



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**O P I N I O N**  
**OF**  
**THE ECONOMIC AND SOCIAL COUNCIL**  
**ON**  
**“THE LABOUR MARKET UNDER A FINANCIAL AND ECONOMIC**  
**CRISIS - CHALLENGES AND POSSIBLE SOLUTIONS”**

**(developed on own initiative)**

The Economic and Social Council of the Republic of Bulgaria included in its Action Plan for 2009 the development of an opinion on

“THE LABOUR MARKET UNDER A FINANCIAL AND ECONOMIC CRISIS –  
CHALLENGES AND POSSIBLE SOLUTIONS”

The Opinion is developed on the own initiative of ESC and its development has been assigned to the Standing Commission for Labour, Income, Living Standard and Industrial Relations and the Standing Commission for Economic Policy.

With a decision taken at a joint (full) meeting of the two commissions were appointed:

- a rapporteur – Mr Plamen Dimitrov – a member of ESC from group II – trade unions and Chairperson of the Standing Commission for Labour, Incomes, Living Standard and Industrial Relations;
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The draft of the opinion was drawn up and adopted at a joint (full) meeting of the two commissions on 10 July 2009. The meeting was attended by representatives of the MLSP, NSSI, NRA, Agency for economic analysis and forecasts, Employment Agency, Centre for Economic Development who took part in the discussions of the draft.

The Plenary Session of the ESC adopted this opinion on 17.07.2009.

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## **ACRONYMS**

1. GDP – Gross Domestic Product
2. EU – European Union
3. EC – European Commission
4. EESC – European Economic and Social Committee
5. MoF – Ministry of Finance
6. NSSI – National Social Security Institute
7. LSE – Law on Stimulating Employment
8. CB – Collective Bargaining
9. MW – Minimum Wage

1. **Conclusions and recommendations: major propositions; assessments, conclusions**
- 1.1. The crisis, which hit the world economy, is described as unprecedented not only because of its depth and scale, but also due to its character which cannot be explained by the theories of the economic cycles. It is believed that the genetic reasons for the crisis are rooted in the deficiency of methodology for regulating the market environment, which allows market players to take too risky decisions, dominated by powerful corporate and group interests. This generates serious economic imbalance resulting in unknown after the Great Depression economic shocks and collapse of social optimism.
  - 1.1.1. Among the serious market imbalances, which have turned into one of the basic crisis factors, is the **unequal market distribution of income between the owners of factors of production – capital and labour**. The market distribution favours capital and that is why labour income provides consumption, respectively demand, which is below the capacity of income from capital to develop production capacity in the real sector of the economy. So, the free resources seek other, more lucrative opportunities, especially when using production tools. They are used to redistribute at a high risk and high yield resources, created in the real sector. With this arises a risk for incorrect evaluation of their relation and interdependence with the real sector. That is why financial crisis do not remain only in the financial markets. They inevitably affect the real sector, grow into economic crisis with across the board consequences, since the liquidity deficit leads to fall in demand of both companies and households.
  - 1.1.2. One of the possibilities to reduce the economic imbalances is to **overcome the imbalance in the social positions of the major agents in the labour market through stimulating and establishing the collective bargaining**. This will become achievable when we stop placing too much importance on the automatic character of the market interrelation between labour demand and supply, but start to consider and develop the labour market as a two-way process between the social partners. There are instruments that can be used to accomplish this and they have proven their efficiency. It is necessary that consensus decisions be taken which can create real conditions and government guarantees for enlarging the scope and establishing the collective bargaining (CB) in a real market institute for representation and coordination of interests between labour and capital. In this way it becomes possible to balance to a great extent the market distribution of income by taking into consideration the real contribution of the factors of production to the increase in labour productivity and the business efficiency.

- 1.2. The deliberations about the crisis outlined one key issue – market regulation. The end of the crisis, the future development of the economy and the social cohesion are mostly related to a **reassessment of the government regulatory role and intervention**. This issue has been emphasized since there are still anti-crisis policies and measures, which still focus on ideas and decisions about market deregulation and liberalisation. This can hardly be considered a successful “therapy” in the current situation. The realistic anti-crisis actions to restore national and global economies are the creation of a **new regulatory model of government intervention and new global order, which should reflect the goals outlined by the European Commission (EC) to decrease by 25 per cent the administrative barriers to business.** /COM(2007)23/. Government efforts should be focused on several fields.
- First**, directing public financial resources and management mechanisms towards capitalisation of new factors of economic growth and competitiveness. The new competitive advantages, the modern companies’ and nations’ competitiveness cannot be put into practice without the multifaceted government assistance.
- Second**, the business requires not only statistical (past) information, but mainly indicative and forecast information for early warning, concerning changes in the economic situation. Such a system can actually assist the market agents in taking decisions under the conditions of a risky environment, which is hard to predict, just like the current economic situation.
- Third**, the government institutions should conduct their regulatory role on the economic processes by developing and offering methods and technologies for taking decisions, which are based on studied, substantiated and proven factor interrelations.
- 1.3. The anti-crisis measures facilitating employment and labour market can live up to the expectations about them and the stakes **under the conditions of a stable and predictably changing macroeconomic environment**. ESC is of the opinion that macroeconomic stability should be preserved by implementing Currency Board instruments. And as we well know its straightforward functioning presupposes along with all other conditions and guarantees a more flexible labour market seen as market setting of wages. Under these conditions it is necessary for the government to show genuine interest and management competence towards the social package of anti-crisis mechanisms in the labour market. Certain importance should be attached to the policies and measures used to rein the social consequences from the jobs flexibility, which means preserving

incomes at a decent level as well as support and stimulation of active labour behaviour of the unemployed and employed.

- 1.4. Until now the global economic situation has not shown any signs of optimistic outcomes. **The expectations are for extending and deepening of the crisis**, which inevitably means worsening and complicating the economic and social situation in Bulgaria. According to the ESC the negative expectations require the undertaking of massive governmental actions – starting with a government plan to counter the crisis to developing a national anti-crisis programme aimed at both economic recovery and restructuring of the national economy. Of greater importance is the fact that through the mechanisms of social dialogue the entire management and intellectual potential of the governing party and the opposition, of the business and the trade unions, of the civil sector should be pulled together in order to overcome the crisis and apply a more equitable distribution of its financial burdens and social consequences.

