2. Bulgaria: A shift in minimum wage policy

Vassil Tzanov*

2.1 INTRODUCTION

Bulgaria has a long experience with minimum wage setting, but its role in the context of wage policy became more significant during the years of transition (after 1990). The Amendments to the Labour Code (1993) allow minimum wage setting at four levels: national, branch, regional and company. At national level the minimum wage is fixed by the government after negotiations in the National Council for Tripartite Cooperation. At lower levels the minimum wage is subject to negotiations between the social partners and is determined by consensus. The national minimum wage is the obligatory minimum level for all lower levels of negotiations. Minimum wages at branch, regional and company levels cannot be set below the national minimum wage.

Minimum wage policy during the years of transition was marked by two periods, corresponding to general incomes policy. The first covers the mid-1990s and can be characterized as restrictive. The objectives of government minimum wage policy were: (a) to use the minimum wage as a tool to regulate wages financed by the state budget; (b) to reduce inflationary pressure by a restrictive incomes policy; and (c) to limit social benefits and other non-wage payments.

The first objective was realized by linking all the wages financed by the state budget to the minimum wage. A scale of coefficients was introduced to link the wages of public employees to the minimum wage. The second objective was carried out through (irregular and inadequate) indexation of the minimum wage. Under conditions of high inflation (50–80 per cent a year) the minimum wage was adjusted once or twice a year, with coefficients below inflation. Many social benefits (unemployment benefits, child allowance, social pensions, school and university grants, and so on) were tied to the minimum

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wage. In this way the minimum wage became a good instrument for wage regulation.

The effects of this policy included a dramatic fall in real wages (minimum and average), increased impoverishment, labour force fragmentation, a drastic fall in real consumption, disconnection with productivity and growth of the informal sector. Real consumption fell by 74 per cent between 1990 and 1997. The share of the population with incomes below 50 per cent of average disposable income rose from 7.9 per cent in 1992 to 12.2 per cent in 1996.

A new minimum wage policy was implemented after 1997. The objectives had changed radically. The reform of wage determination was targeted to reduce wage regulation in the public sector. The minimum wage was disconnected from all other payments, allowing separate development and better performance of its social and economic functions. The measures taken by the government included gradually increasing the minimum wage in relation to economic growth, aimed at a closer linkage with productivity, improving the welfare of low-paid workers and overall stimulation of wage levels.

An active minimum wage policy was recently confirmed within the signing of a social pact in 2005 that included a strong willingness from the three sides to progressively improve wage levels in Bulgaria, including through the minimum wage.

2.2 MINIMUM WAGE FIXING MECHANISMS

There are no substantial differences in minimum wage fixing mechanisms between different levels of negotiations. No recommendations are made about fixing mechanisms at other levels. Each party determines a minimum wage in accordance with its particular standpoint. At national level the minimum wage is negotiated annually in the National Council for Tripartite Cooperation. In the Commission for Incomes, Prices and Living Standards proposals are also presented by the social partners concerning the minimum wage level.

Minimum wage negotiations at branch level are carried out on the same basis as at national level. The difference is that agreements must be by consensus. The main problem lies in the extension of these agreements to all firms in the branch. The Ministry of Labour and Social Policy, which is responsible, rarely implements this extension. In most cases the branch agreements apply only to the bargaining parties.

A change was implemented in the national minimum wage fixing mechanisms by the Pact on economic and social development of the Republic of Bulgaria.

1. For a more detailed explanation see Tzanov and Vaughan-Whitehead (1998).
up to 2009, signed by the social partners in 2005. The social partners agreed to set the national minimum wage taking into account the official poverty line and average wage and to extend branch minimum wage agreements to cover all firms. The aim is to set the minimum wage in proportion to the poverty threshold and average wage. The discussion on binding mechanisms is ongoing at expert level; so far no agreement has been reached.

2.3 MINIMUM WAGE DEVELOPMENTS WITHIN OVERALL WAGE TRENDS

2.3.1 Wage dynamics

Wage dynamics in Bulgaria are marked by two periods of development strongly dependent on government wage policy. A restrictive wage policy2 was implemented throughout the first period (1990–97) with a view to fighting inflation and achieving economic stabilization. The effects on wage dynamics were negative. Nominal wages increased less than inflation. As a result, both average and minimum wages were eroded significantly in real terms: the average real wage decreased by about 58.2 per cent during 1990–96, while the real minimum wage declined by more than two-thirds (71.7 per cent). The minimum wage/average wage (MW/AW) ratio fell from 43.1 per cent in 1990 to 27.4 per cent in 1996.

Wage policy changed after implementation of the currency board in 1997. The TIP was replaced by a system of wage controls operating only in large, monopolistic public companies (transport, energy, and so on). This allowed all wages to move in relation to economic performance without restrictions.

Significant wage developments were observed after the deepest economic crisis in 1996–97. The gross average wage increased more than twofold in the 10-year period 1998–2007 (from BGN [new Bulgarian lev] 183 to BGN 431). In real terms this amounts to 37.9 per cent. There have been two periods of acceleration of real wage growth: (a) in the years after the economic collapse of 1998–99 and (b) in the past three years (see Figure 2.1). The former was the result of higher compensation for past inflation, while the latter was due to more complex reasons. A catching-up process was observed in real wage dynamics but this was not sufficient to reach pre-transition levels.

