



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**RESOLUTION**  
of  
**THE ECONOMIC AND SOCIAL COUNCIL**  
**OF THE REPUBLIC OF BULGARIA**  
on  
**DEMOGRAPHIC CHALLENGES**  
**TO BULGARIA WITHIN THE EUROPE 2020 STRATEGY**

Sofia, 2011

The President Board of the Economic and Social Council (ESC) decided to develop a resolution on the topic of

**"Demographic Challenges to Bulgaria within the Europe 2020 Strategy"**

ESC President - Professor Lalko Dulevski, submitted for discussion to the Plenary Session the draft resolution adopted by the President Board.

At its meeting held on 29 April 2011 the Plenary Session of the ESC adopted the present Resolution.

The problems of the Europe 2020 Strategy and its successful implementation in Bulgaria are a key aspect of the activity of the Economic and Social Council. In 2010 ESC dedicated a number of its opinions to these problems and adopted a special opinion on the "Strategic Priorities for the Bulgarian Economy within the Europe 2020 Strategy.

In March 2011 ESC developed and adopted Resolution on the "Draft National Reform Programme of the Republic of Bulgaria." The Council was pleased to find that some of its main proposals were taken into consideration in the National Reform Programme (2011-2015) for the Implementation of the Europe 2020 Strategy (NRP) adopted on 13 March 2011 by Council of Ministers.

As a further step in its activity addressing this key national priority ESC presents this Resolution which articulates ESC's position on certain crucial demographic challenges facing Bulgaria in the context of the Europe 2020 Strategy.

## **INTRODUCTION**

1. The ongoing demographic processes over the last 3-4 decades have resulted in objective challenges for Bulgaria which can have negative impact on economic growth, employment and public finances in the medium and especially in the long run.
2. Together with the decline in the population there are enduring trends of its ageing and deterioration of its age structure. Emigration from Bulgaria has contributed to about one third of the negative growth for the last decade.
3. ESC pays particular attention to the fact that recent waves of outward migration comprise mainly young and educated people, which naturally results in the

deterioration of the demographic contingent in child bearing age as well as the overall quality of the human capital in the country.

4. While considering the upward trend in live births in Bulgaria over the period 2002-2009, ESC notes with concern more and more births are given by underage girls, which constitutes certain risks for both the young mothers and their children.

5. According to ESC the impact of ageing on public finances should be seen not only as increased pension costs, but also in terms of the expected increase in medical and long-term care costs. The depopulation of Bulgarian villages which leaves as their population predominantly elderly people will require additional public funds to ensure their social security and access to necessary public services.

6. ESC objectively attributes the increased healthcare and disability pension costs to the increased morbidity and disability among the elderly. In this regard, ESC recommends that a specific evaluation of the impact of ageing on the significantly increased, especially during the last decade, public expenditure on healthcare and disability pensions.

7. The high morbidity among the population at large has a direct impact on other public expenditure or loss of profit such as the cost of temporary incapacity or disability benefits, reduced productivity, unused or degraded human capital, which requires investment of significant public funds, etc.

8. In this regard, ESC considers disease control and prevention the most important and effective tool both for maintaining good health and reducing the expenditure of public funds.

9. According to ESC the high level of education and professional training is an issue that relates directly to economic growth, public finances and employment, which is

why ESC is deeply concerned about the forming contingent of young people without elementary education and a very basic level of literacy and vocational training.

10. ESC considers the phenomenon of early school leaving a direct loss of public funds that have been expended without achieving any sustainable result. Conversely, ESC is deeply concerned about the fact that the current economic crisis gave rise to significant polarisation in the employment rate according to basic education levels, which together with the expected restructuring of the economy and the labour market will create long-term problems regarding the employment of people with the lowest level of education.

11. At the same time, in a separate Analysis ESC has demonstrated the close link between the lack of education, the inability to find work and poverty. The need for public expenditure to protect people facing poverty and to aid their social inclusion is another prerequisite for further pressure on public finances.

12. ESC emphasises the level of education and the ageing of the workforce as key challenges to achieving the employment objectives set in the "National Reform Programme (2011-2015) for the Implementation of the Europe 2020 Strategy."