- 1.5. ESC proposes a complex approach when developing the National Programme of anti-crisis policies and measures, taking into consideration the following requirements:

**First.** European initiatives should be of underlying importance in the anti-crisis government programme. The reason for that is not that they are European, but because through them the intervention in the labour market is very complex: situational – structural; short-term – long-term; economic – social. The common European “approach” against the crisis requires that national dimensions and projections be found for some extremely important and new EC documents – “Driving Force for Restoring Europe” COM (2009) 114, “Shared Commitment to Employment” COM (2009) 257 and “New Skills for New Jobs” programme (2008) 868.

**Second.** The global crisis mostly affects the real sector of the economy, which requires that governments focus on governmental policies and measures for: real sector business, people and their households, key social systems – social security, health care and education so that their destabilisation can be avoided. The anti-crisis policies and measures, assisting business and employment, should be aimed at and stimulate the restructuring processes in both enterprises and the national economy.

**Third.** To achieve unification of the undertaken measures and instruments in the three main fields of influence: economic policy – to assist and restructure business, to maintain and further increase the productive employment; social policy – achieving social protection, stimulating active behaviour and support for people to adapt to the changing situation in the labour market; institutional policy – changing and adapting regulations in order to balance employers’ freedom and social security

(flexicurity) as an approach applicable to fairer distribution of the burdens of the crisis.

- 1.6. In accordance with the outlined positions ESC proposes that the government jointly with the social partners should define clear priorities and stimuli for business assistance and the processes of its restructuring with public resources and other types of intervention such as preferential conditions for access to credit resources, guaranteed by the government, access to financial resources from the structural funds etc. It is unacceptable to support enterprises and organisations, which have gone bankrupt as a result of inefficient management, or companies without competitive potential and technological modernisation. For this purpose ESC believes that it is necessary for the government to define and publicly declare:
  - ❖ The priorities of a modern national industrial policy;
  - ❖ The governmental instruments (not only financial resources, but also other institutional mechanisms), assisting business in conducting the industrial policy;
  - ❖ The criteria and requirements for access for enterprises to public resources and government aid to overcome the crisis and the requirement for creating new jobs should stand out;
  - ❖ Stimulating the credit activity of commercial banks towards enterprises with economic activities related to new industries and sectors, with new renewable energy sources and resources with competitive potential in the open international markets;
  - ❖ Enlarging the preferential conditions (fiscal and others) for stimulating the development of business in economically backward regions and settlements in order to overcome the dramatic regional differences in their economic development and in the employment levels.
- 1.7. In terms of the remuneration policy in its propositions ESC sticks to the position, outlined by the European Economic and Social Committee (EESC) at the Employment Summit. The aim is to utilize the effects of the dual role of remunerations as a main instrument for overcoming the crisis. Employers should not stick to a policy of freezing and/or holding down wages as an unconditional anti-crisis measure. Under a crisis, in the context of restructuring measures, it is extremely important that wages should follow the dynamics of labour productivity. In this way it is possible to achieve the required balance between increase in demand and preserving price competitiveness.
- 1.8. The social consequences from the crisis place equal importance on the social policy and the government economic policy alike. Any one who has been affected by the crisis should receive social protection: first – of their

income; second – of the employment opportunities, including those through labour mobility; third – opportunities for adapting to the restructuring processes in the labour market, including those through qualification and new training. First of all, a timely and adequate **reassessment of the legal framework concerning the “unemployment” social risk is needed**. Unemployment benefits in Bulgaria are at the bottom of the social protection both in terms of “the scope on unemployed entitled to benefits” and “the income compensating coefficient”. This is neither isolated, nor typical of the situation problem, but rather a matter of principle, even structural one since it concerns the ratio between contribution and rights as well as the proportion ratio of incomes of population from different sources.

- 1.9. In accordance with the tendency for economic restructuring and creating productive employment the ESC proposes the development and adoption of a **National Programme, similar to the EC programme for “New Skills for New Jobs”**. This programme makes it possible to update the implemented policies, to set new goals and priorities, as well as to overcome existing structural discrepancies between business requirements and the characteristics of the labour force in terms of professions and level of qualification. The solution of this problem has long-term, strategic effects on the restructuring of the educational system, the system of vocational education and qualification and the employment system.
- 1.10. The current situation requires the utilization to the fullest of the opportunities, which the EC presents for **increasing the financial resources necessary to counter the crisis related to the structural funds**, as well as easing the financial terms and simplifying the administrative procedures for access. The requirements for restructuring and adapting the labour force to the real and expected changes channel the labour market policies and measures mainly towards capitalisation of the potential of the employed, the unemployed, and most of all of young people in the “New Skills for New Jobs” programme, overcoming the regional differences in employment, carrying out active social inclusion policies, facilitating and stimulating labour mobility etc. One of the criteria used to distribute resources in structural funds should be the enlargement of the social basis of their impact.
- 1.11. The ESC attached great **priority to the financial stability of the key social systems – social security, health care, education**. At the same time the first restrictive measures, announced publicly, were directed to cutting public spending in education. Serious threats to the financial stability are observed mainly in terms of social security. The incomes and expenses report of the National Social Security Institute (NSSI) up to 31 May 2009, prepared under the bulletin of the Ministry of Finance (MoF),

already reveals significant deficits. As to the period under consideration the NSSI budget revenues were 35.9 per cent fulfilled, and the spending – 37.5 per cent. Furthermore, for the first four months of 2009 the revenues from contributions to the funds of State Social Security (SSS) have dropped by 5 per cent from the planned budget figures. Moreover, if we add to this a decrease in the size of the social security contributions, the system will face an inevitable bankruptcy. Thus with the expected drop in revenues and increasing spending of the social security system, the looming financial deficit is “destined” to increase. The most important findings and propositions resulting from the debates on this issue refer to the following:

- ❖ The prevailing part of the ESC members assesses as risky the proposals for lowering the social security contributions under the conditions of a crisis.
- ❖ It is inexpedient to undertake some other activities to change the system. Undoubtedly, serious changes, which should be fundamental, essential and structural in character are required and these should be considered and put into practice under a normal economic situation.
- ❖ Before attempting to cut costs on services of a common social interest the inefficient spending in the public administration – central and local – should be optimized.

