



Republic of Bulgaria  
ECONOMIC  
AND SOCIAL COUNCIL

**OPINION  
ON:**

**"INCOME INEQUALITY IN BULGARIA:  
ECONOMIC POLICIES AND PREVENTION"**

**(developed by own-initiative)**

**Sofia, 2022**

The Activity Plan of the Economic and Social Council for the first half of 2022 includes the preparation of an own-initiative opinion on "Income inequality in Bulgaria: economic policies and prevention."

The preparation of the opinion was assigned to the Commission on Labour, Income, Living Standards and Industrial Relations and the Commission on Macroeconomics, Budget and Finance. The Commission on Labour, Income, Living Standards and Industrial Relations was appointed as the leading commission for the preparation of the draft opinion and Lyuboslav Kostov – CITUB (Confederation of Independent Trade Unions of Bulgaria), from Group II and Romyana Georgieva – KRIB (Confederation of Employers and Industrialists in Bulgaria), from Group I.

The draft opinion was adopted at a joint meeting of the commissions on 17.01.2022.

At its Plenary Session held on 01.02.2022, the Economic and Social Council approved this opinion.

## ABBREVIATIONS USED

ESC	Economic and Social Council
CLILSIR	Commission on Labour, Income, Living Standards and Industrial Relations
CITUB	Confederation of Independent Trade Unions of Bulgaria
KRIB	Confederation of Employers and Industrialists in Bulgaria
GDP	Gross Domestic Product
SMEs	Small and Medium-sized Enterprises
OECD	Organisation for Economic Co-operation and Development
IME	Institute for Market Economics
ICT	Information and Communication Technologies
EU	European Union
PCA	Partnership and Cooperation Agreement
EPSR	European Pillar of Social Rights
AI	Artificial Intelligence
WIID	World Income Inequality Database

## 1. Conclusions and recommendations

- 1.1. The evolution of income inequality over the past 30 years is a consequence of the country's socio-economic development, the reforms over the years and the income policy. **The unfair distribution of income and wealth is one of the important reasons for the growing inequality.**
- 1.2. ESC believes that the main **factors for the growing income inequality** in Bulgaria in recent decades are as follows: 1) the transition from a planned to a market economy and the rapid development of the private sector after 1990; 2) the global financial and economic crisis during the period of 2007-2009, 3) the change in the tax system in 2008, 4) the redistributive role of the state in the economy as a share of GDP, 5) the structure of the economy, 6) the nevertheless unacceptable high share of the informal economy in terms of GDP and undeclared employment, 7) demographic determinants and labour concentration in several regions, as well as 8) the rapid pace of technological change and digitalisation and insufficient investment and incentives, 9) the COVID crisis from the past 2 years.
- 1.3. ESC emphasises the conclusions in the resolution voted on inequality of 11.12.2021 during the 109<sup>th</sup> session of the ILO (International Labour Organization)<sup>1</sup>. The adopted conclusions clearly emphasise that **high levels of inequality** in the field of labour can have serious economic, social and political consequences. These **can slow down economic growth, undermine social mobility and social cohesion**, and deteriorate public health. The ILO has identified **the COVID-19 crisis as a major catalyst for inequality** and called for urgent action to reduce it by promoting inclusive growth and building a better future, including by tackling the effects of ongoing megatrends such as climate change, digitalization, demographic change, globalization, etc.
- 1.4. ESC believes that **intensive economic growth** is key to reducing income inequality. This

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<sup>1</sup> <https://knsb-bg.org/index.php/2021/12/13/plamen-dimitrov-v-zheneva-neravenstvata-se-zasilvat-trvabvada-podnovim-soczialniva-dogovor/>

should be promoted through better use of the Structural Funds and the Cohesion Fund, the promotion of entrepreneurship, the close involvement of the EPSR with the European Semester and the Common Economic Policy, the protection of competition, SMEs support programs and the implementation of active policies for the labour market.

