

Overview of minimum wage setting in Bulgaria

CITUB Bulgaria, Presented 7 July 2022

What is the process to adjust minimum wages in your country?

There is only one minimum wage (MW) which applies to all categories of workers and all economic activities. The minimum wage is set by the Council of Ministers. The proposed level of the minimum wage reflects the rate which is laid down in the medium-term budget forecast.

The process of setting the MW is not guided by approved set of criteria. CITUB has insisted over the years for developing mechanism for setting the MW but the position of trade unions is challenged by the employers' organizations (and the announced proposal of one of the EO for MW suspension).

It is acceptable for CITUB to negotiate minimum wages for each economic activity, but given the lack of representation of the social partners in a number of sectors, the elimination of the national minimum wage would have catastrophic consequences.

In recent years, there has been a consistent growth of the MW, and compared to 2010, the rate has nearly tripled (from EUR 107 to EUR 363 in 2022). Despite the registered increase, the MW level remains too low to present any significant and lasting change in the living standard of the population. The MW growth rate can be defined as insufficient as the MW level does not equal the income needed to cover cost of living.

Despite the negative impact of the pandemic, modest MW increase was achieved. In 2022 the national MW increased by 9.2% (from EUR 332 to EUR 363) thus realizing the increase foreseen in the Ministry of Finance medium-term budget forecast. As of May 2022, the annual inflation reached 15.6% and actually outpaced the MW growth. This led to a decline in the purchasing power of MW workers for first time in a 10-year period.

Ratio of MW to AW

The ratio is considered as important benchmark for those countries with statutory MW and can be used for assessing the government income policy. CITUB insists on the establishment of ratio between MW and the average wage (AW) equaling to at least 50%. However the ration has stagnated in the period following 2016 (varying from 43.3% to 44.5%). In 2021, the ratio of MW to AW marked a downward trend, reaching 41.9%. CITUB expects that in 2022 the ratio will remain around 41- 43%.

The relationship between the minimum wage and the employment of low-skilled workers

The minimum wage is one of the most criticized tools for labor market regulating. It is argued that MW increase leads to higher unemployment rate, labor market to market interference and attempts of regulating employer autonomy. The majority of empirical researches over the past decade have denied the existence of such functional dependencies. On the contrary, the claims that the growth of the MW will destroy jobs that are less productive, leaving the low-skilled workers unemployed, have been rejected by world- renowned economists.

According to the data of the National Statistical Institute, when the MW/AW ratio showed a downward trend, mainly due to the freezing of the amount of MW for more than two years, the employment rate of low- skilled workers marked a constant decline until reaching its absolute minimum of 36.2%. The increase of the minimum wage in during the 2013- 2019 period (when the MW/AW ratio increased to 44- 44.2%) did not negatively affect the employment rate of the low qualified workers. On contrary, it can be considered that the increase actually stimulated employment within the group.

Table: Employment rate of low-qualified workers and the ratio of MW to AW

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Employment rate of low qualified workers	46,5	45,0	39,8	36,7	36,2	36,9	38,6	39,0	39,2	44,4	46,2	51,2	48,1
MW/AW ratio	40,4	39,4	37,0	36,4	38,7	40,0	41,4	42,1	44,3	44,3	44,5	44,2	43,9

Number of persons employed with MW

At the end of 2021, the MW employees are about 478 thousand persons and represent 23.4% of all employees. In the beginning of 2016 MW employees were about 316 thousand persons, or about 14% of the employees. To a certain extent, the increase in the number is a consequence of the increase in the size of the minimum wage- this is due to all those employees in low-paid economic activities (having a wage close to MW level), as well as too those who constitute the gray sector. MW employees are unevenly distributed among sectors. Thus 26% of the employees in the "Processing Industry" sector are hired on MW, while 23.6% of the employees in the "Trade" sector are MW workers.

o How regularly are they updated?

Typically MW is updates once per year. The rate was set twice for the calendar year in 2011, in 2012 and in 2015. The current rate of EUR 363 was adopted on 1 April 2022 and thus the previous rate (EUR 332) lasted for more than a year (being set on 1 January 2021).

o How are social partners involved?