## 2. Labour Market Situation

- 2.1. Bulgarian economy **has slowly but steadily entered an economic recession**. There is a 6-month time lag in the slowdown. What was happening in the economies of the industrially developed countries at the end of 2008 is happening in the Bulgarian economy in the middle of 2009. At the end of the year (4th quarter of 2008) GDP decreased by 1.6 per cent in comparison with the 3rd quarter of 2008, the processes in 2009 have been deepening actively. The first quarter of 2009 marked a drop in GDP at a rate of 3.5 per cent compared with the same quarter of 2008 and by 5 per cent on the preceding 4th quarter of 2008. The current information outlines a serious worsening of the economic situation. The government has already officially announced that Bulgaria has entered recession after a period of uncertain, dubious and contradictory assessments in its position – from denying the crisis to developing a government plan for anti-crisis measures, known as the “Stanishev Plan”.

*Processes and problems of the day: facts and assessments*

- 2.2 The information from different information sources reveals a contradictory picture of the situation and the dynamics in the labour market, which hinders the process of defining clear and firm assessments. The National Statistical Institute quarterly observation of the labour force, as well as the administrative information of the Employment Agency (EA) outline worsening of the labour market indicators, but their levels and dynamics still have not shown any dramatic changes, which might forecast its collapse. The situation in figures and facts is as follows:
- 2.2.1. According to the surveys carried out by NSI during the first quarter of 2009 the number of employed people at the age of 15 and older in comparison with the first quarter of 2008 has decreased by 27,100 and for the category of employed people between 15 and 64 the decrease is by 24,600. This change is of approximately 0.8 per cent for the two groups under consideration on yearly basis. As a result of these changes the employment coefficient during the first quarter of 2009 for people at the age of 15 and older decreased by 0.2 points – from 49.7 per cent to 49.5 per cent, and the employment coefficient for people at the age of 15 and 64 remained at the same level of 62.6 per cent on yearly basis. In comparison, however, with the previous 4th quarter of 2008 the drop in absolute numbers of employed at the age of 15 and older is far more dramatic – approximately 101,700 among people at 15 and more years, which presupposes a respective drop in the level of economic activity.
- 2.2.2. The considerable decrease in the absolute number can be observed among those employed on labour and service contracts. Since July 2008, when there was a kind of peak of 2,526,056, there has been a contraction in the number of this group and in December, last year it reached 2,436,128, which is by 3.6 per cent less for the half year under consideration. The tendency towards employment contraction that has been outlined corresponds to the facts about economic activity contraction over the discussed period.
- 2.2.3. Along with a decrease in employment the statistical data reveals a decrease of 6,600 people in unemployment over the first quarter of 2008, for the unemployed between 15 and 64 years the drop is about 7,000. As a result of this dynamics the level of unemployment has reached 6.4 per cent on yearly basis, which is less than 0.2 points in comparison with the first quarter of 2008 for the unemployed between 15 and 64 years of age. Approximately the same numbers are valid about the unemployment level among people at 15 and older. In comparison with the previous 4th quarter of 2008 the change in unemployment figures, as it can be expected, is in the opposite direction. The number of unemployed has increased by 44,500 – i.e. from 177,700 to 222,200. To a great extent this reflects the seasonal fluctuations in employment – ending seasonal activities, as well as

subsidized employment on projects from different programmes of the Ministry of Labour and Social Policy (MLSP). Undoubtedly, the reported increase in unemployment is definitely influenced by the economic crisis, but at this stage it is difficult to determine its “contribution”, especially on yearly basis.

- 2.2.4. The data provided by the Employment Agency reveals analogous processes and tendencies, which describe in detail the situation in the labour market. Since October 2008 the tendency towards constant decrease in unemployment has been reducing. The situation worsened dramatically in December 2008, disregarding the seasonal fluctuation observed every year, which became apparent as early as October. It was then that the number of registered unemployed increased dramatically in comparison with previous months – by 7.1 per cent in December compared to November 2008. The newly registered unemployed during the month compared with the previous month increased by 14.4 per cent (by 4,309) and reached 34,249. As a result of these processes the unemployment rate in December 2008 reached 6.27 per cent in comparison with 5.85 per cent in November 2008.
- 2.2.5. Since the beginning of the new 2009 the situation in the labour market has been gradually worsening. In January there was a kind of boom in the “registered unemployed during the month” indicator. In comparison with December their number practically doubled – from 34,249 to 65,132 people. At the end of May 2009 the unemployment rate reached a level of 7.08 per cent, which is 262,097 unemployed. The increase is by 47,405 over the period September 2008 – May 2009.
- 2.2.6. The vacancies (unoccupied jobs at the end of the month) in the primary labour market, which include also jobs under employment measures under LES, register relatively stable dynamics based on market-driven and structural problems in the labour market. Within the period when the crisis started and developed a process of contraction and consequent increase in the number of vacancies was observed. From August until December 2008 their number decreased from 12,724 to 6,015, then over the first five months (January – May 2009) in total 64,198 vacancies were declared at the labour centres, which is by 1 83 less than the same period in 2008. What should be taken into consideration is that these figures do not include other declared vacancies in structures (mainly private) outside the labour centres. May puts the beginning of a new slump in the number of vacancies. From this point of view the dynamics in the labour market reveals mainly seasonal, to some extent structural, but not significantly influenced by the crisis changes in the market structure.