2. A tax-based incomes policy (TIP) was implemented in publicly owned enterprises and many social payments, as well as wages in the budgetary sphere, were linked to the minimum wage.
Minimum wage development exceeded average wage dynamics during the period under study. Minimum wages increased from BGN 54 in 1998 to BGN 180 in 2007. This high nominal growth (over three times) led to significant development in real terms. The real minimum wage has increased by about 97.3 per cent over the past 10 years, but in the period as a whole (1995–2007) it grew by 25.5 per cent due to the fall between 1995 and 1997.

A further substantial increase of the minimum wage was implemented in 2008. The government fixed the minimum wage at BGN 220 (€120), which represents a 22.2 per cent rise in comparison to 2007. This step was taken in relation to the implementation of a new taxation system (10 per cent flat tax on labour incomes). However, the disposable minimum wage will be less because it will be subject to taxation from this year.

Progression of real wages is observed in all economic sectors and branches but to different extents. Three sectors show significant development. Real wages among public administration employees, teachers and health workers increased almost twofold during 1996–2007. This is a result of the special measures taken by the government to increase wages in education and health, which are at a relatively low level.

Real wage development is lowest in manufacturing, construction and hotels and restaurants. In these sectors small and medium-sized private enterprises prevail and the protection of workers is weak. Also, the wages in these sectors are relatively low.
The faster growth of the minimum wage than average pay (about 11 percentage points) implies significant changes in their relationship. The MW/AW ratio has increased and at the end of the period had reached 41–46 per cent (Table 2.1).

**Table 2.1 Proportion of minimum to average wage, Bulgaria, 1995–2007 (%)**

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<tbody>
<tr>
<td>MW/AW</td>
<td>38.1</td>
<td>42.2</td>
<td>36.4</td>
<td>29.2</td>
<td>33.3</td>
<td>35.3</td>
<td>41.7</td>
<td>38.8</td>
<td>40.3</td>
<td>41.0</td>
<td>46.3</td>
<td>45.1</td>
<td>41.8</td>
<td>42.0</td>
</tr>
</tbody>
</table>

*Source: National Statistical Institute, Ministry of Labour and Social Policy.*

The MW/AW ratio is higher in low-pay sectors (agriculture, manufacturing, construction, hotels and restaurants), in most of which it exceeded 50 per cent in 2006. This indicates a strong impact of minimum wages in those branches. In the higher wage branches (mining and quarrying, financial intermediation and insurance) and in those with substantial wage increases (public administration, education and health) the MW/AW ratio is lower, suggesting that the minimum wage plays a less important role in these sectors.

### 2.3.2 Minimum wage coverage

The lack of regular statistical information about wage distribution restricts analysis of wage differences in the context of the minimum wage in Bulgaria. The National Statistical Institute has carried out two wage surveys, the first in 2002 and the second in 2006. The results of the second survey are not available, however, so our analysis of the scope of minimum wages and low-paid workers will be based on data for 2002.

The wage distribution of full-time employees in 2002 is highly skewed to the right (Figure 2.2). This means that the average wage is higher than the median because a relatively small number of employees have very high earnings. The highest share of full-time employees (25 per cent) received wages of BGN 100–150 per month (Figure 2.2, panel B), a little above the statutory minimum wage for the country (BGN 100). Approximately two-thirds of workers have earnings below the average wage (BGN 288) and nearly half of all employees earn less than the median (BGN 240).

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3. The data are grouped according to the monthly tax schedule in 2002 set by the Personal Income Tax Act.
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A. Wage level and number of employees

Figure 2.2 Distribution of gross monthly wages of full-time employees, Bulgaria, 2002

A relatively small number of employees received earnings below and at the minimum wage (Table 2.2). The percentage of full-time workers on the minimum wage is relatively small in comparison to the share below average earnings. Even lower is the percentage of employees receiving less than the minimum wage.

**Table 2.2 Percentage of full-time employees on the minimum wage and low-paid employees, Bulgaria, 2002**

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<tr>
<th></th>
<th>Minimum wage (BGN)</th>
<th>Average wage (BGN)</th>
<th>2/3 of average wage (BGN)</th>
<th>% of employees on the minimum wage</th>
<th>% of employees below the minimum wage</th>
<th>% of low-paid employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-time employees</td>
<td>100</td>
<td>288</td>
<td>192</td>
<td>5.1</td>
<td>0.95</td>
<td>39.0</td>
</tr>
</tbody>
</table>

*Source: Structure of Wages 2002, National Statistical Institute (2004).*

In accordance with the definition of low-paid workers (two-thirds of average earnings) the low-pay threshold was calculated at BGN 192 for 2002. More of one-third of full-time employees could be classified as low-paid workers.

Despite the lack of information about wage distribution over time it can be inferred that the minimum wage plays an important role in wage policy. Since most employees earned less than the average wage a minimum wage increase can affect the proportion of low-paid workers to some extent.

### 2.3.3 Wage dynamics and economic development

Substantial progress has been observed in economic development since 1997. GDP increased by about 34.5 per cent for the period 1995–2007, reaching the level of 1990. In the context of such development real wage dynamics (average and minimum pay) lag behind GDP growth (Figure 2.3, panel A). The average real wage increased by about 14.5 per cent during the whole period. The gap between GDP and real wage dynamics is growing, reaching 20 percentage points. In contrast to the average wage real minimum wage development is closer to GDP dynamics (see Figure 2.3, panel A.)

