscal decentralization and decentralization of central government, involving partners (municipalities, non-government organization, the business) in delivering social services to improve the quality of life; creating a quality control system for care and services delivered to children and old people.

In recent years the social assistance system registers shortage of funds for welfare benefits. Heavy unemployment in certain municipalities is one reason for the increasingly higher number of people on benefits. The large share of the shadow economy does not allow information about the incomes of persons and families on welfare benefits to be collected, which impedes the effective distribution of the funds for social assistance. Most institutions delivering social services have obsolete material equipment, conditions for civil control of the observation of human rights are not created. There is a need of stricter control of the payment of welfare benefits and of the investment costs of institutions delivering social services.

The Family Allowances for Children Act passed in March 2002 replaced the obsolete 1968 Decree to Encourage Births. Its objective is to guarantee more adequate target assistance. Amendments to the Act on the Protection, Rehabilitation and Social Integration of Disabled Persons were passed in December 2001. Their objective is to clarify the structure and membership criteria of the National Council for Rehabilitation and Social Integration (a Consultative Body at the Council of Ministers) and to determine the conditions for target assistance.

Amendments to the Rules on the Implementation of the Social Assistance Act approved by CoM's Decree No. 50/5.03.2002 enabled to provide in kind target heating benefits which are not used for the purpose for which they are given, and the amounts for the persons and families entitled to benefits, who use electricity for heating to be transferred directly by the

municipal welfare services to the electricity distribution companies. These measures are aimed at higher control on granted welfare benefits.

Important changes in the social assistance area characterized the past 2002. The passed Act on the Family Allowances for Children and the Rules for the Implementation of the Act enabled more effective allocation of limited resources to the social groups in highest need of these resources, i.e. old people living alone, disabled people and single parents with children up to 3 years. Specific coefficients guarantee higher welfare benefits for these most vulnerable social groups. Consequently, the guaranteed minimum income of people between 65 and 75 age who live alone increased from BGN 40 to BGN 68 (EUR 34), and for those of 75+ age - BGN 80 (EUR 40). The guaranteed income for disabled people increased from BGN 48 to BGN 60 (EUR 30), and for single parents with children up to 3 years - from BGN 48 to BGN 60 (EUR 30).

The second positive element is the attempt to achieve coordination of labor market policy and social assistance and the changed mechanism of providing assistance to people of active age. Some of them will receive labor remuneration instead of welfare benefits (From Welfare Benefits to Employment) and will have guaranteed access to education and training programs. The Personal Assistant Project within the National Program From Welfare Benefits to Employment is expected to generate in 2003 assistance to more than 7000 families who take care of infirm or disabled persons. BGN 217 m (around EUR 109 m) are allocated from the state budget for this initiative of the Ministry of Labor and Social Policy.

The philosophy of legislative changes in the social assistance area can be formulated as bringing more order and justice in state funds outlay, providing social assistance to people who really need it, and ensuring employment to socially assisted people of active age.

The survey Social Assessment of the Effect of Future Changes of Social Assistance conducted in October 2002 revealed that positive attitudes towards Bulgaria's social assistance system prevail as a result of the completed and steadily operating legal and institutional basis of social assistance. The social assessment reveals clear attitudes of approval of the new social policy model based on active approach, differentiated assistance, fiscal decentralization and policies coordination. Results show that the society has positive attitude towards social activities demonopolization, which implies future involvement of companies and non-government organizations in the performance of social activities.

In summary, **basic recommendations to Bulgaria's social assistance policy** include:

- There is a need **to clearly outline government and municipal rights and obligations in the financing and management of institutions delivering social services.** Enhancing the decentralization in the financing and management of the social services system is a guarantee for efficient utilization of allocated resources and ensuring higher quality of Bulgarian social services.
- The focus should be on **improving the administrative capacity of the social assistance system and promoting the coordination of various structures at national, regional and municipal level by building an integrated information system,** with a view to guarantee efficient operation of the social assistance system.
- There is a need to **develop a Chart of the Rights and Obligations of Socially Assisted Persons and Social Worker's Code of Ethics.**

- There is a need of **regular monitoring of the social assistance system** with a view to identify problems and take timely decisions to overcome them.
- There is a need of higher **coordination of the income, the social assistance, and the labor market policy.**
- The coordination of the work of social institutions can be improved by introduction of **an integrated information system** to facilitate the coordination of the social assistance and the employment promotion policy.

3.1.3. Social dialogue

The **Employment Promotion Act** of 1 January 2002 regulates social dialogue promotion and higher opportunities for social partners to influence the employment policy. The set up of interim Employment Commissions at the Regional Councils for Regional Development with the participation of social partners and the non-government sector, the set up of Councils for Cooperation at the Employment Agency units on a tripartite principle for control of the implemented active labor market policy, and the set up of a National Employment Promotion council as a standing cooperation and consultative body for employment policy development operating on a tripartite principle guarantee legal involvement of social partners in employment policy development.

On 15 February 2002 the Government signed a **Chart for Social Cooperation with Bulgarian Workers, Employees and Employers Organizations**. The Chart contains the will of the parties to adhere to the principles of social cooperation: partnership by way of the tripartite principle, guaranteed social peace, continuity and coordination, transparency and mutual notification. On national level **the Council of Ministers of the Republic of Bulgaria and the representative organizations of workers and employees and of employers signed a Cooperation Agreement**, which formed the basis of future active social dialogue and cooperation between employers, trade unions and the state.

Branch councils for tripartite cooperation already operate at the Ministry of the Economy, the Ministry of the Interior, the Ministry of Regional Development and Public Works, the Ministry of Transport and Communications, and the Ministry of Healthcare. **There is a need to encourage the set up of such branch councils for tripartite cooperation in other ministries with a view to promote the involvement of social partners in European integration activities.**

On company level, **pilot workers councils** were set up as an experiment **in Bulgarian private companies**. These are an attempt to implement the German model for coordination of the interests of hired labor and owners through dialogue and direct negotiations between workers and employers.

Overall, 2002 can be characterized as a year of absence of serious industrial conflicts and moderate social tension.

3.2. Challenges of EU accession regarding social policy (social insurance, social assistance and social dialogue)

Social security issues are discussed in Chapter 2: Free Movement of People, of the European legislation, which covers four major areas: mutual recognition of professional

qualifications, civil rights, free movement of workers and **coordination of social security systems**. Coordination of the social security systems of EU Member States aims at providing permanent social security to people looking for jobs on labor markets in other EU Member States. The European Community requires coordination of the measures laid down in the national legislations rather than harmonization of the social security legislation of current EU Member States and candidate countries. Measures in the area of social security systems coordination cover all EU Member States and EFTA (Norway, Liechtenstein, and Iceland). EU candidate countries have experience in the signing of bilateral agreements with EU Member States. Recommendations are to promote this process with a view to provide guarantees that the persons who will exercise in the future their right to free movement within the Community, will not be sanctioned on this basis in the social security area.