- 2.2.7. In terms of labour productivity, as another very important indicator of the employment system, there are serious structural and market-driven processes and problems.
- ❖ The structural changes affect the degree of efficiency even during the years of economic revival. The analysis of statistical data for a longer period of time shows that efficient and full employment cannot coexist. The increase in the employment level and respectively decrease in the unemployment level is followed by a decrease in labour productivity. And vice versa, when employment contracts there is higher labour productivity. This means that the technological potential does not lead to an economy, which can function efficiently at the level of the labour force potential.
  - ❖ Problem, closely related to the current situation, could be seen during the first quarter of 2009 when a stronger worsening of the effective use of labour potential was registered – mostly in industry. Labour productivity in real terms in this sector has started to decrease since the third quarter of 2008, when the changes compared to the previous second quarter are expressed in negative terms – minus (-0.5 per cent). During the fourth quarter of 2008 the process became more serious and the decrease was by -5.1 per cent, and during the first quarter of 2009 the negative rate was -9.5 per cent. There is a dramatic drop in labour productivity in comparison with the first quarter of 2008. A growth of 3.4 points was registered for that quarter compared with the same quarter in 2007, and during the first quarter of 2009 in comparison with the first quarter of 2008 the drop in labour productivity was almost one tenth -9.5 per cent. The deteriorating efficiency in using the labour potential can be explained with the “soft measures” taken by the employers and the government to save the employment, such as: compulsory leaves, shorter working hours, carrying out unplanned repair work etc. The other, longer-lasting reason, according to experts, lies within the inefficient company management. Evidence proving this is the statistically registered degree for using the productive potential, which does not exceed 75 per cent of its capacity.
- 2.2.8. The level of the average wage in real terms has preserved the dynamics typical of 2008. Its increase during the first quarter of 2009 bears the index of 109.7, close to those for the 2008 quarters. During the following second quarter of 2009 there was a process of holding back the dynamics expecting a freeze in the levels of remuneration. Besides the objective circumstances a certain contribution have the broadly publicized government measures to reduce labour costs in the public sector.
- 2.3. CITUB structures – sector and branch federations, municipal and regional councils provide much **more alarming information than the official one about massive and active lay-offs of workers and employees, and respectively shedding jobs.** For example, according to CITUB’s

calculations the number of laid-off workers and employees from the end of 2008 until June 2009 reached 100,000, which differs from the official information. According to that information the recorded total number of unemployed people in May 2009 was 262,097, and the recorded unemployed during the same month – 31,645 respectively.

- 2.4. Very **impressive information is provided by NRA and NSSI about the dynamics in the number of those who leave the social security system.** Solely in the first four months of 2009 the number of socially secured people decreased by 140,000 people in comparison with the same period of 2008. Their number has increased dramatically (manifold) in comparison with the information about the absolute number of newly registered unemployed people. Undoubtedly, the number of this group is influenced by different factors and circumstances. On the one hand, this is the flow of employed who leave the employment system in a natural way – retiring under normal and/or preferential conditions. We should not ignore the number of workers who shift to part-time jobs as a result of government subsidy to maintain employment among those who face being laid off. In fact, every second person is seen as a person who has left the social security system. Regardless of the convincing character of the reasons and arguments, the scale and intensity of this flow result in alarming signals about the actual size of those hit by the economic crisis.
- 2.5. The outlined processes in the labour market give reasons to disclose the flows and the movement of the labour force. Mainly, **the withdrawal from the employment system is on a much larger scale than what is demonstrated by the competent institutions or what they are incapable of demonstrating.** With a very high degree of certainty it can be claimed that the most powerful flow is from employment towards inactivity. It could be also that these people for one reason or another are not entitled to unemployment benefits and cannot be registered in the labour centres as people looking for a job. To this group belong those working without labour contracts, working pensioners, self-employed. We can identify another group, which is part of the flow towards transition to inactivity, including those leaving the employment system because they are entitled to retirement in the normal or preferential way. Finally, we can outline the flow, which is not the smallest in number, representing the transition from employment to unemployment on the basis of which we can calculate the official rate of unemployment.
- 2.6. The analysis of the flows of people leaving employment in terms of size and structure calls for **undertaking adequate measures.** If the first lay-offs forming the employment outflows include marginal groups with low education and without professional qualification, then the deepening crisis (these are the expectations) will generate lay-offs and unemployment for

people with professional qualification. Both the first wave of uneducated and unqualified and the consequent waves of unemployed and inactive need assistance (both financial and institutional) when searching new employment or trying to adapt to the labour market requirements through acquiring literacy, vocational education and qualification. This is a process, which has been accelerated over the past years, but the issue referring to the efficiency and effectiveness of public investments in improving the professional capacity of the labour force is still to be dealt with.

2.7. The dynamics of the main macroeconomic indicators (employment and unemployment) in the labour market give reasons for drawing certain conclusions and making assessments.

**First.** Signs for slowing economic activity became apparent during the last quarter of 2008 when was put the beginning of the lay-offs in the processing industry, respectively the first signs of deteriorating situation in the labour market.

**Second.** The significant changes in unemployment and employment started at the beginning of 2009. Ever since then we have observed intensive shrinking of the economic activity as a result of which the absolute numbers and the rate of unemployment have increased.

**Third.** We can realistically assume that a certain effect on the deferred deterioration in the labour market situation was exerted by the undertaken “soft” employers’ measures and the financial government support of enterprises to implement the part-time working day in order to counter or defer job cuts.

**Fourth.** There are some alarming circumstances, such as the emerging over a long period of time information deficit and discrepancies between the official information, alternative information channels and personal expectations. We still have not built an information system for monitoring the labour market fluctuations and early signaling of changes in the situation. This is a problem which should find a solution after analysing the current economic events.

#### *Expectations for changes in the current situation*

2.8. The official information should not be considered comforting. We can assume with a very high degree of probability that the trough of the recession in the national economy has not been hit yet. What causes more serious apprehensions is related to the situation in the global economy. There are still not any positive and objective signs of revival of the developed economies and improvement in the global economy. That is why the expectations have not changed yet, there are even stronger negative

expectations. And as we well know expectations affect the behaviour of economic entities stronger than the statistical or any other type of administrative information.

