

Problems of Employment and Unemployment in Bulgaria: Is Sustainable Development Possible?

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Abstract: As a specific market, entering the complex interactions with economic policies and processes, and located directly linked to the achievement of social security and macroeconomic stability, the labor market in Bulgaria is characterized by peculiar features provided by the hallmarks of development during periods of transition to a market economy, European integration, economic crisis and the contemporary dynamic conditions of pervasive globalization. Current study examines the factors of unemployment and economic growth in the country leading to conclusions about the need of flexibility and adequate and timely policies of labor market and economic development. Analyses are based on the key findings of the EC national report 2015 (concerning the implementation of goals regarding sustainable, inclusive and intelligent growth) providing implications on the problems of employment and unemployment in Bulgaria, labor market and social policy development. Recommendations are made concerning needed changes in different spheres of social and economic life and the role of state.

Key words: employment, unemployment, labor market, social policy

1. Introduction

The problems of the modern labor market are subject to increasing interest in the field of research, policy discussions and management practice. The topical interest of the studied subject for the impact of various policies, programs and measures on the national labor market is conditioned by the fact that in recent years the implementation of specific programs and measures plays an increasing role in Bulgaria and is used as a main tool for the impact the labor market, both at regional and national level¹. The economic activity, the employment of the population with productive labor, is the most important factor for economic growth. As a factor for economic growth at this stage, employment is important for Bulgaria in terms of its quality structures, sectoral and branch redistribution, mobility and price. Regarding its rate and structure, the employment is a result of the economic development of the radical changes occurred in the structure of ownership and production. In large part, however, it is a result of

the ongoing economic, social and political reforms².

The political changes of the early 90-s of the twentieth century in Bulgaria lay the foundations for the development of a real labor market and major reforms in the hitherto existing social protection systems and the development of human capital. The transition from a centrally planned to a market economy in Bulgaria results in huge transformations in the ownership and structure of the national economy³. These processes lead to a significant downturn in the functioning of the national economy. In these adverse economic conditions, the development of the labor market and social protection policies go through many turns due to the inconsistent policy of frequently changing governments and their different attitude towards policies on unemployment and employment. Further, the entrance of the country into the European Union challenged again the still developing economy and social system which soon after that are deeply influenced by the economic crises.

1 Terziev, V., Arabska, E. 2015. Analyses of Labor Market Development in Bulgaria: Role of active policies for social and economic development. 3rd HASSACC 2015 - Virtual Conference Human and Social Sciences at the Common Conference, 5-9 October, 2015, 140-145.

2 Terziev, V., Dimitrova, S. 2015. Peculiarities of Labor Market Development in the Republic of Bulgaria, Journal of Innovations and Sustainability, Vol. 1, No 1, 2015, p. 47-99.

3 Terziev, V., Dimitrova, S., Arabska, E. 2015. Assessment of active social policies' impacts on labor market in a period of transformation Bulgarian society. Procedia Economics and Finance 30 (2015) 890 – 902.

The deindustrialization in Bulgaria has a number of specifics and as compared to Western economies, it was determined not so much by the natural course of the economic development, but rather by the initiated political changes and policy reforms for transition to a market economy⁴. So the process of deindustrialization had to solve both economic and political tasks: the economy had to become efficient and competitive, but together with that it had to change its ownership, scales and features. The reforms began with the change of ownership, the restriction of monopoly and environmental pollution, the eradication and limitation of inefficient industries, and it continued to the establishment of a functioning market economy, corresponding to the standards and the rules of the EU policy and the requirements of the globalizing economy. These two essential transitional periods - to a market economy and to integration into the EU - led to a radical restructuring of production and employment. Unlike in other countries in Central and Eastern Europe, going through similar transitions, in Bulgaria these processes had a high social cost and significant impact on the incomes of the population, its security and employment.

The decline in the economic activity of the population and even more in the employment in the 90s of the XX century, the high rate of long-term unemployment and the mass poverty led to the contraction of the domestic market, reducing the chances for production development and increasing employment. All this reduced the social security (even if only in terms of insurance funds) and retarded the society development, making the transition to a market economy long and happening at high social and economic costs. The restructuring of the workforce and the changes in the employment of the population in Bulgaria are radical, large-scale and diverse. The first group of changes in employment, creating a good basis and opportunities are⁵:

- change in the model of employment - from administrative to market

4 Terziev, V., Arabska, E. 2015. Bulgarian experience in labor market development. 18th International Academic Conference, 25 August 2015, London. ISBN 978-80-87927-11-3, IISES, 710-733.

5 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

distribution of employees and their mobility; from full employment on social basis to unemployment and uncertainty in terms of paid work; from passive to active behavior and competition in the labor market.