- 1.5. ESC recalls that the conclusions in the resolution on inequality voted during the 109<sup>th</sup> session of the ILO recognized that adequate minimum wages are **an instrument to reduce inequality, and they should reflect the value of livelihood**. In this regard, it is important to emphasise that ILO Convention 131, Art. 3, specifies that "The elements to be taken into consideration in determining the level of the minimum wage shall include (a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits and the relative standard of living of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment."
- 1.6. ESC has always supported the understanding that workers must be able to make a living with the work they do. Extending the scope of collective bargaining systems while respecting the principle of "equal pay for equal work" is the key to **a fair distribution of the fruits of economic progress**. This is the way to reduce the still high levels of the working poor and those working in precarious employment without the necessary protection and without sufficient resources. In this way, the broken social contract can be restored.
- 1.7. ESC believes that it is extremely important to have **minimum social standards** that guarantee decent pay and working conditions, as well as adaptive social support. These minimum standards must be consistent with the understanding of **livelihood**, and in the field of work, to be assessed in the form of a **livelihood wage**, to be agreed through constructive and objective social dialogue.
- 1.8. According to ESC, **social dialogue and collective bargaining contribute to** the fair

distribution of added value in the economy, as well as to **the reduction of inequality**. The lack of working legal and protective norms to guarantee the rights of association and collective bargaining, as well as the violation of these rights, lead to a decrease in trade union membership and the scope of collective bargaining. This contributes to increasing payment inequalities.

ESC places special emphasis on the fact that **collective bargaining** can contribute to a closer link between payment levels and economic efficiency and social justice, which will lead to **a reduction in income inequality**<sup>2</sup>.

**1.9. When the stratification is too great**, i.e. a small part of society owns a large part of the national income, there may be a risk of inequality **in terms of access to quality education, health care, justice and basic goods and services**. This can jeopardize economic growth, especially when combined with increasing poverty in the lowest income groups and fuel the cycle of disadvantage in these groups.

**1.10.** According to ESC, it is necessary to hold a broad public debate on the need for changes in income taxation, including the expansion of the principle of family income taxation and the introduction of a tax-free minimum. Such a policy would have a significant social and economic effect, which would potentially improve the indicators of income inequality in Bulgaria. On the one hand, low-income people will have more money left and the "scissors of inequality" would close, but on the other hand, based on the extreme tendency of low-income people to consume, aggregate demand would increase significantly, which would cause higher real GDP growth.

**1.11.** According to ESC, a well-functioning system of social transfers and adequate social policies are needed to support those in need. **Fiscal redistribution must make up for gaps in the market system** (ECO/410; EESC)<sup>3</sup>, and public assets must be developed as

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<sup>2</sup> [https://www.europarl.europa.eu/doceo/document/EMPL-PR-647047\\_BG.pdf](https://www.europarl.europa.eu/doceo/document/EMPL-PR-647047_BG.pdf)

<sup>3</sup> ECO/410: Wealth Inequalities in Europe: the profit-labour split between Member States (Own initiative opinion). EESC. 2017. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/wealth-inequality-europe-profit-labour-split-between-member-states-own-initiative-opinion>

a means of reducing inequalities in society. Suitable instruments for this type of policy are the National Recovery and Resilience Plan and the Partnership Agreement.

- 1.12.** The digitalisation and rise of labour platforms can create new drivers of inequality, but also can provide workers with income-generating opportunities. On the other hand, incomes are often low, employment is volatile, and social protection is usually lacking, **further exacerbating existing inequalities**. The legal protection of labour rights is insufficient, especially with regard to new atypical forms of work and remote working.
- 1.13.** According to ESC, **education** is one of the factors influencing income inequality. The issue of the quality of education and its connection with the socio-economic environment is also important. Innovations in the labour market will require the promotion of **lifelong learning**, and skills will become much more important. **Enhancing the skills of low-skilled workers** has great potential to counteract the wage gap, while at the same time being able to help create more jobs and reduce income inequality.
- 1.14.** According to ESC, in the fight against high income inequality, it is essential to have a reliable and sufficiently voluminous **statistical database** over time. Currently, we rely mainly on international databases and aggregate indices, which provide an idea of the level of inequality in Bulgaria. In this regard, it is necessary for the state to invest in expanding the internal statistical database and further in-depth monitoring of these processes on various grounds, including regional. This will allow more adequate policies to be formulated.
- 1.15.** ESC notes with concern that in Bulgaria the distribution of financial wealth is uneven, with the richest percentile having 31% of financial wealth, as measured through bank deposits (Peshev, 2019). In addition, **our country has had the highest Gini coefficient<sup>4</sup>** among all EU Member States for more than a decade. In 2011 this indicator for Bulgaria (35.0%) was close to the EU average (30.7%), and in 2019 it was 30.7% compared to

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<sup>4</sup> Shows the statistical characteristics of the distribution of goods in a society, i.e. the monetary difference between the well-being of the poor and the rich in a society.