- 2.9. If the direct effects of the world financial crisis on the economy of the country have been relatively mild as a result of the underdeveloped financial markets, **the turning of the crisis into an economic one has been posing serious threats to the Bulgarian economy.** This is so because **the Bulgarian economy is open, respectively dependent on the global economic situation. There are various channels of influence and they can affect the main sources of economic activity: export – import, lending, foreign direct investments.** This is why a realistic idea about the effects of the crisis in the labour market can be formed through assessing the dynamics of these particular factors. They were the first to “bear” the effects of the crisis globalisation most strongly.
- 2.9.1. The contribution that export has is extremely important for the country’s economic activity. Its volume since 2007 has been 63.4 per cent of the GDP. According to observations of the international economic situation “if export can increase by 15 to 20 per cent per year, the economy of the respective country can grow by 7 to 8 per cent annually.” (Turrow, L., 2008, p.289). Bulgaria’s export over the past years has grown at a rate of 20 – 30 per cent in the respective period (month, quarter) of the previous year. The export-oriented character of the Bulgarian economy makes it strongly dependent on the contraction of demand in the international markets. That is why the first signs of crisis were observed in the field of export. In the first half-year of 2008 aggregate export increased in comparison with the same months of the previous 2007 at a rate of 28.3 – 30.7 on average, then after August export started to decline month after month and in December 2008 the growth rate in comparison with December 2007 was strongly reduced to 13.1 per cent. There has been a serious export contraction since the beginning of 2009 when growth slowdown and contraction were replaced by slumps. The rate of export drop in the first months of 2009 reached two-digit figures in comparison with the previous periods of 2008. In January contraction index was 72.3, and in April this process reached new index of 69.9, which means that the decrease in comparison with the same months of the previous year was at a rate of 27.7 per cent to 30.1 per cent. If we attempt to evaluate the effect of export on the dynamics of economic activity, we can assume that its “contribution” to the recession in the national economy comes first among the negative tendencies and expectations. Besides that the exports affected the processing industry most strongly, respectively the contraction of the volume of industrial production.
- 2.9.2. Lending also has a considerable contribution to the economic activity. The volume of credit resource increased by an index of 268.1 as to December

2008 in comparison with December 2005, as a result of which its amount has reached 72.4 per cent of GDP compared to 42.1 per cent in 2005. The crisis has affected the bank sector in terms of limiting the financial resource liquidity, respectively credit contraction and growth in the cost of credit resource, improving conditions and creditworthiness requirements for potential clients, contraction of credit demand. What characterizes the bank system is the credit contraction and this process has not yet reached the negative digits zone. According to data in the “Bulgarian Banks” bulletin of BNB during the 4<sup>th</sup> quarter of 2008 the gross credits and advances grew by 2 per cent, company crediting by 1.6 per cent, retail exposures by 3.5 per cent, mortgage crediting by 5.4 per cent, and the growth slowdown on yearly basis is at 31.2 per cent for enterprises and 33.8 per cent for retail exposures. The most significant credit contraction can be observed in such sectors and activities as property, renting and business services – by 99.0 per cent, by 89.0 per cent in trade and renovation and by 88.0 per cent in the construction business. The rather cautious anti-crisis strategies of the commercial banks led to ungrounded for the Bulgarian reality (by experts and businessmen’s opinion) increase in the interest rates on credits, as well as their unilateral change. The procedures which the CPC has started to investigate a banks cartel agreement on interest rates reveals that a new harmful economic interest originated related to using the crisis situation as a means for sector benefiting.

- 2.9.3. Foreign direct investments are also “direct” channels for impact of the global economic crisis. After the record high levels in 2007 when their volume reached €6,516.6 million, they started to show negative trends as early as the middle of 2008. After July 2008 every month witnesses a decreasing FDI inflow and at the end of the year the process aggravated, and its negative tendency persisted in the beginning of 2009. For the period January – April 2009 foreign direct investment amounted to €955.4 million, which is by €968.9 mln. less for the same period in 2008. Along with this decrease some processes of their restructuring can be observed. There is a decrease in FDI in property, and in the construction business their size has almost halved. There is a considerable increase in the processing industry and a slightly smaller one compared to other years in “trade, renovation and maintenance”.
- 2.9.4. Domestic consumption is another source of economic activity. High liquidity, which is generated by different sources (credit growth, foreign direct investments growth, transfer of financial resource from Bulgarians working abroad, an increase in remuneration after 2005) determines the increase in end consumption both as an absolute value and as a relative share. Both companies’ sale revenues and retail trade went up. In this field at the end (November) of 2008 there were signs, though contradictory, of

shrinking sales in retail trade. Their volume started to shrink every month at the following rates: November 2008 – by 1.1 per cent; December 2008 – by 3.3 per cent respectively; January 2009 – by 1.7 per cent. This process has also affected final individual consumption and during the fourth quarter of 2008 it grew by only 1.8 per cent in comparison with the other quarters of the year, when consumption growth was at the rate of 5.7 per cent, 5.3 per cent and 5.9 per cent respectively. Unlike the other sources of economic activity which were under consideration, in terms of domestic consumption there are not any drastic shrinking processes.

- 2.10. The dynamics in the sources of economic activity suggest two conclusions: **First**, in the beginning of 2009 was put the beginning of serious crisis processes, mostly in industry. Almost all industrial sectors and branches in 2009 marked a slump in comparison with the same months of the previous year and the most strongly affected were the export-oriented sectors of the processing industry. For example, manufacturing in April 2009 decreased by 20 per cent compared to April 2008 and industry sales over the same period decreased by 20.7 per cent. Construction business is another sector, which has undergone a dramatic contraction under the influence of foreign investments. The contraction process will still deepen during the second half of the year. **Second**, in the current global situation and the negative dynamics in the economic activity from the start of 2009 we can expect dynamic and dramatic aggravation of the situation in the labour market during the second half of the current year. Returning to double-digit unemployment rates is something that we can expect in the short run.