- elimination of administrative restrictions on the movement of the workforce inside and outside the country; creation of conditions, albeit limited for now, for greater mobility of the workforce;
- new and radical change in the existing national labor and social legislation in the context of the development of the market economy and the democratic processes and in accordance with international conventions, European directives, etc.;
- creation and development of the labor market and its institutions and policies with the development of a network of employment services throughout the country, their equipment and the qualification of the persons employed in them;
- creation and development of a policy for regulating the labor market, an active policy for stimulating unemployed to return to work and employers to hire certain groups of unemployed;
- restructuring of branch and sectoral employment, rapid increase in the number of employees in services and reduction of those in industry;
- increase in the employment in the private sector, in the number of entrepreneurs and self-employed.

The second group of changes in employment are changes posing problems and barriers to the achievement of economic growth and social cohesion, such as: reduced participation of the population in paid work, employment and economic development; growing economic burden on workers (social contributions, taxes, restrictions on wage growth, etc.); the drastical decline in the employment of young people, ethnic groups, women, rural population stands out on the background of the general drop in employment. As a result, there is a rise in the number of poor and impoverished, excluded from the world of work. There is a high proportion of

the employable population dependent on and in need of social assistance. For part of the unemployed (mainly long-term unemployed) it is difficult to return to work, for another part it becomes impossible to provide education to their children. The preliminary school leavers are therefore numerous.

Despite the significant contraction in employment in the 90s of the XX century (about 40% compared with 1989), the hidden unemployment and the inefficient use of the employed remain high. Improving the efficiency, the competitiveness of the majority of the national production requires reducing the share of the costs of production, including labor costs⁶. This virtually requires dismissal of some employees. The process of deindustrialization and economic restructuring naturally resulted in the sharp reduction of employment in industry. The decrease in production was more significant⁷. Crushed were the employment and the production in some sectors for which it is considered that the country has a good potential and traditions and in sectors in which a lot has been invested in recent decades. The first ones include light and food industries and the second ones - electronics, computing, electrical industry, instrumentation, specialized equipment, etc. In this way the national economy has not only lost foreign markets and opportunities for more accelerated growth and employment, including of highly skilled labor, but also opportunities to change the technical and technological level of production in the near future, to keep in the country and to use professionally trained and qualified specialists in an effective way.

In the public and especially in the private sector, there is a high share of employees, receiving wages around the minimum amount. Part of the private sector employees are still not insured for social risks. This leads to an increase in the

6 Terziev, V. 2015. Methodological Approach to Research and Evaluate Main States And Transitions on Labor Market. Проблемы современной экономики URL: <http://cyberleninka.ru/article/n/methodological-approach-to-research-and-evaluate-main-states-and-transitions-on-labor-market> (дата обращения: 26.01.2016).

7 Terziev, V., Dimitrova, S. 2014. Development and restructuring of employment in Bulgaria in the period of transition and active transformations. New knowledge Journal of science, 3(3), p. 19-29.

number and the proportion of the so-called working poor and also increases insecurity and social differentiation. One part of these people choose official unemployment to employment (the social benefits are relatively high or sufficient in size so that they are preferred to the receipt of income from work) or continue their stay in unemployment as preferred to the alternative of low pay and insecurity.

In the 90s the unemployment was high, mass and long and lead to profound social and economic changes in society⁸. Actually the labor supply was much greater because of the many graduates of educational establishments or early drop-outs, desperate and disillusioned unemployed who gave up their official registration, seeking employment pensioners and students and others. Thereto was also added the huge number of exempted from the army in connection with the ongoing reform in it. During this period the unemployment rate in many communities was over 30%, and in some - over 40 and even 50%. Most of these regions are with mixed and Roma population. Only about 1/4 of the unemployed receive social benefits or the majority of the unemployed have no income. Relatively few of them can hope for social assistance or involvement in subsidized employment programs. The majority of the unemployed have lower education without professional training and/or without work experience. The majority of them are Roma, young people and women. About 60% of the unemployed are with low education and without profession, which means that, case of favorable economic growth, increase in the foreign investments, increased labor demand, it is very unlikely that they find paid employment. And this is confirmed in practice as in recent years a high growth, a high labor demand, even a shortage nationwide, have been registered in the country. The unemployment, although significantly decreased, remained relatively high, especially for the unemployed from the so called risk groups (long-term unemployed with low education, no profession, disabled, etc.). For many of them paid jobs remain inaccessible and entering into such an employment is accidental, non-continuous, uncertain. This in turn results in social insecurity and in the "best" cases -

8 Terziev, V., Dimitrova, S. 2014. Transformation in Bulgarian labor market in the years of transition. New knowledge Journal of science, 3(3), p. 30-48.

employment in the informal economy, migration and others.

The first half of the 90s was a period of economic reform: establishment and development of markets, including the labor market; a change in the pattern of employment and formation of adequate policies to address the social problems arising from the privatization, the structural reforms and the evolved unemployment and impoverishment of the population. Since the late 90s a policy of EU integration was pursued and related actions of strategic plan character were carried out on reduction of unemployment and increase of employment. Strategies were adopted (including the Employment strategy and national plans) for linking the economic development with job creation⁹.