40.8% for Bulgaria. The countries with the lowest inequality are Slovakia - 20.9%; Slovenia - 23.4% and the Czech Republic - 24.0%. And although in 2020 the index for Bulgaria shows a slight decline (40.0%), we still occupy the last place.

**1.16.** ESC draws attention to the fact that **in Bulgaria there is a relatively large polarisation in income between the poorest 20% of society and the richest 20%**<sup>5</sup>. A decade ago, the difference was close to the European average. Since then, however, the average European level has remained relatively constant (~ 5 times), while in Bulgaria it is increasing and now this value is also a record high compared with all EU Member States (for 2020 it is 8.01 times).

**1.17.** ESC regrettably notes that according to the latest official data, the poorest 50% of people in Bulgaria receive only 16.5% of the total national accumulated income (WIID, 2021). By comparison, two decades earlier, in 2001, they received just over 20%. On the other hand, the richest 1% of the population of Bulgaria receives 18.2% of the total income. By comparison, in 2008 they received no more than 8%. This means that the top 1% of the richest Bulgarians receive more national income compared to 50% of the poorest Bulgarians. It is evident from all empirical data that there is **a decrease in the share of resource concentration in 90% of Bulgarians at the expense of the remaining 10% (WIID, 2021).**

**1.18.** In absolute terms, the average annual income of the 50 percent of the poorest Bulgarians in 2020 was BGN 5,787 or BGN 482 on average per month, while at the same time the average annual income of 1% of the richest Bulgarians was approximately BGN 320,000, an average of BGN 26,666 per month (WIID, 2021). This means that **the top 1% receive 55 times higher incomes than what 50% of the poorest Bulgarians receive.**

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<sup>5</sup> The difference between the incomes of the first and last quintiles.

## **2. Theoretical foundations and empirical evidence of income inequality**

- 2.1.** ESC notes with concern that the COVID-19 crisis has posed many challenges to modern societies in economic, social, political and demographic terms. According to the Oxfam annual report (2020), 500 million people will be pushed to extreme poverty as a result of this pandemic as early as 2021. This is between 6-8% of the global population. These are people who have so far been in either the second or third quintile in terms of income. The reason for the forced occurrence of this situation comes as a result of measures to control the spread of the virus and slow down the development of entire economies by governments. Bulgaria is a small open economy and is part of all these processes.
- 2.2.** ESC is concerned that the development of this process will potentially delay the fight against poverty and inequality globally for a whole decade, and in some parts of the world this delay is estimated at no less than 30 years (Oxfam, 2020). This phenomenon may also be described by the ILO (2020) estimates that at least 25 million jobs will be lost and cannot be restored after the end of the pandemic. This, in turn, will lead to a loss of household income worldwide of more than 3.4 trillion dollars, a number that is progressively increasing every week (ILO, 2020). In this sense, to date there are a number of destructive processes of social polarisation that affect and will affect all societies.
- 2.3.** ESC reminds that the Kuznets curve (see Kuznets, 1955) is fundamental to the study of economic inequality, in particular income inequality. According to the Kuznets curve initially economic growth leads to greater inequality, but after reaching a high (critical) level of income, the uneven distribution of income begins to decrease, forming an increasingly stable middle class in society. Unfortunately, this dynamic and causality has not been confirmed by any empirical research in recent years.
- 2.4.** Korinek and Stiglitz (2018) argue that reducing inequality is effective in boosting economic growth. Piketty (2014) came to similar conclusions, and his valuable point is that he emphasizes empirical data and this makes his analysis practically indisputable from contemporary point of view, which is also a good basis for a correct understanding

of this contemporary process.