Bilateral social security agreements regulate the provision social security and the grant of short-time compensations and pensions from the obligatory social security funds, where a person worked and was insured in both countries to the agreement simultaneously or in succession. **Eleven social security arrangements, conventions and agreements between Bulgaria and other countries are currently effective**. Negotiations for new agreements with Macedonia, Cyprus, Croatia, Switzerland and Hungary are in progress. The basic principles adhered to in the implementation of social security agreements include:

- The principle of application of one national legislation for the provision of social security;
- The principle of equal treatment as an instrument to overcome direct and indirect discrimination on account of nationality;
- The principle of preserving acquired and pending social security rights.

Social protection and social dialogue issues are also discussed in Chapter 13: Social Policy and Employment. **Social protection** systems are financed and organized on national level by the different EU Member States, but the Community requires from applicant countries to have sustainable systems to enable their coordination with the those operating within the EU, which develop at a high pace.

Promoting **social dialogue** and delegating additional powers to social partners are important focus points of European employment and social policy legislation. EU candidate countries must prove that they attach due importance to social dialogue and that social partners are sufficiently powerful to be able to implement their responsibilities on national and on European level and get actively involved in the consultation process of carrying through employment and social policy bills. Social partners must take part in employment policy development and implementation on national and on European level. It is important for candidate countries to develop tripartite structures (government, trade unions, employers' organizations) as well as independent representative bilateral social dialogue, with a view to guarantee effective involvement of the social partners in candidate countries in the social dialogue on European and on national level.

4. Labor Migration Policy

4.1. Push and pull factors

Major factors having effect on labor migration and requiring special government attention with a view to promote or restrict potential migration from Bulgaria to the EU include:

4.1.1. Demographic processes

Bulgarian demographic processes involving increasingly lower birth rate and aging population have unfavorable effect on the active people/pensioners ratio, which results in an inefficient social security system discouraging young people from participation as it continues to function of the cost-coverage principle and encourages labor emigration. There is a need of measures to encourage births, lower the social security burden for the employed population and create incentives for realization of young people on the national labor market.

Demographic Indicators¹³

	2000	2001	2002
Population, as of 31.12., number	8 149 468	7 891 095	7 845 499
Average life expectancy, total (in years)	71.7 *	71.8**	71.8***
Average life expectancy, female (in years)	75.3	75.2	75.3
Average life expectancy, male (in years)	68.2	68.5	68.6
Average age of the population (in years)	39.9	40.4	40.6
Population under, at and over working-age, total	100.0	100.0	100.0
Population under working-age - %	16.8	16.3	15.9
Population at working-age - %	58.3	59.2	60.1
Population over working-age - %	24.9	24.5	24
Natality rate (per 1000 persons)	9.0	8.6	8.5
Mortality rate (per 1000 persons)	14.1	14.2	14.3
Natural growth (per 1000 persons)	-5.1	-5.6	-5.8

*Data regard the period 1998-2000

**Data regard the period 1999-2001

***Data regard the period 2000-2002

4.1.2. Labor market situation

According to Labor Force Survey data Bulgaria's 2002 unemployment level is lower compared to the previous year, but unemployment remains too high compared to the average unemployment level in the European Union. According to Eurostat data, in January 2003 EU unemployed account for 7.9 percent of the Union's population, with Luxembourg (2.7 percent), Holland (3.1 percent) and Austria (4.1 percent) registering the lowest unemployment levels. Austria's low unemployment rate as well its geographic proximity to CEE countries - candidates for EU membership make the country a major destination of potential migration processes in future EU Member States. The so-called "brain-drain" from Bulgaria to developed EU Member States is particularly intensive in recent years. The fact that investments in human capital made in Bulgaria have no return generates concern. Nearly two thirds of migrants are in the (10-39) age interval. According to the Census taken as of 1 March 2001, the population in the (20-39) age interval is

¹³ Source: NSI

expected to form the basic portion of future emigrants to the EU. Desire to migrate is also most frequent in the 20-29 age group (37 percent).¹⁴

Bulgarian young people constitute a significant share of the underprivileged people on the labor market. The problems they have in finding a job result in the first place from absence of working experience, of financial resources; insufficient information, consulting and orientation of young people to entrepreneurship; as well as from the absence of effective lending system for young and promising entrepreneurs. These are the basic lines along which the Government should take efforts with a view to stop the “brain-drain” and to motivate young people to look for jobs on the Bulgarian labor market.

4.1.3. Income gap

Higher payment rates in EU Member States are the primary factor encouraging labor migration from Bulgaria to the EU. According to Eurostat’s annual labor market survey, Bulgarian labor is the cheapest in Europe. In Bulgaria hourly pay amounts to an average of EUR 1.35, which is the lowest rate compared to the 15 EU Member States and the 12 countries holding EU accession negotiations. Average earnings per hour in candidate countries are five times lower compared to the average EU level of EUR 22.70. The above data reveal that real income growth in the years up to Bulgaria’s accession to EU must be set forth as a fundamental objective of national economic and social policy, with a view to prevent large-scale migration flows from Bulgaria to the EU.

4.1.4. Qualification of the labor force and demand for services

Recognition of diplomas and qualifications is an important factor for the decision to migrate taken by educated Bulgarians. Mutual recognition of diplomas and qualifications is one of the four major areas of the free movement of people in EU Member States. After adoption of the European legislation in this area and following Bulgaria’s future accession to the EU young Bulgarians with university education may get highly interested in looking for jobs on the labor markets of current EU Member States. Everything will depend on the social and economic situation in the country, which constitutes real challenge for Bulgarian rulers if they want to have return on government investments in the education of these young people.

4.1.5. Geographic proximity

According to NSI’s 2001 survey of potential migration from Bulgaria, conducted after the International Organization for Migration method, preferred destinations of Bulgaria’s labor emigration include countries like Germany (25 percent), the USA (15 percent), Greece (11 percent), Spain (9 percent), Great Britain (8 percent) and Italy (5 percent). Transport costs to the desired emigration destination do matter, as they become in some cases major barrier to the emigration of Bulgarians as a result of their low standard of living. Data about the countries preferred by Bulgarians to emigrate reveal that geographical proximity is an important factor for the emigration from Bulgaria and there is a need to identify measures like bilateral agreements with such countries with a view to avoid serious pressure on their labor markets after Bulgaria’s accession to the EU.