Since the beginning of 2000 and especially after 2003, the reduction of unemployment in Bulgaria has been associated with the attenuation of the processes of privatization and liquidation of unprofitable businesses, as well as with the pursued active policy, creating a high share of offered subsidized jobs. Since the mid-2008 one could observe again processes of increase of the officially registered unemployment, which are connected not only with the usual seasonal fluctuations in production and employment, but also with the started global financial and economic crisis, which had repercussions in Bulgaria – a country with an open economy, with a significant export to the developed countries affected by the crisis and with a high proportion of import of raw materials and materials, whose prices were rising. The global financial crisis resulted in a drop of the foreign investments in the national economy. Additional factors were the constraints, the drop in the transfer of financial resources in the country by Bulgarian emigrants which were significant in volume and share, including in the financing of consumption and investments and therefore in the GDP growth¹⁰. The impact of the global financial and economic crisis, that started to occur in Bulgaria at the end

of 2008, worsened the economic situation in the country during the period from 2009 to 2011, turned the direction of the firm trend of economic growth and significantly changed the situation in the labor market causing a rise in the number of unemployed. The unfavorable economic environment resulted in market contraction, reducing the workload in many economic activities, cost optimization, implementation of structural changes and reduction of the employees in companies.

2. Peculiarities of Labor Market Development in Bulgaria

The transformation of the Bulgarian economy into a market one revealed numerous peculiarities and paradoxes in the formation of the labor market, which are not usually characteristic of the countries with a traditional organization of the market economy¹¹. Thus the absence of major economic growth in the first years of the reforms contributed to the establishment of a view of the uniqueness of the Bulgarian transition phase in the sense that the successfully selected macroeconomic strategy resulted in the avoidance of serious problems in the labor market. This "success" however was accompanied by hypertrophic appearance of intermediate forms in the status of the employees who were not completely unemployed, but were also not working. "Unemployment in the workplace", including the one connected with the preservation of excessive, economically unjustified employment, paradoxically coupled with a shortage of staff. The actual unemployment resulting from a periodic change of jobs met the inflexible employment system, the weak points of the labor market, the insufficient understanding of the role of some market mechanisms such as the employment services (primarily with their functions in informing about available vacancies and workers seeking employment). Structural unemployment, usually determined by the recession in some industry branches and the growth (including the increase in the number of jobs) in new sectors is generally eliminated by systems for retraining of employees. But in the transition conditions in Bulgaria, the compensating creation of new jobs was clearly insufficient, and the new jobs often required no

9 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

10 Terziev, V., Dimitrova, S., Arabska, E. 2015. Assessment of active social policies' impacts on labor market in a period of transformation Bulgarian society. *Procedia Economics and Finance* 30 (2015) 890 – 902.

11 Terziev, V. Impact of labor market policies on employment provision. Dema Press, Ruse, 2013.

training but professional habits and skills of a lower level than the ones in the previous job. In response to cyclical unemployment (unemployment of insufficient demand) are often used measures for recovery of aggregate demand (or for retention of its decline), promotion of job creation (tax concessions, removing the obstacles to the creation of small businesses, provision of know-how, etc.), promotion of part-time employment. But in the Bulgarian transitional conditions, cyclical unemployment rather took the form of systematic unemployment as a result of the continuous and prolonged economic recession, sectoral imbalances and other causes that put into question the traditional means of counteracting to unemployment.

Similar paradoxes of the labor relations in an economy in transition often suggest that the measures of state influence on the labor market make no sense in such a situation. Therefore, their application should be postponed until the moment when the labor market and the economic system as a whole finally acquire classic market features. But the problem is that not only the listed, but also many other paradoxes of the transitional period entirely dictate the situation in the labor market. The increasing discrimination in hiring and dismissal, for example, can hardly be attributed to the regularities of the transition. Even the distortions related to the causes of unemployment cannot be used to deny the fact that each year tens of hundreds of people change their jobs remaining in a state of frictional unemployment for a certain period of time. Structural changes, although acquiring the form of almost universal, but uneven decline, coexist with different points of growth both in new sectors (e.g. financial and commercial sector) and within the industries that are experiencing recession (some companies hire new workers and others dismiss workers). The weak points of the institutions in the labor market, regulating the wage dynamics (e.g. employment contracts and agreements) can not also be used as a starting point for conclusions about their temporary inappropriateness. Nowadays the transformation of the labor relations from such that are typical of the planning economy to ones typical of the market economy is significantly delayed, compared with the advent of other attributes of the market (formation of different forms of

ownership, financial and other markets)¹². A delay of this kind may become an essential factor leading to the delay in the completion of the transformation period. It could be stated that this period will not end if the labor relations, the creation of effective institutions in the labor market remain inadequate to the other economic transformations.