- 2.5.** ESC notes that inequality in the distribution of wealth is traditionally much more uneven than the distribution of income, since the Gini coefficient for the distribution of wealth assumes values on average two or more times the Gini coefficient for the distribution of income (Peshev et al., 2019). One of the main reasons for the problem of the distribution of wealth and its inequality to be poorly represented in the Bulgarian scientific literature is that there is no official data on wealth in its various forms and its distribution. In addition, the initial phase of wealth accumulation is still too short as a time period, and for this reason, when we discuss inequalities in Bulgaria, it is mainly in regard to income inequality. Namely this pattern is behind the motive for exactly this title.
- 2.6.** Korinek and Stiglitz (2018) believe that inequality is one of the main challenges posed by the spread of artificial intelligence and other forms of technological progress that can replace workers and employees. These considerations are becoming increasingly popular, especially in the current recession and the COVID-19 pandemic. The recent dramatic increases in technological capabilities in the field of robotics and artificial intelligence provide society with countless opportunities and challenges. In order for society to benefit effectively from these technologies, there must be complete and in-depth information, an understanding of the impact of robotics and AI on growth, productivity, labour and equality.
- 2.7.** Roine and Waldenström (2015) conducted a descriptive and econometric analysis of inequality in the distribution of income and wealth in selected developed countries. Through a panel econometric study of income inequality, the authors show inflation, the development of financial intermediation, foreign trade, democracy and banking crises as the main determinants of income inequality, measured by the income of the top 1%. From the listed determinants: the openness of the economy, democracy and banking crises have a negative impact on the income of the richest percentile. Inflation and financial intermediation are presented as factors of income inequality, which have a positive effect.

- 2.8.** In his article *"The Price of Inequality: How Today's Divided Society Endangers Our Future"* J. Stiglitz cites inequality as a major threat to the normal functioning of modern societies and as a cause of the erosion of democracy (see Stiglitz, 2012). Inequality is highly distinguishable on the basis of racial, gender, educational characteristics, and falling into some of the decile groups with the lowest income and wealth presupposes the individual to remain in it in the future, i.e. a self-sustaining cycle of poverty is observed (see Stiglitz, 2012).
- 2.9.** ESC emphasises that the period of the largest decline in income inequality in the world is the period after the end of World War II until the early 80s of the 20<sup>th</sup> century (Milanovic, 2020). This period is characterized by several very important elements that have a significant impact: 1) strong trade unions, 2) mass education, 3) high taxes and 4) large government transfers.
- 2.10.** There is a tendency for a decrease of the provision of wages under collective bargaining in countries (OECD, Visser (2016))<sup>6</sup>. The more the wages by sectors and industries are determined by the contractual relations between employers and employees, the greater the stability of this indicator over time and the less likely it is that inequalities will develop on an excessive scale (Kostov, 2020). In this sense, namely the change in the standard employment relations coincides with the increase of inequalities worldwide (Kostov, Milanovic, 2020).
- 2.11.** The aggregate of the poor strata of the population includes mainly the retired, the unemployed and other poor households. For this reason, social transfers mainly shape the income of low-income households and therefore their impact on the level of inequality is significant.
- 2.12.** ESC reports that the retired form a very large share in the group of poor households, because they usually do not have economic activity. Therefore, this makes pensions the

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<sup>6</sup> <https://www.etuc.org/en/document/etuc-reply-first-phase-consultation-social-partners-under-article-154-tfeupossible-action>

most significant factor in reducing poverty, and excluding them from social transfers will put almost 80% in the poverty group. This is why the income stratification has a particularly negative effect on this part of the country's population.

- 2.13.** ESC reminds that part of the problem with inequality also lies in heredity. If educated, highly qualified and wealthy people generally marry each other, this in itself will lead to growing inequality. For example, about 33% of the increase in inequality in the United States between 1967 and 2007 (Milanovic, 2020) can be explained by the selection of partners of similar status. For OECD countries, for example, the selection of a partner of similar status is responsible for an average 11% increase in inequality between the early 1980s and the beginning of the 21<sup>st</sup> century.
- 2.14.** ESC is aware that the economic activity and the participation in the labour market of the majority of the population significantly reduces the income gap. But for people with disabilities, severe chronic diseases and the handicapped, this is virtually guaranteed exclusion from the labour market. As a result, the dependence of these households on social assistance is greatly increased. The possibility to get out of poverty for this group is often hampered by the physical isolation imposed on them by their condition and inaccessible public infrastructure.
- 2.15.** Another important factor for income inequality that ESC points out is the rate of unregulated payment of wages which is still high in some sectors. This factor distorts the statistics, as the data contained in the European report are based only on information from officially submitted data by the Member States, without taking into account salaries paid at hand. It can also be used to explain certain fluctuations in statistics with the release of part of the hidden/grey economy, which is usually observed with a change of government.
- 2.16.** The separation of wages from productivity has contributed to shifting the distribution of labour income to capital. The dominant companies are often in the position of the sole employer (monopsony) in the segment.