¹⁴ http://www.mlsp.government.bg/bg/projects/youths-2/docs/LAST_YOUTH_2MODULES_NAPE2002.doc

4.1.6. Traditions and networks

Countries traditionally preferred for emigration by Bulgarians are another important factor, which should be taken into account upon implementation of Bulgarian migration policy. Germany is one of the countries with which Bulgaria has signed bilateral employment agreements, and also the country expecting the largest migration wave after the future fifth EU enlargement, which will cover the 10 new CEE countries.¹⁵ Future bilateral labor exchange agreements in this field with countries preferred for migration by Bulgarians will alleviate social tension and the concerns of these countries about Bulgaria's future EU accession.

4.1.7. Ethnic and political problems

Ethnic and political problems in a country encourage emigration rather than temporary labor migration. This factor may have effect mainly on ethnic groups like Bulgaria's Roma population which is underprivileged on the labor market, uneducated and unqualified and generally engages in illegal activities in the country and abroad. Implemented measures to integrate the Roma people are insufficient. There is a need to develop special programs to improve their education level, to provide vocational training in accordance with current labor market demand, and increase their awareness of EU programs targeting social isolation in CEE countries.

4.1.8. Cultural and linguistic barriers

Socio-psychological and cultural factors have important role in the decision to work abroad, particularly where such decision is taken for a longer period of time. In principle the need to study a foreign language is a serious barrier for most people. This is particularly valid for older Bulgarians who have lost their jobs as a result of the restructuring and privatization of Bulgarian economy. Their limited financial resources, socio-psychological attitudes and lower mobility take them out of the group of potential emigrants after Bulgaria's accession to the EU. The situation is quite different for young Bulgarians. They have rather good language training and are ready to move and find jobs in countries offering higher standard of living compared to Bulgaria.

4.2. Migration Processes

Migration Flows 1992-2001

Emigration	196 thousand people
Immigration	19 thousand people
Negative natural growth	337 thousand people

¹⁵ In 2001 under bilateral agreements with Germany regarding employment of workers for execution of contracts among companies and for enlargement of professional qualifications total number of 2 139 Bulgarian citizens have left the country. Under agreements with Germany regarding seasonal employment in the field of hotel and restaurant business 1 266 people have received periodic labor contracts. 221 young people have traveled to Germany regarding summer employment, *The New Migration Policy of Bulgaria. Bilateral labor force exchange agreements*

4.2.1. Emigration

According to data from the census of Bulgarian population taken in 1992 and 2001, foreign migration amounts to 177 thousand people (196 thousand emigrants and 19 thousand immigrants), with an average of 22 thousand emigrants per year. According to the parallel survey of potential emigration carried out by National Statistical Institute in 2001 after the International Organization for Migration method, potential Bulgarian emigrants are divided into three categories: **permanent emigration, temporary emigration, and other.**¹⁶

- **“Permanent emigration” - 15 percent of the population.** Potential emigrants, who state that they will probably go to live, work or study abroad for more than a year (emigrants - 8 percent and labour emigrants - 7 percent/;
- **“Temporary emigration” – 5 percent of the population.** Potential emigrants who state that they will probably go to work or study abroad for less than a year;
- **“Others” – 10 percent of the population.** Persons who state that this year or in the next years they will probably go abroad for a short time as tourists or to visit relatives and friends.

Data about potential emigration reveal that around 80 percent of the population between 15 and 60 years do not intend to leave the country, which means that they are not potential emigrants. In recent years Bulgarian emigration was mainly oriented to countries like Germany - 23 percent, the USA - 19 percent, Greece - 8 percent, Spain - 8 percent, Great Britain - 6 percent, Italy - 6 percent, Canada - 5 percent, France - 4 percent, etc. In terms of migration destinations preferred by the different categories of potential migrants, labor migrants mainly look for jobs on the labor markets of countries like Germany (25%), the USA (15%), Greece (11%), Spain (9%), Great Britain (8%) and Italy (5%). The basic factors having effect on the destinations preferred by labor migrants include higher labor pay level (the USA, Great Britain, Italy), geographic proximity to Bulgaria (Greece and Germany), bilateral labor exchange agreements signed (with Germany, for example), as well as emigration traditions (Germany, Greece). There is a need to encourage the signing of more bilateral employment agreements with older EU Member States in the period before accession, with a view to avoid the expected initial pressure on the labor markets of the above EU Member States by Bulgarian labor migrants.

An estimate of emigration from Bulgaria to the EU has been developed for the period 2002-2007. It is based on the census of the population at 15-60 ages (5 029 thousand people) and on the expected fulfillment of potential migration attitudes, and the expert evaluation of the coefficient according to the International Organization for Migration method is 12%-15%. This survey calls for the conclusion that in the period 2002-2007 one cannot expect strong emigration pressure from Bulgaria to EU, which could have material effect on the efficient operation of labor markets in EU Member States and generally destabilize these markets.

¹⁶ National Statistical Institute data

4.2.2. Immigration

Fears of current EU Member States about massive migration flow from CEE countries result from their expectations that potential labor migrants from these countries will join by migrants from neighbor countries as well as migrants from the Middle East and Africa. That is why, it is important to study the characteristics of the immigration flow to Bulgaria in previous years with a view to estimate the potential immigration inflow after Bulgaria's accession to the EU.

According to Employment Agency's data, a total of 2205 work permits were issued to foreigners in Bulgaria in the period 1994-2001 (1384 new and 821 extended). The highest number of work permits for Bulgaria was issued to nationals of the USA (332), Turkey (169), Ukraine (165), Russia (152) and Greece (135). A glance at the qualification of these foreign workers reveals that the top management personnel employed by foreign investors from European countries and the USA registers the highest number. Next come consultants and engineers and technicians; foreign professors in secondary schools and universities are third in number. According to data by the bodies delivering administrative services to foreigners, as of June 2002 4 758 foreigners have got permanent stay permits on account of registration of business activity, 516 people - on the grounds of employment under labor contract, and 2397 people on the grounds of concluded civil marriage with a Bulgarian national or with a foreigner with permanent stay permit. Business activity of foreigners on the territory of the Republic of Bulgaria has positive effect on the national labor market because it generates employment, guarantees social security and health insurance contributions for the State Social Security and improves the competitiveness of Bulgarian economy through the introduction of new machines and technologies in industry. The low cost of labor in Bulgaria, heavy unemployment, the absence of well-directed tax policy in support of small and medium-sized enterprises, and the high share of the shadow economy, which generates unfair competition between Bulgarian and foreign economic agents on the territory of the country, constitute a very important factor which has restrictive effect on the immigration flow to the country.

Data about the immigration flows to Bulgaria reveal lack of concern about higher immigration to the country in the next years. There is a need to encourage immigration measures taken by the through the signed bilateral labor force exchange agreements, with a view to curb illegal migration in the country and lower the concerns of current EU Member States that Bulgaria could become a point of entry of illegal migrants on EU territory.