Despite the low dynamics of real wages the relationship with GDP is positive. GDP and real wage growth rates show a positive relationship (Figure 2.3, panel B). This suggests that GDP has a positive influence on real wages. However, this connection is not strong. For the entire period changes in real average pay are smaller than changes in GDP.
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A. Real GDP, average and minimum wage dynamics (1995=100)

![Graph showing GDP, average wage, and minimum wage over 1995-2007]

B. Relationship between GDP and average wage rates

![Graph showing the relationship between GDP rate and real wage rate]

Figure 2.3 GDP and real wages, Bulgaria, 1995–2007

Source: National Statistical Institute.
The weak impact of economic growth on wage dynamics is due to the relatively low share of employee compensation in GDP (Figure 2.4). This share ranged between 32 and 42 per cent for the period 1995–2006 and shows a declining trend. The downward trend of the wage share is in contrast to GDP dynamics. This was particularly obvious between 1995 and 1997, and between 2003 and 2006, when GDP in current prices increased and the wage share fell.

\[\text{Figure 2.4 Share of employee compensation in GDP, Bulgaria, 1995–2006}\]

Source: Statistical Yearbook, NSI, various years.

2.3.4 Radical effects of delinking social payments from the minimum wage

In the early part of the transition, the Bulgarian experience of using the minimum wage as an instrument for regulating all public expenditure by linking all social payments to the minimum wage had more negative effects than benefits (Standing and Vaughan-Whitehead, 1995). Disconnection of social payments from the minimum wage in 1997 radically changed the development and relations of wages and social protection. The effects of this policy could be summarized as follows: (a) significant increase in the minimum wage in nominal and real terms – the real minimum wage doubled between 1998 and 2007; (b) an increase in the minimum wage/average wage ratio (from 29.2 per cent in 1998 to 41.8 per cent in 2007); (c) the “bite” of the minimum wage: minimum wage development from 1997 compressed the wage distribution
from the bottom (the ratio of the minimum to the median wage increased from 39.4 per cent in 2002 to 58.4 per cent in 2006); (d) a rise in social benefits more in accordance with need.

These effects are due not only to changes in minimum wage policy, but also to overall economic developments, such as economic growth, increasing productivity, and so on. But they would never have occurred if the link between the minimum wage and social benefits had not been removed.

An important aspect of the minimum wage as a tool for protecting workers from poverty is its relationship to the poverty line and social benefit levels. The Bulgarian government introduced an official poverty line in 2006, but it is not used as an instrument for social assistance. Social protection of the poor is based on the guaranteed minimum income (GMI), defined by the government and adjusted to family size and composition through a system of coefficients.

Higher growth of minimum wages in relation to the GMI has increased the gap with social assistance payments (Figure 2.5). After the removal of the link between social benefits and the minimum wage, the ratio of the GMI to

![Figure 2.5 Minimum wage and GMI dynamics, Bulgaria, 1995–2007](image)

**Source:** National Statistical Institute, Ministry of Labour and Social Policy.

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4. It is calculated as 60 per cent of the median equivalence net income. The level of the official poverty line is BGN 152 for 2007 and BGN 168 for 2008.
the minimum wage fell from 60 per cent in 1998 to around 33 per cent in 2007. This growing distance between the minimum wage and the GMI has two opposing effects: on the one hand, it prevents workers from falling into the social safety net; on the other, it becomes an incentive for beneficiaries of working age to participate in the labour market. Older people in the social protection system are given more protection by higher individual coefficients, receiving higher social benefits in comparison to beneficiaries of working age.

2.4 MINIMUM WAGE EFFECTS

2.4.1 Effects on low pay and poverty

The impact of minimum wage development on low-paid workers in Bulgaria is difficult to assess because of the lack of statistical information about wage distribution over the period. The possible effects on low-paid workers can be analysed indirectly using the dynamics of the minimum wage/low pay ratio.

The trend of the MW/LP ratio shows a strong increase since 1998 (Figure 2.6). The faster growth of the minimum wage indicates a relatively low impact on changes in the low-pay threshold. This means that there is a process of compression of the wage distribution from the bottom. The other argument for

![Figure 2.6 Minimum and low-pay threshold and the ratio between them, Bulgaria, 1995–2007](image)

*Source: Author’s calculations using NSI data.*
the existence of wage compression is the narrowing of the distance between low pay and average wages. The MW/LW ratio is much higher than the MW/AW ratio.

Minimum wages as part of the social protection system should protect workers from poverty. There is no official definition of “working poor”. In this analysis, however, we will consider as poor those workers whose incomes are below the poverty line (the Laeken indicator, which calculates the risk of poverty at work5).

The working poor in Bulgaria represent a relatively small proportion of workers (Table 2.3). In dynamic terms there have been periods of a reduction in poverty among workers (1995–99 and 2004–05) and periods of increase (2000–03). This concerns both employees and the self-employed. However, the overall tendency is towards a declining percentage of working poor.