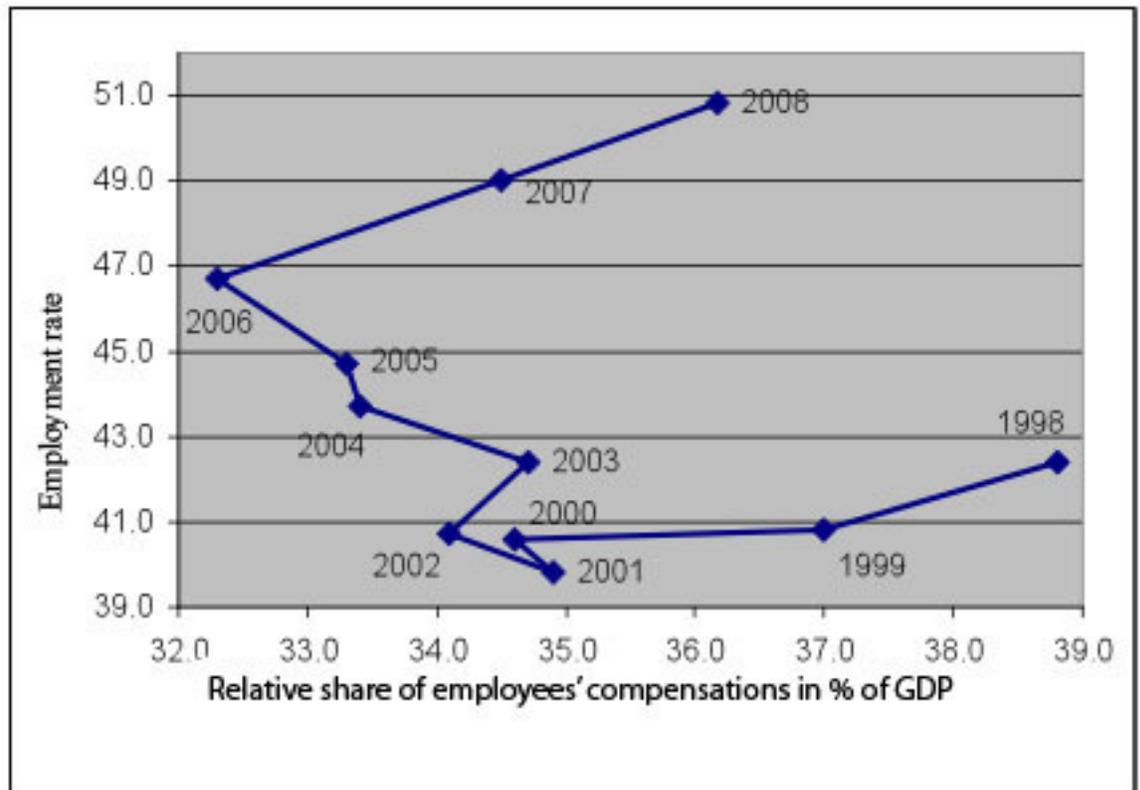
*Existing structural discrepancies and problems*

- 2.11. The deteriorating market situation adds to the **long-lasting and structural problems in the labour market**. The economic dynamics which were put into practice, the increasing employment scale and rate over the past decade have not overcome the serious regional differences. The governments in power until now did not conduct consistent and straightforward policy of harmonious regional development, did not propose and implement efficient economic instruments to stimulate entrepreneurial activity in the economically backward regions, areas and municipalities. As a result currently the regional differences are dramatic both in terms of employment and unemployment rates and in terms of the level of remuneration and medium incomes per person.
- 2.12. The achievement of **quality employment** as one of the key EU strategic objectives in line with the European Employment Strategy and the Lisbon Strategy for growth and employment still remain in the sphere of good wishes. Most of all there are not clearly defined criteria about quality

employment. The discrepancy between the attained educational level and the position profile cannot be seen as an indicator for bad employment. The educational, professional and qualification discrepancies and oppositions present a serious problem, but it should not be identified as bad employment, but rather as a deficiency and regulatory problem and the functioning of institutions and organizations which operate in the labour markets and conduct intermediary activity between labour demand and supply.

- 2.13. There are serious professional and qualification discrepancies between the jobs and the professional characteristics of the labour force. The industrial type of profession has lost its popularity and importance which dethrones the myth that Bulgaria has an important competitive advantage – highly qualified labour force. This statement was true for another era. **Bulgaria has already lost competitive advantages in the vocational education of the labour force in the sphere of new industries and new technology.** Under a crisis the demand for specialists with vocational profile information and communication technologies still remains in the labour market. In addition to professional level discrepancies, such are observed on level of qualification, i.e. in terms of relevance between required and acquired professional competences. In this respect the discrepancies are double sided. On the one hand, the acquired in the educational system professional competences do not correspond to the requirements of business and consequently unrealistic expectations are being formed mostly in terms of remuneration. On the other hand, as a result of the slow and difficult technological modernization of the economic activities business offers jobs, which are below the professional abilities of the labour force.
- 2.14. Over the past years the Employment Agency's annual reports **registered significant achievements of the educational programmes for human resources development and the subsidized employment programmes.** Irrespective of the effects observed and the large-scale, for this country, investments both along the lines of public resources and in terms of pre-accession instruments and structural funds, there has not been a significant advance in solving the problem of long-term unemployed (lasting more than 1 year), who are in fact in a situation of social exclusion. Their number is still within the framework of about half the registered unemployed people. A factor, which further aggravates the problem, is the clearly ethnical nature of this social group. In this particular case a comprehensive assessment of the efficiency of the implied policies should be carried out so that more adequate measures and instruments for labour habits development and employment opportunities for people who belong to this social group be found.

- 2.15. The remuneration policy **is dominated by the labour market situation. The connection wage – labour productivity has actually been broken.** Economic and financial results are not taken into consideration when payment is determined. An underlying reason for that is the low range of CLC, especially in the private sector. In a number of industrially developed countries, regardless of the level of trade unionization of employees, a mechanism has been found for enlarging the scope of CLC. In this way it becomes possible to synchronize the dynamics of wages with labour productivity and financial results. For example, in the Netherlands, where there is low level of trade unionization, the collective labour contracts encompass 85 per cent of those employed in the private sector. That is why the executive power, after consulting its social partners, should find guarantees for efficient implementation of the mechanism envisaged in the labour legislature.
- 2.16. The effects of the implemented policies and mechanisms in terms of remuneration are synthetically expressed at the relative share level of labour compensations in the GDP.