4.3. Policies regulating labor migration

There are several major objectives of Bulgarian migration policy in the area of labor migration¹⁷:

- To develop regulated forms of temporary labor emigration;
- Effective labor market protection;
- To create favorable conditions for integration of the labor force in the country;
- To implement bilateral and multilateral agreements in the field of labor migration and the return of labor migrants to Bulgaria.

¹⁷ Roundtable: "Free movement of workers and access to labor markets of EU member states", Ministry of Labor and Social Policy and "European integration and international affairs" Department, МТСП и Дирекция "Европейска интеграция и международни отношения", Vladimir Kalchev, *The New Migration Policy of the Republic of Bulgaria*, 10 December, 2002, Sofia

4.3.1. Measures regarding the regulation of labor emigration

Labor emigration measures target development of temporary regulated labor migration by way of:

- Creating legal opportunities and control of the implementation of various forms of temporary regulated labor migration through the Employment Promotion Act, the Ordinance on the Terms and Procedure of Carrying Out Mediation Activity for Notification and Employment and through Bilateral Agreements for Labor Force Dispatch and Exchange;
- Continuous control of the implementation of effective bilateral agreements for labor force dispatch and exchange;
- Intensification of the mediation activity for notification and employment of Bulgarian nationals in other countries on the basis of effective agreements;
- Expanding the bilateral cooperation in the field of employment and implementing active policy with a view to sign more bilateral agreements for labor force exchange or dispatch to other countries.

According to the Ministry of Labor and Social Policy's data, 60 agencies for employment abroad in 20 countries have been issued agency licenses. These private labor agents are expected to develop in the next years as an alternative of the Employment Agency in the delivery of agency services for employment in the country and abroad. The basic objective is to improve the quality and scope of their services in accordance with actual labor market needs.

The different types of bilateral agreements for labor force exchange are the basic Bulgarian regulatory measures for temporary labor migration. These include the so-called **Employment Agreements**. The labor force exchange principle (**two-way labor migration**) is applied for agreements with EU Member States, and the labor force dispatch principle is (**one-way labor migration**) is applied for agreements with other countries as a measure to curb illegal labor migration in Bulgaria and as a guarantee for the successful integration of the Bulgarian labor market in the EU one. It is recommended to have labor force exchange agreements signed between Bulgaria and EU Member States on national level, as well as on regional and local level, with a view to promote the free movement of labor force within the mobility context, and to solve employment problems at local level. This is a successful measure to cover temporary shortages of labor force in Bulgaria and current EU Member States in accordance with the short-term economic and social situation on local level avoiding market pressure on national level. **An inter-ministerial Employment Agreements Work Group was set up at MLSP in 2001**. Its tasks involve: analysis of effective employment agreements, developing drafts of new labor force exchange agreements with other EU Member States and with third countries, making proposals for amendments to the national migration legislation.

To date, **Bulgaria has signed bilateral employment agreements with the Federal Republic of Germany** for employment of workers from Bulgarian companies under work contracts in FRG and on employment of workers to improve their professional and language skills; with the **Republic of Portugal** for mutual employment of nationals of the two countries (signed on 26 September 2002), with the Government of the **Grand Duchy of Luxembourg** for exchange of trainees (signed on 06 December 2002), and with the

Czech Republic for mutual employment of Bulgarian and Czech Republic nationals. Out of the countries, which are not EU members, Bulgaria has signed an agreement for exchange of trainees with **Switzerland**. Drafts of bilateral employment agreements with the Kingdom of Spain, the Republic of Greece, the French Republic, the Republic of Austria, the United Kingdom of Great Britain and Northern Ireland are at different coordination phases.

A tendency to simultaneously sign employment agreements and readmission and social security agreements has been observed in recent years. The aim is to better protect the interests of migrants, of the host country and of the dispatching country, and to improve the fight against illegal migration. Bulgaria has signed **readmission agreements** with all EU Member States except Great Britain and Ireland with which negotiations are in progress. This proves Bulgaria's intentions to join in EU efforts to fight illegal migration, which exerts strong pressure on labor markets in the countries concerned.

Concerning the cooperation in the fight against illegal migration and crime on transnational and trans-regional level, there are 21 effective intergovernmental and inter-ministerial cooperation agreements with European countries, which reveals Bulgaria's efforts to get successfully integrated in the European structures for fight against illegal migration and crime that impede in principle the security and the effective operation of European labor market.

4.3.2. Measures regarding the regulation of labor immigration

Labor immigration measures target in the first place labor market protection and development, control of the employment of foreigners in Bulgaria and equal treatment of legally employed foreign workers.

- Legal guarantees for full control of the observation of employment regulations have been issued;
- Legislative amendments concerning the admission of foreigners as employees have been made; (a new Ordinance on the Terms and Procedure of Issuance, Non-issuance and Withdrawal of Work Permits of Foreigners in the Republic of Bulgaria was passed in April 2002. It envisages admission of members of the families of workers from EU Member States to the labor market without a 24-month waiting period).
- Ordinance on the Terms and Procedure of Issuing Permits to Carry out Free-lance Activities in the Republic of Bulgaria to Foreigners was passed in September 2002. It envisages exclusion of EU Member States nationals from the licensing arrangements for carrying out free-lance activities in the country.
- European and international standards concerning the equal treatment of Bulgarian nationals and migrant workers from other countries admitted to the labor market have been reached;
- The Employment Promotion Act contains texts allowing direct implementation of Regulation 1612/68 concerning the elimination of the licensing regime and the acquisition of equal rights in applying for a job and getting employed upon Bulgaria's accession to EU.

The work permit is the basic instrument of labor migration control both in EU Member States and in Bulgaria. It guarantees equal conditions of work, pay, paid leave,

etc. with those for host country workers. In EU such permit is issued following assessment of the labor market situation in the host country, and the principle is to employ nationals of non-EU countries only where there are no candidates for the job from the corresponding EU Member State or other EU Member States. There are two basic types of stay permits (for temporary and permanent stay) and two types of work permits (short-term and long-term). The basic rule is that the validity of the work permit shall not exceed the validity of the permit to stay. Where foreigners fail to observe the validity, they are prohibited to enter the corresponding country as well as the whole Schengen area, because the violator is put on the general list of persons unacceptable in EU Member States.

4.4. Challenges of EU accession regarding free movement of workers

Major concerns of current EU Member States about the expected EU enlargement include in the first place a fear that lower wages and social protection levels in future EU Member States could result in intensive redistribution of investments and employment and large migration inflows. The concern about possible “**social dumping**” generated wide debates, which resulted in EC’s proposing to future EU Member States a transitional period before full liberalization of the free movement of workers within the EU.