Digitalization has allowed the labour market to be fragmented and a growing number of

businesses rely on one-off and incidental contracts with the self-employed. This enhances the effect of replacement technologies. Globalisation is also putting pressure on wages and labour. Technological changes bring polarization to the labour market and this is one of the main challenges of modern societies.

- 2.17.** ESC notes that according to world-renowned economist Branko Milanovic, the declining share of labour in total factor productivity is a catalyst for income growth of the uppermost decile group in society, and hence the increase in inequality in society as a whole since the primary distribution of added value is highly concentrated in a small group of people. This process is a result of technological changes, methodological characteristics and understandings of the contribution of labour in the production process, inadequate macroeconomic and fiscal policies, lack of sustainable industrial policy and low aggregate demand.
- 2.18.** Between 1995 and 2015, the share of middle-skilled jobs in OECD economies fell by around 9.5 percentage points, while the share of high-skilled jobs rose by 7.5 percentage points. Reducing inequality in education is gaining additional significance. Studies of OECD economies have found that high income inequality and the associated higher inequality in educational achievements reduce intergenerational income mobility.
- 2.19.** ESC reminds that in the OECD, the average highest personal income tax rate fell from 62% in 1981 to 35% in 2015. For corporate taxes - from 45 to 26 percent. Fiscal policy, which until 1995 offset about 60 percent of the growth in inequality in market incomes in developed economies, no longer plays a role.
- 2.20.** ESC reminds that according to the Oxfam Annual Report on Inequality (2020), to be among the top 5 richest people in the world today, mathematically, you must have saved 50,000 dollars a day for the last 5,000 years (since the construction of the Egyptian pyramids until today), and the richest 1% of the world's population possesses more than twice as much wealth as 6.9 billion people (85% of the world's population).

- 2.21.** ESC reports that the COVID-19 crisis has accelerated the introduction of remote working, which in turn significantly increases the chances of people with disabilities, considered an unused reserve in the labour market, to better realize their knowledge and skills. The Guardian's Workforce 2020 study found that while 70% of people with disabilities wanted to work, only 18% had this opportunity before the pandemic. This type of work would be a good opportunity for social inclusion, especially for those with mobility problems.
- 2.22.** At the same time, remote workplaces, and from the beginning of 2021 hybrid workplaces, led to an assessment of the employees by the quality of the work performed, and not by the number of hours spent in the office. Digitalisation and changes in regulations related to remote working are not just necessary, but required for the successful development of the labour market and the economy.

### **3. Income inequality in Bulgaria: the current situation**

- 3.1.** ESC realizes that the balance between fair, equitable and effective model of income distribution for economic progress and public welfare is the most difficult optimization task to solve for any society and its government. However, it is necessary to reduce income inequality in Bulgaria to socially acceptable norms that both stimulate economic growth and a sense of justice. To date, this is definitely not the case, based on the numerous statistical indicators that quantify this process.
- 3.2.** The Gini coefficient in Bulgaria, which measures the statistical characteristics of the distribution of goods in society, i.e. the monetary gap between the wealth of the poor and the rich is 40%<sup>7</sup> in 2020, which is the highest value among all EU Member States. These values are not the result of any annual deviations, but have become an established pattern for more than a decade, as our country ranks last in the EU for this indicator for more than ten years.

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<sup>7</sup> [https://ec.europa.eu/eurostat/databrowser/view/ilc\\_di12/default/table?lang=en](https://ec.europa.eu/eurostat/databrowser/view/ilc_di12/default/table?lang=en)

- 3.3.** If we are looking at the Gini coefficient only in the countries of the Balkan Peninsula, regardless of whether they are EU Member States or not, then according to official data, Bulgaria's rating is also extremely upsetting. For example, the Gini coefficient in neighbouring Serbia in 2019 was 33.3%, while in Bulgaria it was 40.8%, in Albania it was 34.3%, in Northern Macedonia it was 30.7%, in Montenegro it was 34.1%., Romania is 34.8%, etc. Therefore, our country not only lags behind the average European levels of inequality measured by this coefficient, but it is also in the last places on the Balkan Peninsula where we have countries with similar economic development.
- 3.4.** Another indicator that shows relatively objectively the difference between the incomes of the poor and the rich in a society is the so-called quintile ratio S80/S20 - SILC of Eurostat. This ration shows that the difference between the incomes of the 20 percent of the richest Bulgarians and the 20 percent of the poorest Bulgarians in 2020 is 8.01<sup>8</sup> times. This is again the highest value among all EU Member States. In 2019, this difference was record high - 8.1 times. For comparison, the average European value of this difference is approximately 5.1 times.
- 3.5.** If we again compare Bulgaria with the countries of the Balkan Peninsula, this indicator will show, for example, that the difference S80/S20<sup>9</sup> in neighbouring Serbia in 2019 was 6.4 times, in Albania 6.3 times, in Northern Macedonia 5.5 times, in Montenegro 6.7 times, and in Romania 7 times. Again, our country is in last place, which means that the width of the interval between the income of the rich and the income of the poor in Bulgaria is much larger than any other country in the EU or the Balkan Peninsula.
- 3.6.** According to the official database of WIID<sup>10</sup> (2021), income inequality in Bulgaria is extremely acute. The latest current data are for 2019, and they show that the poorest 50% of people in Bulgaria have only 16.5% of the total national total income (GDP), which is generated in the economy. By comparison, two decades earlier, in 2001, they owned just over 20%, and in 1991 about 24%. There is a redistribution of income from the majority