The contradictions and the structural problems in income distribution are obvious. The relative share of labour compensation in the structure of GDP shrinks regardless of the increasing rates of economic growth and the increasing employment rates. It is either that the dynamics of these two economic activity indicators (GDP growth and employment growth) does not lead to growth or to recovering the labour expenses over the periods with close employment levels.

- 2.17. Grey economy still has a high relative share leading to accumulation of serious economic and social consequences such as **market distortions, social dumping, insurance and fiscal deficits, higher social risks for a significant number of people.** Furthermore, grey economy **distorts the main macroeconomic ratios and proportions, forms unrealistic ideas about income levels.** The official statistics have for years registered lower average wage for the country and even lower than the average wage for the public sector. The difference between the average level of remuneration between the two sectors is about one third and it is continually repeated year after year. No matter how statistical data are corrected, the flows in the

grey economy cannot be entirely registered and subsequently a number of findings and conclusions have a probability nature.

2.18. The success of anti-crisis policies and measures are to a great extent determined by the degree to which and the way how the achievements of the economic activity are perceived and the mechanism for its performance on the part of those managing the business and governing the country. The most important thing is by using strategies and policies for restructuring enterprises and the economy to overcome essential problem and contradictions in the employment system such as: **First**, the economic dynamism is carried out extensively – through attracting resources, mainly human resources. **Second**, employment is inefficient – the increase in employment rates does not correspond to an adequate increase in labour productivity, Or, full employment, the economy is performing at its full capacity with available technological capacity, is inefficient. **Third**, the relationship labour productivity – wage is broken. The remuneration level and dynamics does not follow the dynamics of labour productivity. **Fourth**, the increase in the nominal and real medium wage over the last years which overtook labour productivity does not change significantly GDP distribution. The relative share of labour compensations of GDP, irrespective of employment growth (as an absolute quantity and level), has been stabilized under the level from 1998. Consequently, the key characteristics of the performed economic dynamics are: extensive growth, inefficient and low-productive labour, low remuneration. Thorny issues, which governments and social partners face and they also present economic problems and social responsibility.

2.19. Undoubtedly 2008 **marked the “apogee” and simultaneously the end of a 11-year period of economic growth**. Optimist say that over this period a kind of economic “boom” was achieved when the country was among the leading EU member-states in terms of economic dynamics. Pessimists say that these achievements are slow, difficult and insignificant from the point of view of the development which is catching up. The objective evaluation of the period means recovery. The Bulgarian economy has restored its economic dynamism and scales of economic activity. Despite the achieved growth, governments, which were in power during the transition period, did not manage, they did not even wanted to modernize industry based on modern industrial policy, taking into account the national competitive advantages; they did not manage to overcome the sharp regional differences in the economic activity, respectively in employment. As a result the Bulgarian economy over the period did not meet the efficiency and competitiveness criteria of the open markets.

### 3. **Proposals for anti-crisis policies and measures in the labour market**

- 3.1. Bulgaria and any other EU member-country have the chance and the capacity to overcome the crisis and head towards economic recovery. The opportunities are related to the prompt reaction and the undertaken policy at a European level, and the capacity is formed on the basis of accumulated experience by applying the open method for coordination.
- 3.2. Overcoming the outlined structural labour market problems in the light of the adopted key priorities at an European level, presupposes that anti-crisis policies and measures should be categorized in certain more general and specified fields. Along these lines

*ESC proposes:  
Measures with macroeconomic scope*

- 3.2.1. **Preparing and working out of alternatives of unfavourable state budget for 2010.** The public financial resources for countering the crisis have already been exhausted and along with them the effects of the implemented soft measures for postponing lay-offs. Revenue contraction to the state budget is also expected. It might be possible that during this financial year a deficit be avoided through optimizing and restructuring expenditures, but during the next year this can hardly be considered realistic.
- 3.2.2. **Preserving the existing employment, viable jobs in competitive enterprises** in traditional sectors and economic activities, as well as in enterprises in the new industries, and new energy sectors and sources, high-technology sectors by applying various organizational and financial mechanisms as schemes for labour and working time reorganization supported with public financial resources and resources from the European social fund.
- 3.2.3. **Securing a well-deserved income for people, who have lost their jobs.** For this purpose mechanisms should be developed or methods for determining the levels of MW and unemployment benefits should be introduced in order to establish acceptable ratios in the people's incomes based on the principle contribution - rights.
- 3.2.4. There is not full utilization of the opportunities for social protection along the lines of new socially recognized risk of guaranteeing workers' and employees' incomes in the event of declared insolvency of the enterprise. What should be done in this respect is to conform its legal framework to the European directive concerning labour rights important issues and compensation rates.

- 3.2.5. The crisis situation places paramount importance on the problem of implementing adequate minimum social income, initiated by the European Antipoverty Network (EAPN), which gets broad support in the actively conducted European campaign. The aim is to secure basic social standard, which can suppress the ugly forms of social differentiation and guarantee dignified and normal standard of living.

*Balancing employment flexibility and security*

- 3.2.6. Adapting the national employment flexibility and security path. The crisis creates favourable environment for accelerating flexibility in terms of jobs, working time, labour organization (functional flexibility). The main problem, mostly in times of crisis is income and employment protection. What is required in order to achieve this aim is change in approach – the one-sided, according to the employer’s assessment and decision, introduction of the flexicurity system, should be replaced by “negotiated flexibility”, mostly through the mechanisms of collective bargaining. This becomes possible though improving the legal framework, in conformity with the “security through legislature – flexibility through collective bargaining” principle.
- 3.2.7. Accelerating the solution to many other problems, related to the creation of more flexible employment conditions, labour organization and working time, activating the labour market through determining the status of the temporary employment agencies, regulating the piece work done at home, distance working or working from another place.

*Employment restructuring and adapting labour force to the new employment*

- 3.2.8. Formulating modern national industrial policy, which will take into consideration, on the one hand, the national advantages and, on the other, should comply with the created by the European Commission “A set of instruments for restructuring” and for creating productive employment. In order to achieve this it is necessary to apply organizational schemes, to introduce institutional conditions, to secure financial resources. More specifically:
- ❖ Carrying out infrastructural projects about energy sources development, especially renewable ones, transport communication, communication networks, technological centres with public resources and resources from the EU structural funds.
  - ❖ Building and stimulating a partnerships network: public-private, between universities, institutes and business in sectors and activities of strategic importance and with long-term effect – innovative enterprises for

implementing innovative programmes, products and services, research projects and programmes etc. New ideas about new business and new employment should find adequate and adaptive organizational and structural form.