International migration trends are among the reasons for the concerns of current EU Member States about a strong immigration pressure from CEE countries after EU enlargement. The latest publication of the Organization for Economic Cooperation and Development (OECD), **International Migration Trends**, reveals increasingly high immigration flows in OECD countries, notwithstanding the slowdown of global economic growth and the strict border control in connection with antiterrorism. An upward trend is observed in all migrant categories - refugees, asylum-seeking migrants, members of the families of workers in OECD countries, or labor migrants. Surveys reveal that Great Britain, Germany and the USA have admitted the highest number of asylum-seeking migrants. But the number of admitted asylum-seeking migrants registers highest growth in CEE countries, which generates concerns in current EU Member States that after the accession of the ten CEE countries in 2004, as well as after the accession of Bulgaria and Romania in 2007 this process will intensify and will exert strong pressure on the labor markets of EU Member States and on the standard of living of their people. The report states that in the last two years OECD countries have implemented various immigration policies with a view to curb immigration flows to them. Some countries have adopted more restrictive rules on the entry and length of stay of foreigners on their territory. Austria, Denmark and Holland have put barriers for relatives and families joining foreigners working on their labor markets. Australia, Canada, the USA, Great Britain and Norway have implemented a policy of labor migrants selection, focusing their preferences on highly skilled workers. The planned EU enlargement by 10 new countries intensifies the fears of a heavy wave of labor migrants from Eastern Europe. Major concerns are that immigrants from third countries may enter the labor markets of EU Member States exactly through the territories of EU candidate countries.

The free movement of people is one of the four fundamental freedoms, which along with the free movement of goods, capital and services is an integral part of the internal market of the European Union. The Acquis in this area involve mutual recognition of professional qualifications, civil rights, free movement of workers and coordination of social security systems. The free movement of workers within the EU is a particularly sensitive subject at EU level, given the labor market problems most EU Member States have today. Concerns

about a wave of immigration from new Member States, which could exert serious pressure on the labor markets of the current 15 EU Member States and on their social security systems are the reason for EC's proposing to candidate countries a transitional period in the free movement of workers area. Thus the maximum transitional period when new EU Member States will not have access to the labor market of the Union is seven years. The applied scheme is 2-3-2, which means that after the first two years restrictions may be eliminated provided that the corresponding country does not constitute migration threat, but the transitional period can be extended up to 7 years where the new EU Member State commits serious violations of the labor market of the Union. EU did not request a transitional period only for Malta and Cyprus. It applied a common approach to all other countries. The fact that countries like Sweden, Holland and Portugal have declared that they will not introduce transitional periods for candidate countries after the latter's accession to the EU reveals that they do not expect serious immigration flow to their countries which could exert pressure on their labor markets. The transitional agreement also includes other important aspects such as an immobility clause, according to which the labor markets of current EU Member States cannot be more closed than upon the accession of the new Member States. What is more, current EU Member States must employ with priority nationals of candidate countries over nationals of third countries. Only Austria and Germany where the highest immigration pressure is expected have the right to apply protective measures with a view to eliminate or prevent serious disturbances in certain sensitive areas of the service sector, which might result from the trans-frontier service supply.

In June 2002 Bulgaria temporarily closed Chapter 2: Free Movement of People, which means that our country accepts the negotiated transitional period. Given the majority of European and national surveys, which conclude that Bulgaria will not be a serious migration threat to the labor markets of current EU Member States, elimination of the transitional period after the first two years following Bulgaria's accession to the EU is expected. Our country has taken the necessary steps to regulate labor force movement on the basis of bilateral agreements with current EU Member States and candidate countries, but there are recommendations to promote this process with a view to the intensified liberalization of the labor market of the Union.

Challenges for Bulgaria related to the free movement of workers include in the first place signing of labor force exchange agreements with all EU Member States and with the candidate countries; promotion of police and customs cooperation through intensified data exchange; analysis and coordination of joint Bulgaria-EU surveys of the current movement of migration flows during the period till Bulgaria's accession to the EU as well as during the transitional period; better management of Bulgaria's external borders to improve the efficiency of the fight against illegal migration. Regular monitoring of the implementation of European migration and security legislation by Bulgaria would relieve concerns of current EU Member States about heavy immigration wave which would exert strong pressure on their labor markets. It is very important to pay special attention to the factors which would encourage labor migration from Bulgaria to the EU, and to take due measures and implement the necessary policies in this area with a view to create favorable economic and social environment for the realization of young people in Bulgaria instead of encouraging the "brain-drain" process.

The advantages new migrants will generate for current EU Member States should not be neglected. The shortage of unskilled and highly skilled labor force on the labor markets of these countries will be overcome; the old people needing more health and social

services/people of active age ratio will be improved. One should admit that the future EU enlargement may well prove a successful formula of solving important social and demographic problems in the European Union.

Effective and open labor markets are as important to the EU as the effective and open markets of goods and services¹⁸. Lisbon set the ambitious task to achieve by 2010 a general employment rate of 70 percent and to increase female employment to 60 percent in the EU, which requires coordination of active labor market policies throughout Europe. This is the way to make Europe the most dynamic and competitive knowledge-based economy.

¹⁸ Center for Economic Development (2003): "Lisbon Agenda for Economic Reform"

5. Conclusions and Recommendations

As far as **labour market issues** are concerned Bulgaria should give special attention to the youth unemployment, long-term unemployment, the educational and qualification levels of the unemployed, the grey economy, the low collection of the social-security contributions to the “Pensions” fund and the so-called “brain-drain” process. The government acknowledges the important role of the small and medium-sized enterprises in the job creation process in the country but it hasn’t implemented yet an encouraging tax policy towards these enterprises.

The significant role of the municipalities in the job creation process should be recognized. Municipalities could create risk capital funds and guaranteed funds at a local level for facilitating the access to the financial resources of the local small and medium-sized enterprises. They could attract national and foreign investments for the sake of the local business by effectively advertising the local community and its potential. There is a need for raising the awareness of the municipalities of the European Employment Initiatives. A branch labor market survey is necessary for providing statistical data regarding the effects on employment of investments in one or another economic branch so that the local labor force could pre-qualify and respond on time to the labor needs of the entrepreneurs. A new long-term vision for the right qualification of the labor force is needed. The labor market and the education system in the country should be transformed in regard to the future labor needs of the national and EU member states entrepreneurs. In this regard a profound survey of the future labor needs of the business is inevitable. A regular monitoring on the results of the undertaken labor market policy (active and passive) in the country is necessary for raising the effectiveness of the labor market policy. Strengthening the administrative capacity is an important prerequisite for the successful management of the structural and cohesion funds after EU accession of Bulgaria.

Regarding the **social insurance system**, the transition to the market economy that required creation of effectively functioning market institutions in all areas of the socio-economic life, the aging of the population and the high unemployment rate as a result of the privatisation and transformation processes, imposed the reforming of the pension system, which was a pay-as-you-go-type of system. Now the pension system consists of three pillars. The first pillar is still a pay-as-you-go-type of insurance but the other two pillars consist of privately managed pension funds. The insured individuals in these funds have individual accounts and their social insurance instalments are invested in different financial instruments although there are still high state restrictions regarding the investments of the pension companies aimed at ensuring better security for the insured individuals. The future of the Bulgarian pension system depends on solving the problems with the high unemployment rate, the low collection of the social insurance instalments, the great size of the shadow economy labour force, the existence of a discrimination among the insured individuals in the Social Security, the high social insurance burden on employers and employees and not lastly the comparatively low pension incomes.