Social partners are consulted on the proposed rate of the minimum wage within the National council for tripartite cooperation. However, the rate is unilaterally adopted by the Council of Ministers following the national budget forecast.

o Which main criteria are considered?

o Inflation

o Cost of living

o Other economic factors?

b. Inflation trends

Bulgaria has ratified ILO Convention 131 and thus when determining the minimum wage it is supposed that policy makers take into consideration both social (i.e. 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 living standards of other social groups) and economic factors (i.e. economic development, levels of productivity, employment level). CITUB is the only organization that calculates the living wage (LW) for Bulgaria and insists on the comparison of the minimum wage rate to the LW. Employers organizations focus on economic criteria such as labour productivity and unit labor cost when debating on the MW level.

The list of criteria set in art. 5 of the Directive on adequate minimum wages provides for adoption of the cost of living concept as a basis for calculating the purchasing power of the MW. Since the beginning of 2021, ISTUR at CITUB started to calculate the national living wage which represents the wage level sufficient to cover the cost of living (or a decent standard of living). Data from March 2022 indicates that the Living Wage (LW) for a single 1 working person is EUR 801 (gross) and EUR 721 (gross) for a single working person living in a household of two workers and a dependent child (if we consider the second value then in a situation of one working parent the living wage amounts to EUR 1441).

The ratio of MW/LW (gross values compared) is estimated to be 46.1% (while in the end of 2021 it was 48.8%). Thus it can be concluded that the living wage (or the cost of living) is outpacing the MW increase. That's why CITUB insists that the MW should increase with a higher rate so that in 2025 it can reach 91% of the LW (as estimated for a family with two working adults). Achieving such an adequacy of the MW would help limit the share of "low-wage workers" and the share of "working poor".

o What is the rate of inflation in your country, which items had larger increase?

The consumer price index hit 15,6% in May 2022 (annual inflation). Foods products increased on annual basis with +22.1%, non-food products by +15.4% , services by +7.7%.

o How does inflation relate to real wage growth?

Inflation negatively affect wage growth when out-pacing nominal wage increases. Thus the MW increased in April 2022 by 9,2% in nominal terms but due to the rising inflation it actually declined by 4,5% (real minimum wage calculated with inflation).

o How are governments combating inflation?

The national government announced a list of measures which aim to alleviate the economic downturn and the increasing of inflation. The measures approved by the ruling parties go as follows:

- Exemption from excise duty on electricity, natural gas and liquefied petroleum gas (LPG) pursuant to Article 15 of Council Directive 2003/96/EC;
- Introduction of a reduced VAT rate of 9% for supplies of central heating and supplies of natural gas;
- Introducing a zero rate of VAT for supplies of bread;
- Reduction of interest rate for overdue payments communal services to the state and municipalities (the new rate is set at 8% which is down by 2 p.p. of the 10% rate);
- Increasing the rate of tax exemptions on households with children;
- Compensation of individual users of fuels per Litre of the purchased gasoline/ diesel fuel/gas;
- Increase of pension earnings-related pensions as of 1 July and increase of the level of the maximum earnings-related pension (the pension ceiling);
- Increasing the threshold for mandatory enterprise VAT registration from BGN 50,000 to BGN 100,000;
- Food and non-food vouchers to become available on-line .

o What has your union been doing to ensure wages are not eroded due to inflation?

CITUB insisted on wage increase in public and private sector enterprises. Just in the end of June 2022 CITUB organized protest campaign before the building of the Bulgarian National Assembly. Because of the campaign wage increase will be granted to public sector employees in education sector, structures of the Ministry of Interior, universities and libraries, district and municipal administrations, National Social Security Institute and etc. Sector and company level collective bargaining is used by unions in order to guarantee private sector wages increases. Several examples can be cited out of different sector agreements: the metal sector agreement provides for minimum wage level which is higher of the national minimum wage (EUR 388 minimum wage for the sector employees compared to EUR 363 national minimum wage), the brewery sector agreement fixes the minimum wage in large companies to EUR 455 (compared to EUR 363 national minimum wage), the construction sector agreement stipulates that the sector minimum wage equals the national minimum wage multiplied by a coefficient of 1.25.

Apart from wages, CITUB negotiate other benefits which affect the disposable income of the Bulgarian households. At national level unions managed to ensure additional financial support will be granted for heating assistance to low- income households and the financial support through individual food VAT free vouchers provided by the employer has been increased). CITUB is consulted by the state on the level of the pensions and provides expert arguments and calculations related to the adequacy of the state contributory earnings-related pensions.