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<sup>8</sup> [http://appsso.eurostat.ec.europa.eu/nui/show.do?lang=en&dataset=ilc\\_di11](http://appsso.eurostat.ec.europa.eu/nui/show.do?lang=en&dataset=ilc_di11)

<sup>9</sup> [http://appsso.eurostat.ec.europa.eu/nui/show.do?lang=en&dataset=ilc\\_di11](http://appsso.eurostat.ec.europa.eu/nui/show.do?lang=en&dataset=ilc_di11)

<sup>10</sup> World Income Inequalities Database: <https://wid.world/country/bulgaria/>

to the minority at relatively higher absolute levels. This is a prerequisite for a chronic problem with inequality, which has been developing in our country for several decades.

**3.7.** WIID (2021) provides data for other groups in society: the richest 1%, the richest 10% and the so-called "Middle class", which makes up about 40% of the population according to the methodology used. According to the latest data for 2019<sup>11</sup>, the richest 1% of the population of Bulgaria has 18.2% of total income. For comparison, in 2008 they owned no more than 8%. It can be safely concluded that the top 1% of the richest Bulgarians have more of the national income compared to 50% of the poorest Bulgarians. If we look at the richest 10%, we will find that by the end of 2019 they own as much as 43.5% of the national income in Bulgaria, while in 2008 they owned 33%. The middle class, or 40 percent of middle-income Bulgarians, own 40% of the national income in 2019, while in 2008 they owned 45.1%. The conclusion is that there is a decrease in the share of concentration of resources in 90% of Bulgarians at the expense of the remaining 10%. This is another proof of a serious problem with the distribution of additional added value in the economy and the distribution of total income in society.

**3.8.** If we look at things in absolute terms (under the PCA 2020), the amount of the average annual income of the 50 percent of the poorest Bulgarians in 2020 was BGN 5,787 or BGN 482 on average per month<sup>12</sup>, while in the same time the average annual income of 1% of the richest Bulgarians was approximately BGN 320,000 (an average of BGN 26,666 per month). The average annual income of 10% of the richest Bulgarians for 2020 is BGN 76,269 (BGN 6,355 per month), and the average annual income of the so-called "Middle class" (40% of the population) was only BGN 17,547 (BGN 1,462 per month). This means that the top 1% receive 55 times higher incomes than what 50% of the poorest Bulgarians receive. The top 10% receive 13 times higher income than 50% of the poorest Bulgarians (WIID, 2021; Bulgaria).

**3.9.** Peshev (2019) examines the distribution of bank deposits as a key element of financial and gross wealth in Bulgaria and its determinants by conducting descriptive and

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<sup>11</sup> <https://wid.world/country/bulgaria/>

<sup>12</sup> <https://wid.world/country/bulgaria/>

econometric analysis, but a full-scale study of wealth for Bulgaria has not yet been implemented. The Gini coefficient calculated by Peshev (2019) is 0.84 at the end of the study period (2017), which suggests a large stratification in society according to the distribution of bank deposits, as an approximate indicator of the distribution of gross financial wealth.

**3.10.** Corak (2013) surveyed 22 countries (including Bulgaria) and found that there is a positive correlation between high income inequalities each year and a strong correlation between the incomes of parents' children (i.e. low income mobility). This result means that high inequality today implies that the children of the rich will have much greater opportunities tomorrow than the children of the poor. Not only can they count on a greater heritage, but they will also benefit from better education, better social capital acquired through their parents, and many other benefits. That is why the mobility of income over the generations is very important, and in recent decades it has deteriorated almost everywhere, regardless of the type of national economy that is professed.