Table 2.3 At-risk-of-poverty rate at work, Bulgaria, 1995–2005

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<tr>
<th>Year</th>
<th>Employees</th>
<th></th>
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<th>Self-employed</th>
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<td></td>
<td>Total</td>
<td>Men</td>
<td>Women</td>
<td>Total</td>
<td>Men</td>
<td>Women</td>
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<tr>
<td>1995</td>
<td>7.9</td>
<td>7.1</td>
<td>8.6</td>
<td>6.9</td>
<td>7.6</td>
<td>5.0</td>
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<tr>
<td>1996</td>
<td>8.1</td>
<td>7.6</td>
<td>8.7</td>
<td>7.8</td>
<td>5.7</td>
<td>12.8</td>
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<td>1997</td>
<td>6.4</td>
<td>5.4</td>
<td>7.4</td>
<td>7.6</td>
<td>9.1</td>
<td>4.0</td>
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<td>1998</td>
<td>6.1</td>
<td>6.1</td>
<td>6.1</td>
<td>6.3</td>
<td>7.3</td>
<td>4.4</td>
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<td>1999</td>
<td>5.4</td>
<td>4.6</td>
<td>6.2</td>
<td>3.6</td>
<td>2.7</td>
<td>5.4</td>
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<td>2000</td>
<td>5.3</td>
<td>5.1</td>
<td>5.4</td>
<td>4.9</td>
<td>5.1</td>
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<tr>
<td>2001</td>
<td>6.3</td>
<td>6.2</td>
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<td>6.4</td>
<td>6.5</td>
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<tr>
<td>2002</td>
<td>5.5</td>
<td>4.5</td>
<td>6.4</td>
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<td>4.9</td>
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<tr>
<td>2003</td>
<td>7.1</td>
<td>5.6</td>
<td>8.6</td>
<td>4.2</td>
<td>4.8</td>
<td>3.0</td>
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<tr>
<td>2004</td>
<td>6.9</td>
<td>7.4</td>
<td>6.3</td>
<td>6.1</td>
<td>6.0</td>
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<tr>
<td>2005</td>
<td>5.6</td>
<td>5.4</td>
<td>5.8</td>
<td>8.7</td>
<td>8.1</td>
<td>9.9</td>
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Source: Eurostat.

Gender differences in earnings are reflected in the poverty situation. Women face a higher risk of poverty, particularly employed women. Changes in gender disparities are significant. Reductions in the risk of poverty have been accompanied by a lowering of the difference between male and female impoverishment. This means that the income situation of women is improved by this means to a greater extent than that of men. It also indicates the positive role of minimum wage increases in poverty reduction among employees.

5. Share of workers with an equivalized disposable income below the at-risk-of-poverty threshold, which is set at 60 per cent of the national median equivalized disposable income.
Minimum wage development in Bulgaria has had a significant impact on poverty reduction among working people: the periods of poverty reduction match the periods of minimum wage increase (Table 2.4). It is clear that the periods with significant minimum wage growth reduced poverty among workers by approximately 1 percentage point. For the period 1998–2005 the considerable nominal minimum wage growth (over three times) reduced poverty among employees by 0.5 percentage points.

Table 2.4 Minimum wage dynamics and reduction of poverty at work, Bulgaria, 1998–2005

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<tr>
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<tr>
<td>Average nominal MW rate (in %)</td>
<td>25.2</td>
<td>12.2</td>
<td>25.0</td>
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<tr>
<td>Changes in risk-of-poverty-at-work</td>
<td>−0.7</td>
<td>+1.8</td>
<td>−1.3</td>
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Source: Author’s calculations.

2.4.2 Minimum wage and wage disparity

In the context of the impact of the minimum wage on wage disparity in Bulgaria three aspects are particularly important:

(a) the differences between the highest and lowest income groups;
(b) relative wages by economic sectors and branches;
(c) gender differences.

Wage disparity between the lowest and highest deciles was not high in 2002; 3.6 times for all employees (full- and part-time). The same applies to part-time employees. Greater disparity was observed between full-time employees, however, at 4.8 times. There is no information on how this ratio has changed over time, but data from the household budget survey indicate that income inequality declined over the period 1995–2006. The Gini coefficient fell from 0.36 in 1995 to 0.3 in 2006.

Minimum wage development to some extent contributed to the changes in the relative wage structure between economic sectors and branches (Table 2.5). In the sectors financed by the budget (education, health and public administration) the minimum wage increase could be conceded as a factor pushing up average wages. Wages have changed in similar proportion to the minimum wage.
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This conclusion is not valid for low-paid branches. Average wages in agriculture, manufacturing, construction, trade and hotels and restaurants remained below the national average. A minimum wage increase has no effect on average wage development in these branches. The minimum wage has an effect of wage compression that concerns primarily low-paid workers.

Despite the different effects of minimum wage development on relative wages wage disparity is falling by sector and branch. This has been more visible over the past few years when the minimum wage has increased significantly. The difference between the sectors with the highest (finance and insurance) and the lowest (hotels and restaurants) average wages declined from 4 times in 2003 to 3.4 times in 2007.

Table 2.5 Relative wage structure by economic sectors and branches, Bulgaria, 1996–2007 (as percentage of average wage)

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<td>Agriculture, forestry and fishing</td>
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<td>Electricity, gas and water supply</td>
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Source: National Statistical Institute.
Finally, the minimum wage was found to have considerable significance in reducing gender pay disparities. The percentage of women earning below the minimum wage was 1.3 per cent in contrast to 0.6 per cent of men in 2002. Also, 42.6 per cent of women are low-paid, while the figure for men is 37.4 per cent. There is no comparable information that would enable us to evaluate the impact of the minimum wage on gender wage disparities, but gender pay gap dynamics indicate a strong link between them (Figure 2.7).