In such circumstances the increase in unemployment as a result of an accidental, single drop of the real GDP is due to the formation of cyclical unemployment, which is limited - about one percentage point. The changes in the actual and the cyclical unemployment are closely related to the process of market transition and its recessive impulses, the experienced deep financial and economic crisis and the recently set under control variation in the growth rate¹³. However, they run fairly smoothly and monotonically. The unemployment dynamics was characterized by an explosive, dramatic increase in the first two or three years of the period (for example, by 9.6 percentage points in 1991 and by 3.8 points in 1999) and by a sharp drop by 3.6% in 1994. In the other years of the period there was a shift to more moderate changes¹⁴. So after 1993-1994 the unemployment rate fluctuated mainly in a more narrow range, changing by 1.1 to 1.9 percentage points per year, regardless of the declines, the moments of boom or sometimes the large variations in the growth rate. This was accompanied by a reverse dependence to the growth rate, which showed only occasional distortions.

Any recorded rate of actual unemployment includes a certain rate of natural unemployment. During the first years of the transition in Bulgaria, it increased, which further raised the actual unemployment rate and distorted the assessment of the cyclical unemployment rate.

12 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

13 Terziev, V., Arabska, E. 2015. Analyses of Labor Market Development in Bulgaria: Role of active policies for social and economic development. 3rd HASSACC 2015 - Virtual Conference Human and Social Sciences at the Common Conference, 5-9 October, 2015, 140-145.

14 National Statistical Institute (NSI) web-site: <http://www.nsi.bg/>.

The natural unemployment growth is predetermined by cardinal economic changes, specific personal motives and objective conditions which determine a relative share of friction that is higher than the most prevalent (about 1%) and especially regarding the structural component¹⁵. The relative weight of the friction component increases due to the intense internal migration, the gradual expansion of the private sector share and the differences in the amount of wages, the higher requirements to the professional skills of workers, the demand for workers with other specializations, the need for updating the vocational training or the retraining of specialists. There is a growth in the proportion of the structural unemployment, determined by the simultaneous introduction of radical branch, product and technological reform and restructuring of the Bulgarian production. The low unemployment benefits provided until recently have a discouraging effect on employment. The composition of employees (classified according to different criteria) is gradually changing, with an increase in the participation of certain groups of employees, of whom are typical more frequent fluctuations, change in the workplace and hence a higher level of unemployment. Furthermore, at the outset of the transition a significant part of the previously employed (almost completely, but inefficiently used workforce) left the sphere of production and did not get back into it. In some cases these people got transferred to the group outside the active workforce, in others they made attempts to develop their own small business or remained long-term unemployed. Among the reasons for this movement were the difficulties encountered in finding other suitable employment, especially for people over a certain age limit, the emerged and partly preserved up to now mismatch between the demand and the supply of labor for some specialties and professions, the increasing share of the hidden economy and the employment in it, the reduction of real wages and the availability of savings from previous periods, etc. As a result, the number of the discharged exceeded the one of the registered unemployed.

15 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

In the calculation of the employment indicators one may not fully cover or may not clearly distinguish until recently growing number of partially, occasionally employed. Pressured by the lack or shortage of money, in spite of the uncertainty, many people accept proposals for a short-time job or mostly services, for temporary or part-time activities, including part-time and irregular, campaigning commitment without contractual obligations. Even the reported (based on civil contracts concluded) parameters of temporary and part-time employment are still alarming. Thus, for 2004 and 2005 the full-time employed were around 91% of the total employees, as 85% were the employed under a permanent contract. On the other hand, as a component of unemployment it is reported that in 2005, for example, over one-sixth or almost 16% were the unemployed, who had lost their jobs due to the termination of temporary or seasonal employment¹⁶. Although in the recent years the labor legislation in the country has improved, the legal labor relations have been regulated and put under tighter control, the existing problems in this field and the number of the employed unregistered persons have been reduced, but this problem has not yet been completely overcome. Statistics show that over 85 thousand people (5.2% of the employees in the private sector and 0.4% of the employees in the public sector) are employed without a contract, but their actual range is probably higher¹⁷.

The market orientation induced processes leading to a profound disruption of the labor market. The decline in production in the mid-90s caused a reduction in the number of employees, as this trend also had technological prerequisites. It significantly affected the people with higher education. Thus, while almost 39% of the total number of the registered unemployed in 2005, for example, were with no profession, with primary or lower education, about half of all unemployed had a specialty and almost 23% of them were university graduates and were long-term unemployed. The dismissals of trained staff and the narrowed opportunities for developing the production areas so that they can fully absorb this labor potential increased the relative "price" of

16 National Statistical Institute (NSI) web-site: <http://www.nsi.bg/>.

17 Terziev, V. Impact of labor market policies on employment provision. Dema Press, Ruse, 2013.

the growth, affecting its current and future rate. The backward inclusion of people with higher qualifications in labor activities was hampered by the irreversible changes in the company and sectoral structure of the GDP, by the advanced technical and technological characteristics of the production, by the new and higher requirements for professional knowledge and skills of the specialists which were set by companies.