**3.11.** In Bulgaria, middle-class incomes are not diversified and are heavily burdened with liabilities. Their money is in current or savings accounts, they have no shares, and their loans represent a large share of the household budget, i.e. debt is a significant component of gross income, which is potentially a significant problem for the ability to meet the basic needs of households<sup>13</sup>.

**3.12.** Social transfers are becoming increasingly important in reducing inequality in the country, and their impact is progressively growing over the years. The reasons for their increasing importance are due to: the negative and crisis processes in the development of the economy as a whole and in the change of the demographic structure in the country: the emigration of young and able population; the aging of the population; increasing the number of people of retirement age. In the period 2010 - 2018 the population aged 65 and over in Bulgaria increased by over 10%. But as of 31 December 2019, more than 2/3 of the retired have a total monthly income below the poverty line for the year.

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<sup>13</sup> <https://www.bnb.bg/Statistics/StMonetaryInterestRate/StDepositsAndCredits/StDCCredits/StDCQuarterlyData/index.htm>

- 3.13.** ESC draws attention to the fact that the expenditures for social assistance and insurance in Bulgaria (16.1% of GDP) lag behind the EU average (26.9%), which contributes to the high level of poverty in our country and is a prerequisite for consideration and action. For this reason, ESC considers it important to distribute transfers more efficiently and fairly. On the other hand, the long-term provision of social benefits without creating opportunities for realization on the labour market does not solve the problem of poverty. It is necessary to find balance.
- 3.14.** The demographic factor has a serious impact, which over the years has been characterized by a steady trend of population decline and aging. This means that the group of employees over the age of 54 is becoming an essential part of the workforce in today's societies, and the share thereof will increase in the coming years.
- 3.15.** Inequality in the labour market at the educational level in Bulgaria is growing. The group of low-skilled workers is the most vulnerable. It can be complemented by an analysis of inequality among the group of discouraged people (unemployed and not looking for a job). This group occupies a significant share of the working population in Bulgaria, again, dominated by people with low and secondary education.
- 3.16.** Bulgaria is among the countries where the risk of poverty for the population is above the EU average, especially among the unemployed and economically inactive. According to the economic status, in 2019 the risk of poverty is highest for the unemployed - 58.9%, the retired - 34.3% and other economically inactive persons - 29.8%. These trends suggest that economic activity and labour market participation reduce the likelihood of at risk of poverty. The most significant changes in the structure of the unemployed are observed on educational grounds. The share of graduates is the lowest and changes little. On the other hand, the share of the unemployed with secondary education is significantly increasing. An alarming trend is observed among the unemployed with low education. They are leaving the labour market, which theoretically reduces inequality, but in practice generates other problems related to the ability to work in the informal economy.

- 3.17.** The imbalance in the territorial distribution of the population is aggravated by the uneven distribution of investments. This also affects long-term sustainable development and holds back the country's overall economic growth. Territorial disparities, together with socio-economic inequalities, are a causal factor in poverty. To date, the North-western region remains the least populated due to the lowest birth rate and natural increase, but also with the highest mortality and lowest life expectancy. Due to the insufficient number of vacancies, the labour market and poverty indicators are the worst compared to other regions.
- 3.18.** In this sense, in order to achieve sustainable economic growth, it is necessary to develop activities with the potential to create new jobs and to attract high-tech companies in specific regions, which will lead to high payment. Work is also needed through joint action by the social partners to raise awareness of the direct link between higher labour productivity and higher incomes.
- 3.19.** Another aspect that affects inequality is the fact that men's wages remain significantly higher than women's (by about 13.5%)<sup>14</sup>, and the employment rate is the opposite (men - 54%, women - 46%)<sup>15</sup>.

/signed/

**Zornitsa Roussinova**

**PRESIDENT OF THE ECONOMIC AND SOCIAL COUNCIL**

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<sup>14</sup> <https://www.europarl.europa.eu/news/bg/headlines/societv/20200227STQ73519/razlikata-v-zaplashchaneto-mezhdu-mzhete-i-zhenite-infografika>

<sup>15</sup> [https://nsi.bg/sites/default/files/files/publications/ZB\\_2020.pdf](https://nsi.bg/sites/default/files/files/publications/ZB_2020.pdf)

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