Differences between the wages of men and women declined during the period 1996–2006. The gender pay gap⁶ almost halved (from 31 per cent in 1996 to 17 per cent in 2006). There is no doubt that the minimum wage has contributed to this downward trend.

2.4.3 Effects on labour market performance

The parallel growth of GDP and the minimum wage in Bulgaria determine the impact of minimum wages on labour market performance in a particular way. Both labour demand and supply have increased significantly, so the labour market has easily adapted to the rising minimum wage. The employment participation rate since 2000 shows an upward trend, which suggests that the minimum wage has a positive influence on labour market growth (Figure 2.8).

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6. Calculated as the percentage difference between average gross earnings of male and female employees as a percentage of male gross earnings.
The minimum wage revisited in the enlarged EU

Minimum wage development seems not to have a strong negative impact on employment. The overall employment rate increased considerably (9.5 percentage points) over the period 2001–07. A similar tendency could be seen among young people (15–24 years old), whose employment rate increased from 20.8 per cent in 1995 to 23.0 per cent in 2006. No negative effects are observed on employment in the low-pay sectors. The number of employees in manufacturing, construction, trade and hotels and restaurants grew by about 348,000 during the period 2001–07. Among low-pay sectors only in agriculture was there a reduction of employment (about 14,000).

The relationship between minimum wage dynamics and unemployment also suggests a low correlation. Figure 2.9 shows a very low impact of real minimum wage growth on the unemployment rate.

Summarizing the effects of minimum wage dynamics on labour market performance, it can be said that to some extent it stimulates labour market participation and does not restrict employment growth or unemployment reduction. This conclusion is also confirmed at the micro level (see Section 2.5, case studies).

Figure 2.8 Real minimum wage development and participation and employment rate (growth aged 15+), Bulgaria, 1995–2007
Source: Labour Force Survey.
2.4.4 Minimum wage and collective bargaining

Collective bargaining in Bulgaria has a number of features that distinguish it from the traditional understanding of centralized and decentralized systems. On the one hand, its main features indicate that it is not typically centralized because there is no strong coordination or subordination between levels of negotiation. The consulting character of bargaining at national level and the prevalence of bargaining at company level mean that the industrial relations system is similar to a decentralized one.

On the other hand, the existence of a national level makes it different from decentralized systems. Moreover, the new social pact of 2005 brings recommendations on wage increases that will be used in collective bargaining at decentralised levels, thus introducing significant links between the different levels. This shift will lead to a more coordinated system.

The proportion of workers covered by collective bargaining is just under 38 per cent. There is no information on the dynamics of this indicator. Collective bargaining in Bulgaria covers all workers in the state sector, no matter what

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8. The minimum wage agreements constitute an exception.
their trade union affiliation. Collective bargaining is not widespread in the private sector; it exists mostly in large companies where trade unions were maintained after privatization. The various bargaining levels have different degrees of development. Branch bargaining is the least developed, and in practical terms the system operates at national and company level.

Minimum wage bargaining at branch level takes place after national minimum wage setting. Although branch collective agreements are little developed in Bulgaria, the trend is upwards. During the period 2001–05 122 branch collective agreements were registered. In 2006 there were 10 sectoral agreements (education, construction, transport, culture, and so on) and 59 branch agreements. In most of the branch agreements the minimum wage was fixed higher than the national level: according to data published by the European Industrial Relation Observatory (EIRO), higher (by a coefficient ranging from 1.1 to 1.8) minimum wages were negotiated in 52.4 per cent of branch agreements.9

It is difficult to assess the role of the minimum wage in the development of social dialogue in Bulgaria because the minimum wage is just one of the negotiation issues. Also, the minimum wage affects only a small proportion of workers. Nevertheless, analysis of collective bargaining allows us to draw some conclusions about the role of the minimum wage. First, the minimum wage to some extent contributes to the development of collective bargaining. This is because: (a) there has been progress in terms of collective branch agreements alongside minimum wage increases; (b) labour legislation makes it possible to differentiate minimum wages across sectors and companies; and (c) minimum wage setting is not dependent upon particular economic agents but decided by the social partners.

The recent changes should strengthen both the minimum wage and collective bargaining. While social dialogue will continue to be active on minimum wages, the new decision to recommend increases for average wages at the national level should also give a boost to collective bargaining but within a more coordinated and multi-level negotiating framework.

2.4.5 Minimum wages in the context of the three EU mobilities

As a new EU member state, Bulgaria participates in the three EU mobilities in different ways. In respect of capital and trade mobility, Bulgaria appears to be a host country, while in respect of labour mobility it is mainly a country of origin. Many factors combine to explain Bulgaria’s situation, but the main ones are relatively low economic development, emerging new markets, relatively

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low labour costs and a well-qualified labour force. The link between minimum wages and mobility of capital, goods and labour is not always clear because minimum wages form part of the overall economic conditions.

The favourable macroeconomic environment (economic development, low labour costs and stable financial climate) have created conditions for the intensification of foreign direct investment (FDI) flows in recent years. Annual FDI in 2007 was about five times higher than in 2000 (rising from €1.1 billion in 2000 to €5.6 billion in 2007). Significant growth has been observed since Bulgaria entered the EU, with FDI increasing by about €1.3 billion a year.