The questions in the field of social insurance are dealt with in Chapter 2 “Free movement of people” of the European legislation. The European Union does not require harmonization of the social insurance legislation between the current member states and the accession countries, but coordination of the social insurance systems. The mobility of workers and citizens in general will strongly depend on the portability of the social security and pension schemes. From this point of view, application of EU social security

coordination rules requires extending relevant administrative structures in Bulgaria. Bulgaria should keep on signing bilateral social security agreements with EU countries in the pre-accession period. The country has so far signed 11 bilateral social security agreements.

The **social protection system** in Bulgaria should be more connected to the regional disparities in the means of livelihood so that the funds of the social protection system to be distributed more fairly.

The main factors influencing labour migration from Bulgaria to the European Union are the labour market situation in the country, the income gap, the traditions in migration and proximity to the country of destination. The preferred destinations by Bulgarian labour migrants are the EU countries like Germany, Greece, Spain, Great Britain and Italy. For the sake of avoiding the initial pressure on the labour markets of the abovementioned countries Bulgaria should continue signing bilateral labour exchange agreements. The country has so far signed such bilateral agreements with the following EU member states: Germany, Portugal, The Czech Republic and Luxemburg. In recent years there is a tendency for signing bilateral labour exchange agreements together with bilateral social security agreements and bilateral readmission agreements. Bulgaria has so far signed bilateral readmission agreements with all European countries except for Great Britain. According to a national survey on the potential migrants, conducted by the National Statistical Institute in 2001 about 80% of the population do not intend to leave the country in the near future which means that these people are not potential migrants to the EU labour markets. The undertaken measures regarding labour immigration are directed mainly to protection and development of the labour market, control over the employment of foreigners and equal treatment of legally hired foreign labour with the national labour.

The challenges in the field of free movement of workers include signing bilateral labor force exchange agreements and bilateral social security agreements with all member-states of the European Union and with the new future member states that are going to enter the Union in May 2004, increasing the police and customs cooperation between Bulgaria and the EU member states by intensive data exchange, analysis and implementation of joint research regarding the migration flows in the period till the EU accession of Bulgaria and in the transition period as well, and improving the control of the external boundaries of the country for the sake of a more effective fight with illegal labor migration. Special attention should be given to the push and pull factors, which could provoke labor migration from Bulgaria to the EU member states in order to motivate young people to find their professional realization at home thus ceasing the process “brain-drain”.

Policy recommendations regarding labor market, social policy and labor migration in Bulgaria

Labor market

- Although government acknowledges the important role of the small and medium-sized enterprises for solving the high unemployment problem, a purposeful tax policy for encouraging the development of the SME sector still lacks in Bulgaria;
- A greater initiative on a local level and a more intensive cooperation among the state authorities, local authorities, business representatives, social partners and non-government organizations are necessary in order to be developed successful local

- policies for encouraging employment and entrepreneurship accordingly the specification of the municipality, local business and the available labor force;
- Municipalities could create risk capital funds and guarantee funds as well in order to be improved the access of the SMEs to financial resources and in order to be encouraged employment on a local level. An active advertisement on a local level is very essential for the business community aiming at attraction of local and foreign investments;
 - Municipalities should receive more information about the EU labor market policies and the applying procedures for the European employment projects. In order to be raised the active role of the municipalities in solving the unemployment problem state authorities should ensure a real competition among the employment projects of different municipalities and transparent procedures for accessing the projects as well;
 - A long-term vision for the proper qualifications of labor force is needed and adapting of the qualification and pre-qualification systems with a view to the next 20-25 years in order to be increased the competitiveness of the Bulgarian labor force in the enlarged European Union;
 - National “Long-life learning” programs should be developed;
 - A regular survey of the future labor needs of the entrepreneurs and a better coordination between the educational system and the labor needs of the entrepreneurs are of great importance;
 - A regular monitoring of the results of different implemented active and passive labor market measures should be developed;
 - Further efforts for solving the problem with the youth and long-term unemployment should be encouraged;
 - A better coordination among the labor market policy, wage policy, social assistance policy and social dialogue will help for the better functioning of the labor market in Bulgaria;
 - Reinforcing the administrative capacity is an important prerequisite for the future successful management of the structural and cohesion fund after EU accession of the country.

Social policy

Social insurance

- Government should extend relevant administrative structures as EU social security coordination rules require;
- Signing bilateral social security agreements with all current and future EU member states is a prerequisite for increasing labor mobility and lessening the concerns of the European countries regarding the expected massive immigration from the Central and Eastern European Countries;
- Raising the collection of the social security contributions to the Social Security funds and thus ensuring higher pension levels and opportunity for future lowering of the social insurance burden on employers and employees;
- Raising the social insurance contribution to the universal pension funds in order to ensure sufficient future pension income and motivate the participation of the young people in the pension system;

Social assistance

- A decentralization process in the financing and management of the system for social services should be encouraged;
- The administrative capacity of the social assistance system should be improved and the coordination between the different structures on a national, regional and municipal level by establishing a single information system should be encouraged as well;
- The implementation of a Charter for the Rights and Obligations of the Socially Assisted People and an Ethic Code for the Social Worker will raise the effectively functioning of the social assistance system;
- A regular monitoring on the social assistance system is needed for identification of the problems and solving them on time;
- A better coordination between the wage policy, the social assistance policy and the employment policy is necessary;
- The social protection system in Bulgaria should be more connected to the regional disparities in the means of livelihood so that the funds of the social protection system to be distributed more fairly.