In the modern structure of the Bulgarian economy, the services sector has crucial importance and share - its share in creating GDP amounted to more than 60% at the end of this period¹⁸. Its accelerated development can serve to explain the recently observed increase in the number of the persons employed in trade, catering and hospitality, construction, utilities and utilities services. These industries are prospering and labor-absorbing, but they provide opportunities for engagement mostly of people without special training, with lower qualifications, for a not too high remuneration or under not especially attractive work conditions. So this has retained the gap between the supply and the demand of labor, there were many vacancies (over 2400 in 2005). Only 15% of these vacancies, however, were suitable for university graduates. The violated conformity between the proposed jobs and the qualification level gave additional contribution to the extension of the duration of unemployment – around 60% of the unemployed in the country searched for work for a period exceeding one year. Industry – the sector most affected by the process of privatization and reorganization of the corporate activity - was gradually overcoming its falling behind and already predisposed to increased employment. So over the past few years there has been an increase in the number of the employed in the manufacture of food products, textiles and clothing, processed leather, wood and wood products and others. However, the proportion of the employment in the industries remains marginal, over 80% of the employees are concentrated in trade. The trend towards fewer employed under a permanent employment contract is observed in the public sector, while in the private sector (which quickly responds to the

reactivating domestic market) the number of the employees increased by 5% at the end of the period. Because of the predominant development of areas characterized by higher labor intensity, even the productivity growth of about 7-8% annually, reported in the last several years, is insufficient. This growth failed to induce a significant change and approximation in the ratio between the growth rate and the unemployment rate.

The specific degree of correlation between the GDP dynamics and the unemployment (and the employment) is determined largely by the relevant corporate structure. The established in the country and already amounting to 79.4% share of the private sector in basic prices covers more than 99% of micro and small enterprises. Therefore there is a dominance of companies with extremely tight capacity to generate employment and growth, also for their own growth, characterized by a more frequent change of employees, reduction of their number or firmly established family commitment. While in both institutional sectors (the public and the private one) one can recently observe a tendency of increase in the number and the proportion of medium-sized and larger companies, they do not carry out reciprocal parity process of increasing employment. The opportunities for higher employment through own business and self-performed activities are not utilized, insofar as the data show that only 3.8% of the employed in 2005 were employers and only 8.6% were self-employed.

The recorded disproportionate features of the labor market and the negative effect of them on the growth rate may persist and later reverse if the government pursues a more stringent policy for reducing unemployment and promoting employment. Already started, the implementation of state-funded infrastructure projects, the provision of financial incentives and the assistance in finding work without using the services of labor offices and by self-employment provide positive results – the unemployment rate declined to 12.2% in 2004 and once more to 10.7% in 2005. The level of employment is still problematic, as its increasing requires a more dramatic increase in the incentives to labor activity - the minimum and the average wages in the country. They will affect the individual consumption; the growing domestic demand will accelerate the realization of the production and will provide an increase of its

18 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

volume, further accelerating the growth. In this aspect, other areas of the macroeconomic policy also become important - it is necessary to pursue investment, innovation, industrial, regional and other policy, more steadily focused on employment.

In the Bulgarian labor market there could be considered crucial not only the influence of the inflows in unemployment at the expense of macroeconomic and other external measures, but this influence, which would reduce the average duration of unemployment. In order to be achieved a reduction in the total number of unemployed, there is a need of long and uninterrupted period of growth in the number of jobs. The increase in the number of vacancies need not be necessarily accompanied by a decline in long-term unemployment (and, consequently, of total unemployment). Even in times of economic growth, the increase in the proportion of the long-term unemployed can be significant, but the ratio of the outflow of this group can be reduced. The reason lies in the fact that the economic growth can reduce short-term unemployment, but has little impact on long-term unemployment and on other "fragile" components of unemployment (unskilled workers, young people without work experience, etc.). One major reason is the presence of "effects of duration"¹⁹, not directly related to the economic opportunities of employment.

The differences in the unemployment rates according to sex, age, education and professional background give reason to assume that for some groups of employees, the risk of becoming long-term unemployed is relatively higher. This risk is of a sustainable nature. The effects of the duration can also be fully attributed to such fragile components of unemployment. For example, young people without experience can be confronted with the effects of selection. Older workers and low-skilled women who are unemployed may become victims of circumstances, similar to the loss of qualification (supply effect) or may face discriminatory practices by employers (demand effect).

19 Terziev, V. Impact of active social policies and programs in the period of active economic transformations in Bulgaria. "East West" Association for Advances Studies and Higher Education GmbH. 2015.

The discussed circumstances once again confirm that the increase in the labor demand caused by the economic recovery will have a positive impact mainly on those who have been unemployed for a relatively short period of time. As a rule, this group of employees who have a high capacity for employment does not need intensive support from the state. The reliable and comprehensive information about the available vacancies in the economy is often sufficient to reduce the period of job search. But the long-term unemployed and those for whom the risk to fall into this group is high will hardly be able to reap the fruits of the economic growth and to find a new job on their own.