The level and dynamics of the minimum wage in Bulgaria have no direct influence on attracting foreign investors. More attractive are the low labour costs. Monthly labour costs in Bulgaria were 7.7 per cent of EU-27 average in 2005. The impact of wages and labour costs on FDI allocation across economic sectors and branches is not strong; foreign investment is distributed throughout both low- and high-pay economic activities, though most is allocated to low-pay sectors (manufacturing, construction, trade, hotels and restaurants) where wages are below average. In this sense the low-paid and well-qualified workforce attracts foreign investors.

Labour migration (internal and external) in Bulgaria increased during the years of transition. The intensity of internal migration increased from 4.1 per cent in the period 1986–92 to 4.8 per cent in the period 1992–2001. According to the survey almost a quarter of all migrants changed their place of residence because of the lack of jobs. The low wage level is not the basic motive for internal migration: only 8 per cent of respondents declared low wages to be their basic motive for migration. In this context the minimum wage has no impact on internal migration.

In relation to external migration Bulgaria is a country of origin. The main reason for emigration is the desire to live and work under better conditions. In respect of emigration, therefore, the level and dynamics of wages are extremely significant. The considerable increase in the minimum wage in the last few years has had no effect on emigration, however, because it remains at a very low level in comparison to wages in the host countries.

Minimum wage growth in Bulgaria has to some extent contributed to the rise in labour costs. The wage share in total labour costs increased by about 11.7 per cent for the period 2001–06; 2005 was a particularly significant year because the minimum wage was increased by about 25 per cent.

The impact of minimum wage changes on wage costs is higher in low-pay sectors. This can be observed in manufacturing, where the wage share

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10. Calculated as total labour costs per month divided by the number of full-time employees.
increased by about 3.2 per cent in 2005 and 4.8 per cent in 2006. Similar effects appear in the other low-pay sectors. However, the influence on enterprise competitiveness is different, depending as it does on many other circumstances. A minimum wage increase has no direct effect on competition among companies working under the same wage conditions (see Section 2.5, case studies). More significant effects are observed where wages and productivity are low.

The influence of the minimum wage on domestic trade (retail and wholesale) is realized through consumer demand. Real minimum wage growth increases the consumption of the lowest paid workers and stimulates retail sales. Both retail sales and real minimum wages in Bulgaria have experienced considerable growth since the economic crisis in 1997. Retail sales increased by about 63.9 per cent in the period 1995–2006. This is nearly three times higher than the real minimum wage growth and indicates a positive role for minimum wage development in relation to trade and consumption.

2.5 CASE STUDIES: MINIMUM WAGE EFFECTS IN VARIOUS LOW-PAY COMPANIES

Macroeconomic analysis of minimum wage development and its effects on the economy in Bulgaria shows that low-pay sectors and branches are more affected than others. The case studies focus on the enterprise level in manufacturing and in hotels and restaurants. These sectors are characterized by relatively low wages and strong diversity of economic conditions. The level of wages in such organizations depends to a great extent on performance. There is intense competition between companies in different branches. Therefore, minimum wage dynamics have some influence on economic performance. The aim is to analyse the impact of minimum wage development and to gauge the extent to which the resulting macroeconomic conclusions are supported by reality at enterprise level.

Four enterprises from different branches are covered by the case studies – wine production, food production (production of canned vegetables), clothing and a hotel. Medium-sized private companies were chosen in which trade union organizations do not exist. Table 2.6 presents the basic features of these firms.
Case study 1: Wine company following the improved (or ‘higher’) value-added route

Stable growth, modernization and good economic performance

“Vinprom-Svishtov” is an enterprise specializing in wine production. The production cycle is complete, from cultivating vineyards to the production of high quality wine. It is a private enterprise, owned by a consortium including not only Bulgarian, but also foreign capital. Production is intended mainly for foreign markets – about 80 per cent of the wine produced is sold on foreign markets that are sensitive to quality. There has been considerable investment in technological modernization, and the management considers the technological level to be high.

Employment security and mobility

The total number of employees is 198, about 50 of whom work in the technological process and the rest at the vineyards. Employees are full-time on permanent contracts, which provides better job security. Seasonal workers are also engaged, however: during the grape harvest, when more workers are
needed, temporary working contracts are signed with regional agricultural cooperatives in order to ensure the necessary labour force.

**High proportion of low-paid workers and considerable wage disparity**

Wages in the firm are set by individual contracts. The average wage at the enterprise is relatively low (BGN 345), about 96 per cent of the national average. The wage distribution is strongly differentiated: about 75 per cent of employees (150 persons) receive the minimum wage set at national level (BGN 220). Nearly 13 per cent of employees (20 persons) receive just above the minimum wage, approximately two-thirds of the enterprise average wage (BGN 230). This means that nearly 90 per cent of the workers could be considered to be low-paid workers (at or below two-thirds of the company’s average wage). Most highly paid are those workers most valuable for the enterprise, namely the technical staff. The character of production is one reason for the considerable contribution of these employees to production quality. That is why their remuneration is unaffected by the minimum wage and much more dependent on the enterprise’s financial situation and market expansion.

The company decided to choose the high-tech route and to increase productivity and the quality of its wines. However, the currently low level of remuneration does not motivate most workers to improve their performance.

**Weak influence of the minimum wage on wage disparity, employment and competitiveness**

National minimum wage uprating has had no significant impact on wage inequality. There is a tendency to increase slightly the wages of employees receiving less than the enterprise average when the national minimum wage is raised. Nevertheless, the realization of such intentions depends not only on the national minimum wage, but also on the volume of exports. At the same time, there is a significant difference between the majority of the workers who are low paid and the technical staff.