13. Considering these and a number of other demographic trends, ESC calls for deeper and longer-term assessment of the expected impact of demographic processes on economic growth, public finances, employment and other fundamental socio-economic indicators once the National Statistical Institute has published the complete information package regarding the most recent official population count.

14. ESC proposes that on the basis of sufficient socio-political consensus and with the active participation of all stakeholders - governmental agencies, political structures, civic and academic organisations - there should be developed a long-term strategy for the reproduction of the Bulgarian population and its quality characteristics which

should be adopted with a sufficiently high majority by the National Assembly. ESC's proposal is that this strategy should become the basic strategic document for the development of Bulgaria which should integrate the objectives and priorities of other key sectoral strategies in areas such as healthcare, education, pensions, administration, etc.

15. ESC expresses its satisfaction with the inclusion in the National Reform Programme (2011-2015) of the objective proposed by it for reaching by 2020 GDP PPP per capita of 60% of the EU average. ESC thinks that this objective will mobilise significant efforts, policies and measures to ensure a higher productivity rate than that of the EU.

## **1. MAIN DEMOGRAPHIC CHALLENGES TO BULGARIA**

1.1. Demographic problems in Bulgaria have been the subject of extremely high public interest ever since the end of the 1960s when a consistent trend of declining birth rate is discovered. Over the past four decades, many forecasts, estimates and opinions of experts and academic circles repeatedly proved the existence of an objective, persistent and increasing decline in the demographic situation in Bulgaria.

1.2. As a result of the demographic processes that occurred during the period 1985-2011, population decreased by 1,597,415 people which represents a decrease of 17.9% as compared to the population registered by Census 1985. There are obvious trends showing continual depopulation of Bulgarian villages and specific regions of the country.

1.3. ESC is deeply concerned about the fact that together with the decline in the number of the population there are also persistent signs of its ageing and the deterioration of its age structure.

1.3.1. The absolute number as well as the share of young individuals (under 18 years of age) is declining steadily. It is 23.5% in 1992 and reaches 15.9% of the total population in 2011.

1.3.2. The share of the population above 65 years of age is constantly increasing: from 14.3% in 1992 it reaches 18.9% in 2011.

1.4. ESC observes that regardless of the certain decrease in permanent emigration, amounting to about 12%, during the period 2002-2011 as compared to 1993-2001, the emigration from Bulgaria accounts for approximately one third of the negative population growth for the last decade.

1.5. ESC holds that special attention should be paid to the fact that migration abroad is particularly characteristic for young people which naturally has a long-term impact on the demographic contingent in child bearing age and hence the birth rate potential of the country. Moreover, although in recent years somewhat decreasing, the emigration abroad of highly educated young people constitutes a loss of high-quality human capital - which is more and more needed in the country.

1.6. With great concern ESC observes that Bulgaria's population is one of the fastest declining in the whole European Union. The greatest impact on this situation has the negative natural increase which accounts for approximately two-thirds of the overall population decline in the country. Unfortunately, the impact of this negative natural increase will have its serious negative consequences in the future when the results of the trends in fertility, mortality and emigration formed in the last three decades will materialise.

1.7. ESC notes that for the period 2002-2009 in Bulgaria there is a steady tendency of increasing the number of live births. At the same time, ESC observes that this is paralleled by an increase of births given by underage girls, which poses in significant

risk both the young mothers and their newborn children. The fact that every year over two thousand mothers abandon their children after they give birth to them cannot be overlooked. This corresponds to the fact that around 70% of the children placed in specialized institutions are of Roma origin, which unfortunately creates many serious problems with their adoption.

1.8. Another demographic challenge for Bulgaria is infant mortality: its rate of 9 ppm in 2009 is more than two times higher than the EU average. ESC holds that reducing child mortality is a problem that requires both improving health care and birth conditions, as well as significantly improving the sexual culture and reproductive education among the adolescent generation.

1.9. The high level of infant mortality is a major demographic factor with foreseeable long term negative influence on the formation of the anticipated negative natural population growth in Bulgaria.

1.9.1. ESC impartially notes that the expected further population ageing will objectively contribute to the already outlining high level of mortality.

1.9.2. At the same time ESC draws attention to the distinct problems of high morbidity in the population that are directly related to the established trends in mortality. The fact that over two thirds of the causes of mortality are associated with diseases of the circulatory system once again proves the position of ESC calling for the urgency of adopting adequate and effective measures for control and prevention of cardiovascular diseases.