3. Contemporary Challenges and Problems in Employment and Unemployment in Bulgaria

In the implementation of the approved by the European Council in June 2010 "Europe 2020" Strategy, the Republic of Bulgaria adopted a National Development Programme: Bulgaria 2020 – an integrated document showing the relationship between the EU's priorities in the context of the strategy "Europe 2020" and national priorities. In application of the tool for better coordination of economic policies in the EU - the "European semester"²⁰, Member States draw up national reform programs. With these countries report their commitments to economic and structural reforms to achieve national goals according to the strategy "Europe 2020".

In preparing and updating the strategic documents and analyzes the opportunities for prevention and correction of macroeconomic imbalances point to the contemporary socio-economic situation, strongly influenced by imbalances and risks in the labor market. Country-specific recommendations and commitments for 2014 concerning the labor market and social protection are:

- to improve the effectiveness of the Employment Agency by developing a system for monitoring performance and better focus on the most vulnerable, such as low-skilled and older workers, the long-term unemployed and Roma.

20 Europe 2020. Making it happen: http://ec.europa.eu/europe2020/making-it-happen/index_bg.htm.

- to extend the scope and effectiveness of active policies for the labor market in order to increase their ability to find workers with the appropriate profile and reach unregistered young people neither employed nor in education or training, in line with the guarantee youth.
- to increase the effective coverage of unemployment benefits and social assistance and their connections with activation measures.
- to conduct the comprehensive review of minimum insurance thresholds to ensure that the system is not too expensive hiring of low-skilled persons.
- prepare after consultation with social partners transparent guidelines for amending the statutory amount of the minimum wage, taking into account the impact on employment and competitiveness.
- in order to reduce poverty, to further improve the accessibility and efficiency of social services and transfers to children and the elderly.

Consideration of the National Report for Bulgaria 2015 displays key issues and trends and formulating guidelines for future development. Unemployment has been identified as a major cause of poverty in Bulgaria in the National Report for Bulgaria for 2015, stressing that the Bulgarian labor market is inert with low employment and high unemployment by making the following key findings²¹: economic growth is still insufficient to support sustainable recovery in employment and the labor market continues to be the subject of serious concern. The negative effect of the crisis on employment is not limited to traditional vulnerable groups in the labor market. Unemployment in the vast majority of long-term, underlining its predominantly structural nature, in the absence of properly targeted and adequate policies to enable employment for the most vulnerable population groups. The transition from school to work is still problematic. The low quality of education and training and their limited relevance to the labor market hinder the supply of

properly trained personnel for the economy. Poverty and social exclusion continue to be alarming for Bulgaria, as their effect is exacerbated by high levels of income inequality.

Discussing imbalance risks and adjustments a special focus on labor market and social situation is put and the following conclusions are made:

- a) the Bulgarian labor market is inert with low employment and high unemployment.
 - the employment rate, measured on the basis of the working age population (aged 20-65 years) fell from over 70% in 2008 to 63.5% in 2013. Bulgaria is lagging behind the EU average of 68.4%.
 - dropped to below 6% in 2008, the unemployment rate rose to 13% in 2013 and dropped to 11.7 percent in 2014
 - in 2013, the level of activity for people aged 15-64 by 3.5% lower than the EU average.
 - according to forecasts, by 2016 the recovery in the labor market will remain relatively weak.
- b) some sectors and categories of workers are particularly affected by the crisis.
 - unemployment in Bulgaria during the economic crisis increased mostly among unskilled and low-skilled workers, young people and Roma.
 - the loss of jobs is the most significant in the construction and manufacturing.
- c) the main problems in the structure of the workforce leads to low employment and limited capacity to adapt economy and limited growth potential.
 - the high degree of mismatches between demand and supply of skills is even more noticeable because of the sharp and perhaps permanently destroying jobs in sectors that have been affected by the crisis, on the other hand - due to the large discrepancies between supply and

²¹ Commission staff working document. Country Report Bulgaria 2015. Including an In-Depth Review on the prevention and correction of macroeconomic imbalances {COM(2015) 85 final}.

demand skills in the labor market. This results in a structurally weak opportunities to find employment for certain disadvantaged groups.

- the situation is aggravated by high levels of emigration and the problems of an aging population.

d) long-term unemployment has increased in the period after the crisis and there is a risk that it becomes structural.

The social consequences of unemployment

a) unemployment has been identified as a major cause of poverty in Bulgaria.

- the proportion of the working age population in Bulgaria (people aged 18-64 years) at risk of poverty is almost two times higher than the EU average.

- the proportion of employees who are at risk of poverty is lower than the EU average which indicates that employment has a major impact on reducing relative poverty in Bulgaria.

b) since the crisis has cost the labor market automatically shift to passive measures, as the cost of unemployment benefits increase.

c) improving the suitability of finding work for young people not in employment, education or training continues to be a challenge.

d) policies regarding the labor market, supported by the European Social Fund retained its importance in Bulgaria.

e) in general, adapting the labor market after the crisis is even more difficult due to lack of adequate systems to determine salaries and social security contributions, as this lack continues to restrict job creation and tackling poverty, and risks the potential for growth.