- ❖ Securing access to financial resources through: contributing in kind tangible assets, public state and municipal property, securing public financial resources, guaranteed access to credit resources, where the EC created mechanisms for micro crediting small enterprises and personal entrepreneurship with various forms of self-employment.
- ❖ Securing favourable environment for entrepreneurship, a process which has been intensively developing over the past years, but should undergo further improvement.

3.2.9. Developing and adopting the National programme “New skills for new jobs”, analogous to the European programme, named in the same way. This is required since significant structural changes are expected – active employment growth in the service sector at the expense of the primary and industrial sectors, growth in quality employment through increasing the relative share of employed with higher qualification, based on the degrees of higher education, increasing the share of employed specialists with intermediate professional qualification. These structural changes involve significant organizational, managerial, expert and analytical and project-related efforts. The outlined measures have not only preventive nature, but are also oriented to future effects. Their topical character is determined by the existing acute discrepancies between the business requirements and the achieved professional competence. What should be done in this respect is:

- ❖ Updating the **structure and range of professions**. New professions keep appearing on a regular basis.
- ❖ Developing a **qualification framework in individual professional fields and professions** in view of adapting them to the business requirements and the changing environment.
- ❖ Accelerating the introduction of a **mechanism for recognizing qualification, acquired outside the formal system** of education and professional qualification.
- ❖ Updating and constantly **adapting the textbook contents to the changes** in the theoretical achievements and innovative practical solutions and innovations.
- ❖ Developing and implementing organizational forms for **reciprocal penetration of theoretical knowledge and practical skills**.
- ❖ Building a lifelong learning system as **an organizational form and structure and as material and technical infrastructure** so that the different educational degrees and organizational forms complement each

other and react to the dynamically changing demands of individuals and employers.

- ❖ A change in the employers' attitude and approach to the professional qualification and its acquiring. The organization of introductory and regular in-company training **turns into a production necessity and part of the manufacturing and technological process**. It is in this particular way that competences are built, required in certain jobs, a professional adaptation to specific technological and organizational conditions is achieved. This is of interest to the employers and their responsibility and also a matter of corporate investments.
- ❖ A change in the system of professional qualification as an educational process in terms of organization and management and resource supply can be achieved if there are **close relations and working mechanisms of cooperation and partnership between business, professional organisations of workers and employees** (sector and branch trade unions) and educational institutions or structures.
- ❖ Focusing of the initiatives, policies and measures of the European programme "New skills for new jobs" on different target groups. Every individual, regardless of status or current situation, needs to maintain and update their professional capacity. This situation should find an adequate place in the national policies in order to secure equal access of everyone who needs to adapt to the labour market.
- ❖ Mobilizing the financial resources from various financial sources in such a way as to meet the scale of the programme and its ambitious objectives in terms of scope and achievements. The public, corporate and private investments complement each other and this is an accepted principle of distribution of financial burdens by the interested parties. It can be successfully applied in fulfilling the national "New skills for new jobs" programme. Along with that it is necessary to introduce specific instruments, which have proved their efficiency, such as: **creating sectoral level funds for education, especially for new and promising sectors, introducing voucher system, opening individual accounts, etc.**

#### *Supporting labour mobility*

- 3.2.10. Currently along with the traditional forms of internal mobility, which undoubtedly should be financially supported in the future by securing a broad access to intermediary, consultancy and educational services, external mobility becomes of great importance. Today **the mobility flows are inflows – there are labour emigrants returning who bring useful labour habits and qualifications**. Programmes for timely integration of

these social groups in the labour market and the employment system should be developed and financially secured.

*Utilizing European financial instruments*

- 3.2.11. In support of the large-scale restructuring, labour growth and improving professional capacity programmes, the EC provides stable financial support both along the lines of increasing resources from structural funds, removing co-financing of some programmes, simplifying administrative procedures and facilitating access along the line of credit resource from the European Bank for Reconstruction and Development as well. **Bulgaria should take advantage of these opportunities by proposing attractive ideas and working mechanisms with broad social effect.** Even at this stage focal point can be formulated: **focus** – transferring resources towards the poorest and most strongly affected by the crisis and towards the young people being the age group with the highest potential to respond to the processes of employment restructuring; **priority** – restructuring and formulating new competences about the sectors, activities, enterprises which are undergoing restructuring processes.

*Improving the organizational and information mechanisms of the labour market*

- 3.2.12. Access to employment through information, consultation, intermediation, including mobility from and to the country are important instruments that can be used to make the labour market more dynamic and to coordinate demand and supply. The information and technical equipment allows the acceleration of the process for establishing contacts and the contract between workers and employees and employers, as well as for building an **Uniform national system for demand and supply of labour force and synchronizing it with the European system** for informing and intermediary services in the open European labour markets.
- 3.2.13. Labour market dynamics and characteristic features require that fast and risky decisions should be taken by employers, individuals, government institutions, social partners. The existing information systems and sources are not reliable enough in terms of the required specificity and speed of information. This makes it necessary that **alternative systems for labour market observation** be built referring to such characteristics as professions that people look for, relevance of professional qualification,

dynamics of vacant jobs, dynamics of labour market flows and other information which does not reflect timely and adequately the structural changes in the labour market.

- 3.3. The outlined specific ideas and proposals cannot exhaust the entire set of possible initiatives. What is more, a number of them, although in different ways and following other objectives, have already been implemented in the social practice through the National employment plans. In this case the ones that **stand out are those which are currently important in terms of the European anti-crisis programmes for economic recovery and restructuring**. The leading principle in mixing various policies and measures within the framework of individual enterprises, sectoral level and national programmes should not boil down to solely adapting to the concrete and specific character, but also to achieving a synergy effect of their implementation. This means that the individual implementations should support and complement each other.

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