1.10. ESC believes that special attention with respect to Bulgaria's demographic policy should be paid to regional aspects as well as the specific demographic processes in cities and villages.

1.10.1. Still the Bulgarian village is the source of higher average fertility per woman of fertile age: the total fertility rate in rural areas in 2009 as compared to towns is approximately 19% higher.

1.10.2. At the same time, in 2009 more than half (53.4%) of births are outside of marital relations, which according to ESC demands special attention in any analyses and evaluations. For if in the cities in 2009 there is an almost equal number of children born in and outside of marital relations, the number of children born outside of marital relations in villages is approximately 75% higher than the number of children born in married families. ESC draws particular attention to the fact that in many regions of the country (Vidin, Vratsa, Montana, Dobrich, Varna, Lovech, Pleven, etc.) children born outside of marriage exceed several times those born to married couples.

## **2. DEMOGRAPHIC CHALLENGES TO ECONOMIC GROWTH AND PUBLIC FINANCES**

2.1. According to ESC the emerging demographic trends in the country will have a tangible impact on public finances, economic growth and socio-economic development in the medium and especially in the long run.

2.2. In numerous opinions ESC has drawn particular attention to population ageing and its impact on public finances and the state of the pension system in the country.

2.3. According to ESC, population ageing should be seen not only in terms of changes in the age structure of the population and public expenditure on pensions, but also in terms of the expected increase in healthcare and long-term care costs.

2.3.1. ESC once again highlights the opinion of the European Commission expressed in the Annual Growth Survey that in the long run these demographic trends will

require additional public spending amounting to 4.5 percent of the GDP of the European Union. As well as its own opinion that considering the dynamics of the demographic processes in Bulgaria over the last 2-3 decades, in our country this pressure will be higher.

2.3.2. ESC finds that population ageing already puts very serious pressure on public finances in terms of growing deficits in the public pension fund. At the same time, the emerging ratio between workers and retirees will put more and more pressure on public finances if a significantly higher growth rate of labour productivity is not achieved in the future.

2.3.3. With respect to this, ESC appreciates the inclusion in the National Reform Programme of the Republic of Bulgaria of the objective proposed by ESC to achieve by 2020 GDP PPP per capita of 60% of the EU average. ESC believes that this objective will mobilise sufficient efforts, policies and measures to ensure a sustainably higher productivity rate than that of the EU in order to attain this objective.

2.3.4. ESC recognises that ageing is associated with objectively higher healthcare costs due to the higher morbidity among the elderly. Also, this process leads to an increase in disability and related public expenditure.

2.3.5. The expected increase in the number of elderly people will require increased public funding for long-term care and the preparation of specialist staff for such public services.

2.3.6. The depopulation of certain Bulgarian villages and their occupation by predominantly elderly people will most likely require additional public funding to ensure their social security and access to necessary public services.

2.4. Given these and many other expected challenges, ESC highlights with particular concern the need for more accurate assessment of the impact of ageing on public finances in the medium and long run.

2.4.1. In this context the question that remains openly unresolved is to what extent the significantly increased costs for healthcare and disability pensions especially over the last decade are the result of population ageing and how the further development of this process will affect their future increase.

2.4.2. ESC holds that the assessing the impact of ageing on public finances should be linked to specific regional demographic analyses and forecasts, as well as to a clear understanding for reforms and increased efficiency in the sectors of healthcare, public services, long-term care for the elderly, etc.

2.5. ESC believes that the health status is one of the main quality characteristics of the population and that it has particularly strong impact on public finances, productivity and employment.

2.5.1. ESC holds that the high level of morbidity, especially of cardiovascular diseases, in Bulgaria is an alarming trend with a certain impact on the growth of public expenditure for healthcare.

2.5.2. High incidence of disease has a direct impact on many other public expenses or loss of profits, such as the cost of benefits for temporary incapacity or disability, reduced productivity, unused or degraded human capital that has nevertheless absorbed significant public funds, etc.

2.5.3. In this respect, ESC has repeatedly insisted on the necessary development that medical and social prevention and control of disease should become top priority of the healthcare policy of the country.