Measures for the labor market, education and social protection

a) as economic growth remains insufficient to significantly increase employment in Bulgaria, the labor market remains an area giving rise to major concerns.

- the negative consequences of the crisis on employment is not limited to the usual vulnerable groups in the labor market. The majority of unemployment in the country is long-term, underlining that unemployment in Bulgaria is more structural than cyclical. Since 57% of the unemployed are long-term unemployed, at risk their chances of finding work diminish.

- the transition from school to employment continues to be slow. Poor quality of education and training system and their limited importance in terms of the labor market makes it difficult labor supply with appropriate qualifications in the economy.

- increased emigration of highly qualified specialists increases the challenges facing the labor market in the medium and long term, especially given the situation in Bulgaria in demographic terms.

- the integration of Roma into the labor market and social inclusion in general remains limited. This becomes a cause for growing concern with time, because according to demographic trends the proportion of Roma in the total population is growing rapidly.

b) Bulgaria is facing a percentage in employment, education or training young people, which is well above the EU average.

- 21.6% compared with an average of 13% for the EU in 2013. Much of this group is long-term unemployed (43%). Bulgaria has the highest share in employment, education or training young people who are not in connection with the employment services and are therefore not covered by standard measures to help the labor market. The proportion of inactive employment, education or training young people (14.3%) is more than two times higher than the EU-28 (6.1%).

- among the proportion of Roma in employment, education or training young people is extremely high (61%).
- over 60% of those aged under 29 years who are registered as unemployed have no professional specialty or any professional qualifications. Consequently, their chances of finding a job are limited to work that requires skilled labor unless take appropriate education or training.

Active policies on the labor market

- a) active policies for the labor market are still underdeveloped as in scope and focus on the most deprived persons, including Roma.
- as a share of GDP expenditure on active policies on the labor market in Bulgaria is significantly lower than in the years before the crisis, while in similar states of the EU-10 these costs have increased.
 - there are problems in the relations between public employment services (PES) and employers.
 - "activation" of registered unemployed persons is one of the lowest in the EU - 6.5% in 2012
 - among the factors critical are effective system for monitoring performance and better focus on the most vulnerable, such as low-skilled and older workers, the disabled, long-term unemployed and Roma.
- b) funding continues to depend largely on the European Social Fund.
- capacity to implement policies to activate is strongly influenced by major layoffs in recent years despite a significant increase in long-term unemployment.
 - there is no proper coordination and integration at the institutional level between the various employment services. Coordination between employment services and the "Social Assistance" is not aimed at effective and integrated implementation of

measures in favor of the most vulnerable. Employment agency work limited to the primary labor market, such as people looking for work is more likely to be directed to subsidized employment and provide only limited access to information on more sustainable jobs.

- c) agencies for integration in the labor market and services for benefits and social assistance for the unemployed and inactive persons are still fragmented.
- d) there are at least five different agencies that meet the needs of vulnerable persons. This fragmentation poses a major challenge for the provision of benefits and services to the unemployed and inactive persons in Bulgaria.
- e) cooperation between employment services, social assistance directorates and municipalities focus on administrative functions and application of the rules rather than on improving integration into the labor market and promoting this market by focusing on the needs of specific target groups or difficult to resolve cases.
- f) fairly strict eligibility criteria contribute to the narrow scope of unemployment benefits as activation measures also reach difficult to those who do not receive any compensation.
 - the scope of unemployment is among the lowest in the EU, more than three times lower than the EU average (9.4% versus 30%).
 - the net replacement rate of income is very low after 12 months (13% compared to the EU average of 38%).
 - the percentage of unemployed poor people who do not receive benefits, is the third largest in the EU at 49%.
- g) low levels of coverage of unemployment benefits could partly be explained by changes in the composition of the unemployed population.
 - as the system of unemployment benefits is focused primarily on periods of unemployment up to one year and employees full-time, which

had previously been provided, some groups of individuals, such as young people who have never been insured long-term unemployed persons and workers to part-time or seasonal workers not eligible for benefits. In turn, the lack of adequate income support for these groups puts much of unemployed high risk of poverty.

Education and skills

- a) improving the overall quality of education remains a challenge.
- b) the continuing disparities between demand and supply of skills in the labor market are related to substandard needs education and training.
- c) the participation of adults in lifelong learning in Bulgaria is the lowest in the EU
- d) there are significant challenges with regard to inclusive education in early childhood and inclusive schooling for disadvantaged children, especially children of Roma origin.

Social protection, poverty and social exclusion

- a) poverty and social exclusion remain a particular concern for Bulgaria, as well as high levels of income inequality.
 - Bulgarian citizens are still most at risk of poverty or social exclusion in the EU (48% in 2013, which is almost twice the EU average of 24.5%).
 - the share of those at risk of poverty Roma (87%) and high levels of poverty and social exclusion among children (51.5% in 2013) and those aged over 65 years (57.6% in 2013 .).
 - in addition to high levels of poverty great material deprivation is an important factor in Bulgaria - 39.9% in 2013 (EU average: 10%).
 - the latest data also show an increase in income inequality by 0.5% between 2012 and 2013. As the share of
 - income of the top 20% is over six times higher than that of the bottom 20%, Bulgaria is among the Member

States with the highest score on this indicator.