Minimum wage development in recent years has not influenced the employment situation. Despite the considerable minimum wage increases the level of employment has remained relatively constant.

In the opinion of the management, the business situation has not worsened due to minimum wage increases in recent years. On the contrary, it considers the current minimum wage of BGN 220 to be too low and believes that a higher minimum wage could only further help the company to improve the quality of its production and develop a wage policy more in line with its higher value-added strategy.
Case study 2: Canned food producer following the “low labour costs” route

Strong competition
The main activity of “Republicaconserv-Svishtov” is the production of tins of vegetables, both for domestic consumption and export. This is a well-established enterprise that commenced operations in 1938. The enterprise is currently privately owned by a company that owns another enterprise in the same type of activity. These two enterprises are amongst the biggest canned food producers in Bulgaria. Competition in the sector is quite strong, however. The level of production technology is moderate, but, according to the management, it does not differ from that of rival companies.

Seasonal and flexible employment
Enterprise production has a clear seasonal character. For that reason, flexible employment is used and the number of personnel increases considerably during peak months (100–120 workers). The total number of permanent employees is 56. Very few employees have permanent contracts. There are persons working both full-time and part-time (four hours per day). Part-time contracts are usually signed with technicians who maintain the equipment. Seasonal workers are engaged during the peak months (August to November), when labour turnover is considerable.

All employees are paid the minimum wage
All workers are hired on the national minimum wage; this affects not only the permanent staff (56 employees), but seasonal workers too. There is thus no wage differentiation in the company. This is an extreme case where the payment of the national minimum wage affects wage disparity across the board.

Remuneration at this company represents an extreme example of the minimization of labour costs. This is due in part to strong competition and the behaviour of rival companies. According to the management, the payment of low wages is common practice in the branch. Low wages and the lack of wage differentiation are strongly demotivating and partly account for the high labour turnover. Such a use of the minimum wage is thus undoubtedly counterproductive on the productivity front.

No impact on employment and economic performance
Interestingly, however, and although increases in the national minimum wage led to an increase in wages overall, this had no adverse effects on employment and the company management has not been forced to lay off workers for that reason. This is because, first, the minimum wage is so low anyway that it
does not harm labour cost competitiveness, and second, employment remains flexible since production is seasonal and mainly technical personnel are engaged to maintain the equipment. Moreover, the employment of seasonal workers depends on the production volume.

The management does not consider that minimum wage growth will be a problem. They think that the rise decided in 2008 is not high. It influences labour costs, which is reflected in the market price of its products, but it does not influence the company’s market position and competitiveness because all producers in the branch are working under similar conditions.

**Case study 3: Clothing company facing labour shortages and low pay**

The clothing industry is among those branches characterized by low wages and relatively unfavourable working conditions. This accounts for the considerable labour turnover and labour shortages. Typical in this respect is the company “Talveg–Svishtov Ltd”, a private enterprise with a tradition in clothing manufacturing. Production is mainly for export.

**High employment security and labour shortages**

The main problem facing the enterprise is ensuring the necessary labour force. The total number of employees is 135, of whom 125 are full-time and on permanent contracts. Thus the company provides for the security of its employees not only in respect of their jobs, but also in terms of social insurance. In order to attract the necessary workers, the company provides training, as well as transportation from nearby villages. Despite marked management efforts to create favourable conditions of employment and training, the problem of recruiting employees remains considerable.

**Remuneration at the company is not a factor in motivating the personnel**

Remuneration is based on the piece-rate system. The average wage is between BGN 250 and BGN 300, depending on the volume of production. According to the management wages are improving because the piece-wage tariff has increased.

The minimum wage at the firm is equal to the national minimum wage. Nearly 10 per cent of workers are paid the minimum wage. Most employees (about 70 per cent) are low-paid workers (paid at or below two-thirds of the company’s average wage) but are still paid above the minimum wage. This pay policy is aimed at attracting employees in a sector characterized by labour shortages and enterprises paying mainly at minimum wage level.

Changes in the minimum wage do not much influence the remuneration of workers who are paid at wage levels above that level and that mainly depend on their piece-rate performance. Their wages do not increase proportionally to the minimum wage rise.
Low impact of the minimum wage on employment and economic performance

According to the management, minimum wage uprating does not influence the company’s employment situation. It only slightly increases labour costs since the management aims always to pay above the minimum wage. They therefore increase their wage rates accordingly. More serious from the management point of view is the problem of minimum social insurance thresholds, which are linked to the national minimum wage. Increases in social insurance contributions due to an increase in the minimum wage lead employers to review the size of their staff.

The present level of the minimum wage does not greatly affect the company, for example, in respect of competitiveness. Working conditions at all clothing enterprises are similar. According to the management, the minimum wage is not a significant factor.

Case study 4: Higher wages policy despite low competitiveness in the hotel

Rapid development of tourism and hotels

Tourism in Bulgaria has developed considerably in recent years. The most rapid development has been observed in hotels and restaurants. This is characteristic not only of mountain and coastal resorts, but also historical and cultural sites. The hotel complex Vinpalas is situated within the architectural reserve Arbanasi, near Veliko Tarnovo. Hotel capacity is not large, at 36 rooms. The Vinpalas complex specializes in business tourism, the organization of seminars, business meetings, presentations, company training courses, and meetings of public and international organizations. The complex manager considers the technological level to be intermediate.