2.5.4. ESC believes that disease control and prevention is the most important and effective tool for maintaining good public health and achieving economical use of public funds in the areas of healthcare and other social activities.

2.6. ESC has demonstrated in many of its opinions, some of them especially dedicated to this, that the education of the population is the main indicator of the quality of the socio-economic system and therefore main concern.

2.7. ESC has repeatedly identified disturbing trends in the Bulgarian educational system and the system of vocational training which have a negative impact on the quality of the workforce and the state of the labour market. Moreover, ESC maintains that the high level of education and professional training are issues that relate directly to the economic growth and public finances.

2.7.1. ESC has repeatedly expressed its opinion that more funding should be directed to education, which has always been accompanied by the understanding that such funding should be paralleled by a significant increase in the quality of educational system and the educational characteristics of the individuals engaged in it.

2.7.2. At the same time, ESC has objectively registered certain negative trends in the level of education of adolescents and the emergence of a contingent of young people who are either completely illiterate or possess a very basic level of literacy and professional qualification.

2.8. With a sense of particular public concern ESC repeats the fact that from academic year 1999/2000 to the end of academic year 2008/2009 over 240,000 children have left school because of lack of motivation or due to family issues without completing their course of secondary education, two-thirds of them did not complete even their course of primary education. Hence, it is reasonable to claim that the during the last two

decades over half a million children have left school and now have primary or even lower education.

2.8.1. ESC holds that leaving school early without obtaining the respective level of education or professional training is a waste of public funds which have been spent without achieving any sustainable results.

2.8.2. In a separate analysis ESC has demonstrated the close connection between the lack of education, the inability to find employment and poverty. The need for public expenditure to protect people facing poverty and to aid their social inclusion is another prerequisite for further pressure on public finances.

2.8.3. ESC draws attention to Eurostat data which shows that in 2009 in Bulgaria per 100 people with primary or lower education the number of those in risk of poverty is about twice higher than the EU average. Under comparable conditions, this means two times greater pressure on public finances as compared to the EU average.

2.9. Considering the existing and expected trends in the quality characteristics of the population, in one of its resolutions ESC proposed that the National Reform Programme of the Republic of Bulgaria should include a more ambitious objective for the prevention of leaving school early than the one declared by our country. ESC believes it is of crucial importance that the whole Bulgarian society combines efforts and attains the necessary socio-political consensus for overcoming the tendency for leaving school early and improving significantly the education status of Bulgaria's population.

### **3. THE LEVEL OF EDUCATION AND THE AGEING OF THE WORKFORCE ARE THE MAIN CHALLENGES TO ACHIEVING THE EMPLOYMENT OBJECTIVES IN THE CONTEXT OF THE EUROPE 2020 STRATEGY.**

3.1. ESC is of the opinion that employment issues are crucial to overcoming the challenges facing the Bulgarian economy and public finances. ESC has dedicated several special opinions and analyses to these issues. They have also been addressed in many other documents adopted by the council.

3.2. ESC appreciates the position of the Bulgarian government in defining ambitious employment targets in the NRP, but at the same time expresses its concerns about the presence of certain challenges for their implementation. Some of these challenges are related to the demographic development of the country from both a quantitative and a qualitative perspective.

3.3. ESC finds that concrete structural problems have already formed on the Bulgarian labour market and their underestimation may compromise the achievement of the national targets. ESC shares the concern of the representatives of employers' organisations that even in this serious crisis, on the labour market in Bulgaria there is a considerable shortage of workforce with the necessary level of education and training.

3.3.1. ESC warns that in the absence of timely and adequate policies and measures to improve the quality of the education and professional training of the workforce in accordance with the needs of businesses, this structural problem may deepen, especially in a subsequent period of economic growth.

3.4. ESC holds that achievement of the education objectives incorporated in the National Reform Programme has direct relevance to the achievement of the employment objectives. The maintenance and substantial increase of employment

requires serious changes in the educational and professional qualification structure of the workforce. The trends over the past two years in the Bulgarian labour market not only confirmed the presence of significantly greater employment stability for people with a high level of education but also highlighted considerable differences in labour productivity depending on the educational level of employees.

3.5. At the same time ESC expresses its deep concern for the fact that the current economic crisis has polarised significantly the employees according to their basic education levels - which is clearly demonstrated by comparison with other Member States of the European Union.