- energy poverty is a particular problem, with 67% of the population limit heating during the winter due to lack of funds.
- b) an important reason for the high risk of poverty is the low efficiency of the social protection system.
 - the total amount of social protection expenditure amounted to 17.4% of GDP in 2012 (average for the EU-28: 29.0%).
 - level of coverage and adequacy of social transfers and the quality of social services and access to them is low.
 - much of the unemployed not covered by standard safeguards (unemployment benefits and social assistance) and rely more on help from family or unregulated employment.
 - job creation is key to reducing poverty and social exclusion.
 - need adequate income support and access to measures under active policies on the labor market.
 - c) social assistance schemes continue to be ineffective with regard to support the inclusion of those furthest from the labor market.
 - d) Bulgaria has not adopted (or mean) any measures or new legislation to increase the actual scope of social assistance or to increase the ties of social assistance to activation measures.
 - e) Children continue to be at high risk of poverty and social exclusion
 - 51,5% in 2013, 46.3% of the population aged 0 to 17 years living in severe material deprivation.
 - the challenge of integrating Roma also persists.

- Roma are facing an extremely high risk of poverty and social exclusion (87%), which is only partially connected with unemployment by three-quarters of employed Roma suffer from in-work poverty.
- poverty among Roma is aggravated by the lack of basic living conditions.
- campaigns to combat discrimination, communication on the integration of Roma and monitoring and combating discrimination in the labor market are still underdeveloped.
- minimum thresholds, but no clear conclusions and follow-up policy.
- there has been no progress regarding the preparation of transparent guidelines for determining the minimum wage.
- limited progress has been made in improving the accessibility and efficiency of social transfers and services for children and the elderly.
- in terms of the objectives of the Strategy for inclusive, sustainable and smart growth, the findings are "limited progress" or "no progress".

National Report 2015 stresses that the policy challenges identified in the previous working document of the Commission services remain current. Bulgaria has made limited progress in meeting the specific recommendations in the development of labor market and social protection:

- limited progress has been made in improving the effectiveness of the Employment Agency and a better focus on the most vulnerable. A system for monitoring implementation.
- limited progress has been achieved in terms of extending and improving the effectiveness of active policies for the labor market in order to increase their ability to find workers with the appropriate profile due to the still poor orientation of policies.
- limited progress has been made with regard to measures aimed at unregistered young people neither employed nor in education or training. Mechanisms for monitoring and evaluating the Youth Guarantee remain weak.
- limited progress has been made in improving the effective coverage of unemployment benefits and social assistance and their connections with activation measures. Planned project for the development of integrated services, but have not yet taken concrete steps in this regard.
- some actions have been undertaken to analyze the effects of raising the

The report confirms "notorious truths" about troubling issues and trends, justified by national realities, signaling once again that we need new approaches to implementation and monitoring of the planned strategic goals.

4. Conclusion and Recommendations

In the development of the labor market in recent years, the policy focuses more active actions to support the restructuring of the workforce and increase its mobility. The predictability of economic developments and the effects on employment is not high and still remains within the short-term events, but not with an extended character. The development of models to predict the needs of the workforce is imperative for closer linking policy on the labor market with periodicity in the dynamics of the economy. Adequacy and modernity of policy are crucial for effective support of the changes in the parameters of the labor market and economic development. Reporting to the time delay effects and changes in its duration should not be overlooked in order to develop preventive measures for timely response. The shortening of the period in which the effects of the modern crisis are transferred to the labor market, respectively to the labor demand, reflects not only the degree of elasticity of the labor demand in relation to primary markets, but also the flexibility of the implemented policies. This fact brings in the focus of attention the flexibility of the labor markets and the opportunities (through its improvement) to enhance the mobility and the adaptability of the workforce to the rapidly changing labor demand.

The findings of the study lead to the formulation of recommendations for changes in the following areas:

- an integrated approach in the "regulation" of social and economic development;
- effective mechanisms for consultation and coordination of programs and measures;
- structural changes in the Ministry of Labour and Social Policy;
- focus of active policies on the labor market;
- changes in the education system.

Consideration of the features of economic development and the possible impacts on the labor market gradually becomes inseparable part of the process of policy making in the labor market.

The sensitivity of the labor market and its basic parameters will increase in the future and will be challenged by both the positives and negatives of cyclicity in economic development. The openness of the Bulgarian economy determines the effects of external influences and the ongoing reform process in the country presuppose additional internal impacts on the labor market. Policy efforts to increase the flexibility of the labor market should continue as they are an essential tool for softening the impacts and timely adjustments. The more flexible is the market, the higher will be its adaptability to internal and external influences and the smaller will be the negative consequences.

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