Flexible employment and high remuneration

A total of 29 persons are employed on fixed-term contracts. Seasonal workers are employed during the peak season. Wages are fixed, though bonuses are sometimes paid. Different categories of workers are paid different wages, mainly depending on competition, the national minimum wage and labour shortages. It is particularly difficult to find good cooks, so their wages are determined on an individual basis.

The hotel branch is characterized by relatively low wages. However, the surveyed enterprise is a good example of attracting employees by paying higher wages. The minimum wage in the company is BGN 300, which is much higher than the national minimum wage. Only two persons are paid the minimum wage. The average wage in the company is BGN 410–80. Two persons are paid two-thirds of the average wage. Therefore, the majority are paid around and
above the average. An increase in the national minimum wage pushes up the wages of other employees, but not by much.

A negative impact on business development and company competitiveness
The hotel management considers that minimum wage development in recent years has harmed the business. This is mainly due to the increase in the wages of all employees at the company. Despite these business difficulties, minimum wage rises have not led to employment reductions. Given the lack of qualified personnel in the tourism branch, management policy is to increase wages in order to motivate employees and encourage them to remain at the company.

Concluding remarks
Based on the surveys conducted in the four companies, the following conclusions can be drawn:

(a) A considerable proportion of those working in different branches of manufacturing receive minimum wages regardless of enterprise results. In these companies the minimum wage depends on the national minimum wage.

(b) In practice there is a different level of wage differentiation. Despite that, there is a great concentration of employees who are paid low wages (below two-thirds of the average wage). Thus an increase in the minimum wage leads to some wage compression.

(c) Minimum wage dynamics do not significantly influence the companies’ employment situation and economic activity. An increase in the minimum wage does not change the type of labour contracts used, which tend to be flexible (fixed-term contracts and part-time work). The majority of managers (with the exception of hotel management) are positive that the minimum wage does not influence results and does not reduce competitiveness.

(d) Management is interested in the level of the minimum wage mainly because of its linkage to employers’ social insurance contributions. An increase in minimum social insurance thresholds due to an increase in the minimum wage is of considerable importance.

(e) The policy of paying higher wages as an incentive negatively influences hotel competitiveness, but this is compensated for by the resulting increase in the quality of service. The first case study also showed that the management would not oppose more rapid minimum wage progression to help the company follow its higher value added strategy.
2.6 CONCLUSIONS

This assessment of the wage situation in Bulgaria since 1997 presents an optimistic picture in comparison with the deep incomes crisis faced at the beginning of the 1990s. Minimum and average wages in real terms have developed significantly, but they remain below pre-transition levels. This affects all sectors of the economy, but to different extents. Wages in agriculture, trade, manufacturing and hotels and restaurants are below the average. There was thus a clear shift in minimum wage policy in 1997, which has been further confirmed over the most recent years, notably in the conclusion of the social pact in 2005. Despite the progress made towards decent wages further improvement remains a serious challenge for wage policy, particularly in respect of low-paid workers.

The decision to delink social benefits from the minimum wage did much to change the latter’s role. Minimum wage development has significantly changed the MW/AW ratio and the relationship of the minimum wage to the Guaranteed Minimum Income. The more rapid growth of minimum wages has, on the one hand, reduced the gap with the average wage, but on the other hand it has increased the distance from the income threshold used as a basis for social benefits. This has rendered social benefits mere symbolic payments. A great challenge for minimum wage policy is to set the official poverty line much closer to the minimum wage.

There is no strong linkage between wages and economic growth. The share of wages in GDP is relatively low and has exhibited a falling trend in recent years. This is mainly due to the relatively weak connection between wages and productivity. Real average wage dynamics lag behind productivity growth, despite an improvement of this linkage.

The study found that wage inequality in Bulgaria is relatively low. A relatively small proportion of employees receive the minimum wage or below. The proportion of low-paid workers is much higher, however. There have been no significant changes in wage differentials by sector, occupation, profession and education. Generally, most workers in the low-pay sectors are not affected by collective bargaining. Also, most collective agreements are not extended to non-signatory firms. The effectiveness of social dialogue should therefore be improved.

The impact of the minimum wage on low-paid employees and the working poor has been significant. Since the minimum wage is close to the poverty line every increase will reduce the percentage of working poor. Minimum wage development in Bulgaria has compressed the wage distribution and in this way may influence the percentage of low-paid employees. Assessment of this impact is difficult because of the lack of statistical information over time, however.
Minimum wage development has not had a negative effect on the labour market. Participation and employment rates have increased and the unemployment rate has fallen. This is confirmed by the enterprise case studies.

The social partners would like to change the existing minimum wage fixing mechanism and bind it to the average wage and the official poverty line. A tendency to increase the centralization of collective wage bargaining can be observed. The role of the minimum wage in this process is negligible because minimum wage fixing at national level does not restrict negotiations at lower levels.

To sum up, the minimum wage policy has been progressively reinforced over time, starting with the policy shift in 1997.

The new economic context, however, with less economic growth, could start to influence policy orientation – with the minimum wage thus having less impact on important issues such as low pay and poverty, wage disparity and overall income distribution – unless the social partnership on wages started in 2005 manages, through tripartite discussions, to pursue its active minimum wage policy.

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