3.5.1. According to the information provided by Eurostat, in 2010 the employment rate of persons aged 20-64 with higher education in Bulgaria was 83.3% - the EU average being 82.4%. The comparative analysis shows that this indicator for Bulgaria is higher than the respective national indicator in Estonia, Ireland, Greece, Spain, Italy, Hungary, Slovakia, Romania and other countries.

3.5.2. The typical level of employment in Bulgaria individuals aged 20-64 with secondary education was 67.6% - 2.3 percentage points lower than the EU average for 2010, yet still higher than in Estonia, Ireland, Greece, Spain, Lithuania, Latvia, Hungary, Poland, Romania and Slovakia.

3.5.3. Conversely, the employment rate of persons aged 20-64 with primary or lower education in Bulgaria in 2010 was 40.0% which is lower by 13.4 percentage points than the EU average. Although in Lithuania, Hungary and Slovakia this indicator is still lower, ESC believes that there is a visible structural problem with the employment of people with primary or lower education in Bulgaria.

3.6. ESC notes with concern that if the EU average for 2010 shows that the employment rate of persons with primary or lower education was 64.8 percent of those with higher education, in Bulgaria this ratio was 48.0%.

3.7. ESC draws attention to the fact that in 2010 the employment rate in Bulgaria was 65.4%, while the EU average of this indicator was 3.2 percentage points higher. Considering the observed levels of employment for 2010 on the three main levels of education, ESC restates its concern about the low employment rate of persons with primary or lower education as a key challenge to achieving the national employment objectives.

3.8. ESC suggests that the next programming period should include much more emphasis on increasing economic activity and especially of persons with primary or lower education. ESC finds alarming the data provided in the Labour Force Survey of the National Statistics Institute about the existence of over 930,000 people aged 15-64 with primary or lower education who in 2010 remained outside the labour market. As well as the fact that the participation rate of persons aged 15-64 with primary or lower education is about two times lower than that of people with higher and secondary education.

3.9. ESC believes that the ageing of the workforce is another major demographic challenge to achieving the stated national objectives in the area of employment. In this regard ESC objectively accounts that the most aged contingents of employees occupy the lowest levels of employment. In 2010 the employment rate for people aged 55-64 was 61.5% of those aged 25-34, and between 55% and 57% of those aged 35-44 and 45-54.

3.10. According to ESC, in order to achieve significantly higher levels of employment for elderly people, it is of crucial importance to develop timely the system for continuing education.

3.11. The ageing of workforce may have another negative effect on the economic growth and the labour market in terms of its link with problems of labour productivity. Thus, ESC highlights once again the familiar conclusion concerning the relationship between the ageing of the workforce and changes in the level of labour productivity. The observed increase in labour productivity and its reaching peak levels between 40 and 50 years of age is usually followed during the next age period by levelling and sloping down of this key indicator. Therefore increasing the contingencies of employees in higher age intervals could be challenging both to the achievement of significant increase in the overall level of employment and to the average labour productivity.

3.12. Moreover, ESC expresses its consensual position that ageing should be considered not only as a challenge or a problem but as an opportunity for growth in employment by stimulating the developing new segments of the labour market.

3.12.1. The increase in the number of elderly people will require a subsequent increase in the volume and types of social care and services arising from the specific needs of this demographic contingent. Generally speaking, this means more jobs in social services as a result of their increased demand.

3.12.2. The anticipated increase in average life expectancy will result mainly from the improved health status of people, and under equal conditions should lead to growth in the upper age of labour activity. In the presence of such a trend it is reasonable to expect future increases in labour supply by elderly segments of the workforce.

3.12.3. From this and other similar perspectives ageing should be seen and used as an opportunity to improve the condition of the labour market.

In conclusion, ESC one again expressed its position that there are certain challenges to the economic growth, employment and the public finances in Bulgaria which result from the development of demographic processes and characteristics of the population and the expectations for future developments in this area.

Therefore, ESC is ready to be actively involved in the preparation of much deeper and longer-term assessments of the expected impact of demographic trends, and the developments on the basis of socio-political consensus of a long-term strategy for population reproduction and improving its quality characteristics, which should be adopted by the National Assembly.

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