Social dialogue

- Government should encourage the establishment of Branch Councils for Tripartite Cooperation in other ministries on the example of the Ministry of Economy, Ministry of Interior, Ministry of Regional Development and Public Works, Ministry of Transport and Communications and Ministry of Health in order to be enhanced the participation of the social partners in the EU integration activities of the country;
- The establishment of workers' councils in the private sector for a better coordination of the owners' and workers' interests should be encouraged as well;
- Government should stimulate the active role of the social partners in the creation and implementation of the employment policy;
- Social dialogue should be strengthen not only on a national level but on a branch and enterprise level;
- Social partners should be prepared for an active participation in the social dialogue on an European level regarding the future EU integration of the country;

Labor migration

- Signing bilateral labor force exchange agreements together with bilateral social security agreements and bilateral readmission agreements with all current and future member-states of the European Union should be encouraged;
- Increasing the police and customs cooperation between Bulgaria and the EU member states by intensive data exchange, analysis and implementation of joint research regarding the migration flows in the period till the EU accession of Bulgaria and in the transition period as well is needed;
- The control of the external boundaries of the country for the sake of a more effective fight with illegal labor migration should be improved;

- The push and pull factors of labor migration should be carefully examined and appropriate measures for ceasing the process “brain drain” should be taken;
- Regular monitoring of the implementation of the EU legislation in the field of labor migration is inevitable;

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APPENDIX

Main macroeconomic indicators	1997	1998	1999	2000	2001	2002
GDP, cup, million USD	10 198	12 735	12 946	12 597	13 557	15500*
Real GDP per capita (PPP), EU-15=100, %	27,63	28,19	28,34	25,76	24,57	31.37*
Inflation (CPI-100), y, py=100, %	1 058,4	18,7	2,6	10,3	7,4	5,8
Current account balance, (as % of GDP)	10,3	-0,5	-5	-5,6	-6,5	-4,4
Foreign direct investments (as % of GDP)	4,9	4,2	6,3	7,9	5,1	3
Exchange rate BGN/USD, avp, BGN	1,68187	1,76036	1,8364	2,12334	2,18472	2,07697
Exchange rate BGN/USD, eop, BGN	1,7765	1,6751	1,94687	2,10191	2,21926	1,88496
Gross external debt, million USD	10 408,5	10 891,9	10 913,9	11 201,8	10 618,7	10 932,9
Gross external debt, as % of GDP	100,4	85,5	84,2	88,9	78,3	70,5
Domestic government and government guaranteed debt, million BGN	2 780,5	3 101,7	2 963,3	1 767,2	1 860,5	2 111,7
Domestic government and government guaranteed debt, as % of GDP	15,95	13,83	12,46	6,9	6,6	6,5
BNB International Currency Reserve, million USD	2474,1	3051,1	3221,6	3460,3	3580,3	4746,8
Base interest rate, nominal, December, %	6,79	5,03	4,46	4,62	4,67	3,35
Base interest rate, effective annual, December, %	6,97	5,13	4,54	4,7	4,75	3,39

Socio-demographic data	1997	1998	1999	2000	2001	2002
Population, as of 31.12, number	8 283 200	8 230 400	8 190 876	8 149 468	7 891 095	7 845 499.
Population, annual average, number	8 312 100	8 256 800	8 210 600	8 170 172	8 020 282	.
Working-age population (age 15-64), as of 31.12, number	4749476	4750328	4752804	4748150	4732445	.
Life expectancy, total	70,48	-	71,01	71,7	71,9	71.8
Life expectancy, male	67,07	-	67,6	68,15	68,6	68.6
Life expectancy, female	74,31	-	74,64	75,34	75,3	75.3
Annual total income of households, average per capita, nominal, USD	573	813	818	741	727	
Annual total expenditure of households, average per capita, nominal, USD	469	686	708	651	650	

Annual monetary income of households, average per capita, nominal, USD		610	650	600	608	
Annual monetary expenditure of households, average per capita, nominal, USD		596	631	584	590	

Structure of household expenditures:	1997	1998	1999	2000	2001	2002
Total household expenditure	100	100	100	100	100	.
Total consumer expenditure	85,8	84,4	85,5	84,9	86,1	.
Food and non-alcoholic beverages	54,3	47,8	44	44,1	44,9	.
Alcoholic beverages, tobacco	3,3	3,4	4,1	3,8	3,7	.
Clothing and footwear	5,4	5,8	5,2	4	3,6	.
Housing, water, electricity, gas and other fuels	8,8	10,2	11,9	12,2	12,1	.
Furnishing and maintenance of the house	2,7	3,2	3,3	2,8	2,9	.
Health	2	2,4	2,8	3,6	3,9	.
Transport	4,4	5,1	5,7	5,2	5,3	.
Communications	1	1,3	2,1	2,5	3,3	.
Recreation, culture and education	1,8	2,6	3,3	3,3	3,2	.
Miscellaneous goods and services	2,1	2,6	3	3,3	3,2	.
Taxes	5,1	5,2	4,3	3,7	3,1	.
Household plot	3,8	3,9	3,1	3	3,1	.
Other expenditure	5,3	6,6	7,1	8,5	7,7	.

Key labour market indicators	1997	1998	1999	2 000	2001	2002
Economic activity rate (LFS), %	51,6	50,4	49,2	47,5	48,1	48,4
Employment rate (LFS), %	43,9	42,4	40,8	39,7	38,7	40,3
<i>% of total employment (LFS) in</i>						
a. Agriculture					8,6	8,5
b. Industry					32,7	32,8
c. Services					58,4	58,6
d. Unknown					0,4	0,1
<i>% of total employment (LFS) in</i>						
a. private sector					60,3	62,6
b. public sector					39,5	37,2
c. Unknown					0,2	0,2
Employees (LFS), thousands	2606,1	2530,6	2437,2	2364,4	2263,2	

a. private sector	747,4	889,2	990,7	1087,4	1225,8	1333,5
b. public sector	1858,7	1641,4	1446,5	1277	1037,4	
Employees (LFS), %	100,0	100,0	100,0	100,0	100,0	
a. private sector	28,7	35,1	40,6	46,0	54,2	1333,5
b. public sector	71,3	64,9	59,4	54,0	45,8	
Self-employed and Unpaid family workers (% of total employment (LFS))	11,6	10,8	10,4	10,6	10,2	13,3
Self-employed (% of total employment (LFS))	9,7	9,4	9,2	9,5	8,8	.
Unpaid family workers (% of total employment (LFS))	1,9	1,4	1,2	1,1	1,4	.
Employed persons, average annual number	3 157 435	3 152 554	3 087 830	2 980 108	2 940 285	.
a. Agriculture	800353	825185	795589	781566	774080	.
b. Industry	1010431	965527	891164	843 640	812 956	.
c. Services	1346651	1361842	1401077	1354902	1353249	.
a. private sector	1 745 341	1 922 184	2 002 668	2 110 402	2 157 760	.
b. public sector	1 412 094	1 230 370	1 085 162	869 706	782 525	.
% of total employment (Employed persons, average annual number)	100,0	100,0	100,0	100,0	100,0	.
a. Agriculture	25,3	26,2	25,8	26,2	26,3	.
b. Industry	32,0	30,6	28,9	28,3	27,6	.
c. Services	42,7	43,2	45,4	45,5	46,0	.
a. private sector	55,3	61,0	64,9	70,8	73,4	.
b. public sector	44,7	39,0	35,1	29,2	26,6	.
Unemployment rate (Employment Agency, economically active population 2001), %	-	-	-	-	17,88	16,27
Unemployment rate (Employment Agency, economically active population 1992), %	13,69	12,17	15,97	18	17,32	-
Unemployment rate (Labour force survey), %	15,0	16,0	17,0	16,4	19,5	16,8
Youth unemployment (age group 15-24), registered at EA, end-year, number	108 143	78 465	105 476	105 610	95 682	95 325
Youth unemployment (age group 15-24), as of end-year LFS, thousands	139,4	141,5	137,0	113,5	132,2	.
Youth unemployment (age group 15-24) as % of total unemployment	20,7	16,9	17,3	15,5	14,4	15,8
Long-term unemployment (% of unemployed for 12 months or more in total unemployment (LFS))	56,5	53,3	52,5	58,6	63,2	65,8

Shadow Economy Labour Force in % of Working Age Population (age group 16-65) ¹⁹		30,4	30,4			
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Educational level of employed, %	1997	1998	1999	2000	2001	2002
Employed, total	100,0	100,0	100,0	100,0	100,0	
Higher total	21,5	22,3	22,9	23,6	27,0	
Higher (Bachelor, Master, Doctor)	15,6	16,4	16,8	15,9	19,2	
Higher (Specialist)	5,9	5,9	6,0	7,7	7,8	
Upper secondary	54,0	56,1	57,3	58,1	55,8	
Lower secondary, primary and primary unfinished	24,5	21,7	19,8	18,3	17,2	
Educational level of unemployed, %	1997	1998	1999	2000	2001	2002
Unemployed, total	100,0	100,0	100,0	100,0	100,0	100,0
Higher total	8,4	8,5	8,0	8,9	11,2	11,9
Higher (Bachelor, Master, Doctor)	5,7	6,2	6,2	5,5	8,0	
Higher (Specialist)	2,6	2,3	1,9	3,4	3,2	
Upper secondary	50,7	50,7	52,5	53,1	54,6	53,3
Lower secondary, primary and primary unfinished	40,9	40,8	39,5	38,0	34,3	34,8

	1997	1998	1999	2000	2001	2002
Labour productivity (GDP per employee, cup, USD)	4732	6104	6492	6627	7274	8132*
Average unit labour costs:						
Labour costs, total				100,00	100,00	
Wages & salaries				67,20	66,88	
Severance pay & compensation in lieu of notice				2,41	2,86	
Employers' social contributions				25,24	24,59	
Other employers' social expenditure				4,26	4,73	
Taxes relating to employment regarded as labour costs				0,89	0,94	

¹⁹ Schneider, F.: "The Size and Development of the Shadows Economies and Shadow Economy Labor Force of 22 Transition and 21 OECD Countries: What do we really know?" Invited paper prepared for the Roundtable Conference: "On the Informal Economy", Sofia, Bulgaria, April 18-20, 2002, <http://www.csd.bg/news/bert/presentations.html>

Average monthly gross wages of the employees under labour contract, total, USD	76,05	104,10	109,45	105,97	109,85	
Average monthly gross wages of the employees under labour contract, total, BGN	127,909	183,25	201	225	240	272
By economic activity groupings (NACE, A17):						
Agriculture, hunting, forestry and fishing						196
Mining and quarrying						416
Manufacturing						244
Electricity, gas and water supply						455
Construction						208
Trade; repairing activities						240
Hotels and restaurants						164
Transport and communications						320
Financial intermediation						586
Real estate, renting and business activities						292
Public administration; compulsory social security						391
Education						269
Health and social work						259
Other activities						237
Average pay (Average monthly gross wages of the employees under labour contract, total) increase (nominal and adjusted to inflation)						
Nominal growth in %		43,3	9,7	11,9	6,7	13,3
Adjusted to inflation growth in %		20,7	6,9	1,5	-0,7	7,1

Expenditures on main labour market policies (active and passive measures as % of GDP)	1997	1998	1999	2000	2001	2002
Expenditures on main labour market policies (active, other and passive measures) as % of GDP		0,63	1,01	1,10	1,01	
Expenditures on main labour market policies (active and other measures) as % of GDP		0,27	0,42	0,24	0,25	

Expenditures on main labour market policies (passive measures) as % of GDP		0,36	0,59	0,86	0,76	
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Social security and social policy	1997	1998	1999	2000	2001	2002
Social security burden on employers and employees (calculated as % of payroll) at the end of the year, for III labour category, total:	39	39	35,7	35,7	32,7	36,7
Employers social security burden (calculated as % of payroll)	37	37	34,7	28,6	26,3	27,5
Employees social security burden (calculated as % of payroll)	2	2	1	7,1	6,4	9,2
Replacement rate of unemployment allowance/unemployment insurance (as % to average gross wage)	23,6	29,5	31,4	32,8		
Average monthly unemployment allowance in BGN	30,136	54,03	63,18	73,9		
Replacement rate of average old-age pension (as % to average gross wage)	28,6	33,3	32,7	38,8	38,9	
Average monthly old-age pension in BGN	36,63	61,02	65,77	87,33	93,4	

Sources: BNB, EA, MF, NSI, NSSI; Eurostat.

Characterization of Potential Labor Emigration from Bulgaria

Preferred countries for emigration from Bulgaria for the period 1992-2001	Preferred countries by the Bulgarian potential labour emigrants	Share of the individual age groups among potential labour emigrants	Distribution of potential labour emigrants by sex	Educational status of potential labour emigrants	Ethnic status of potential labour emigrants
Germany (23%)	Germany (25%)	20-29 г. (35%)	men (65%)	higher educated (14%)	Bulgarians (77%)
USA (19%)	USA (15%)	40-49 г. (19-22%)	women (35%)	secondary educated (55%)	Turks (12%)
Greece (8%)	Greece (11%)	over 50 г. (8-10%)		lower secondary educated (28%)	Roms (8%)
Spain (8%)	Spain (9%)				
Great Britain (6%)	Great Britain (8%)				
Italy (6%)	Italy (5%)				
Canada (5%)					
France (4%)					

Source: National Statistical Institute

Characterization of the Immigration Process in Bulgaria

Distribution of the issued work permits by countries (1994-2001)	Distribution of the work permits by qualification of the workers	Structure of the immigration flow regarding the reason for staying towards 2002
USA (332)	1-st place: high leading staff, hired by foreign investors from EU and USA	Registration by trade activity (62%)
Turkey (169)		
Ukraine (165)		
Russia (152)		
Greece (135)		
Former Yugoslavia (125)	2-nd place: consultants and technical engineer staff	Registration by labour contracts (6,7%)
Roumania (123)		
England (112)		
Germany (102)		
FYR Macedonia (101)		
Italy (90)	3-rd place: foreign teachers in Bulgarian	By marriage with Bulgarian citizens or constantly staying
France (88)		
Belgium (31)		
Holland (19)		

Total: 2205 (1384 news and 821 extended)	secondary and higher schools	persons (31.3%)
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Source: Employment Agency