



Mutual Learning Programme

DG Employment, Social Affairs and Inclusion

Peer Country Comments Paper – Bulgaria

In search of an effective formula for setting the statutory minimum wage

**Peer Review on “Minimum wages – extending coverage
in an effective manner”**

Cyprus, 19-20 September 2019

Written by Assoc. Prof. Dr. Todor Todorov, in collaboration
with ICF

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1 Introduction

This paper has been prepared for the Peer Review on "Minimum wages – extending coverage in an effective manner" within the framework of the Mutual Learning Programme. It provides a comparative assessment of the policy example of the host country (Cyprus) and the situation in Bulgaria. For information on the host country example, please refer to the Host Country Discussion Paper (Christofides, 2019).

2 Situation in the peer country

2.1 Structures and mechanisms in place for setting the minimum wage in Bulgaria

Minimum wage has a long history in Bulgaria, as a national minimum wage was first introduced in 1966 with a Council of Ministers Decree No 53/1965. At present, the regulatory basis for setting the minimum wage can be found in the Labour Code.¹ The national monthly and hourly rate of the minimum wage, which is applicable to the employed, regardless of the industry, age or occupation, is set with a government decree,² following consultations with the social partners in the National Council for Tripartite Cooperation (NCTC). The latter comprises permanent members, representing the Government and the nationally representative trade union confederations³ and employers' organisations.⁴ The consultative principle for determining the minimum wage in Bulgaria is provided for in the Labour Code (Art. 3) and Decision No. 860 of the Council of Ministers from 2 November 2004.⁵

The mechanism presently used for setting the statutory minimum wage entails a monthlong public consultation of the proposed government decree package for the (usually annual) adjustment of the minimum wage rate.⁶ Apart from the draft decree, specifying the intended minimum wage, proposed by the Government, the consultation package includes a report by the Minister of Labour and Social Policy addressed to the Council of Ministers and a partial ex-ante impact assessment of the planned indexation of the minimum wage. Both the report and impact assessment justify the need and outline the expected effects of the intended adjustment of the minimum wage in terms of economic growth, inflation, labour market developments, living standard and poverty reduction. The basic documents, which currently underlie the proposed rate of the statutory minimum wage are the Governing Programme of the Government of the Republic of Bulgaria for the period 2017-2021 and the Updated Midterm Budget Forecast of the Ministry of Finance for the period 2019-2021.⁷ It shall be also noted, that steps have been taken to bring the present mechanism for determining the minimum wage in

¹ Art. 244, par. 1 of the Labour Code states that the Council of Ministers determines the minimum wage for the country.

² The statutory minimum wage for 2019 was determined with Decree No 320 of the Council of Ministers from 20 December 2018 for determining a new rate of the minimum wage for the country (Постановление № 320 от 20 декември 2018 г. за определяне нов размер на минималната работна заплата за страната).

³ Ministry of Labour and Social Policy and National Statistical Institute data indicate that trade unions represent 15.1 % of employees (2018), while members of employer' organisations represent 15.5 % of companies (2016) in Bulgaria.

⁴ The National Council for Tripartite Cooperation is composed of permanent members – two representatives of the Council of Ministers, one of whom is the Deputy Prime Minister, and the representative organisations of employees and employers. At present, two trade union confederations and five employers' organisations are represented in the National Council for Tripartite Cooperation.

⁵ Decision No. 860 of the Council of Ministers from 2 November 2004 for Determining the Issues of Living Standard to be Subject to Consultations in the National Council for Tripartite Cooperation (Решение № 860 на МС от 02.11.2004 г. за определяне въпросите на жизненото равнище, които са предмет на консултации в Националния съвет за тристранно сътрудничество).

⁶ This is done via the Council of Ministers Public consultations portal (<https://www.strategy.bg/>).

⁷ The Updated Midterm Budget Forecast of the Ministry of Finance for the period 2019-2021 stated that the minimum wage should be BGN 560 in 2019 (EUR 286.32), BGN 610 in 2020 (EUR 311.89) and BGN 650 in [2021](#) (EUR 332.34).

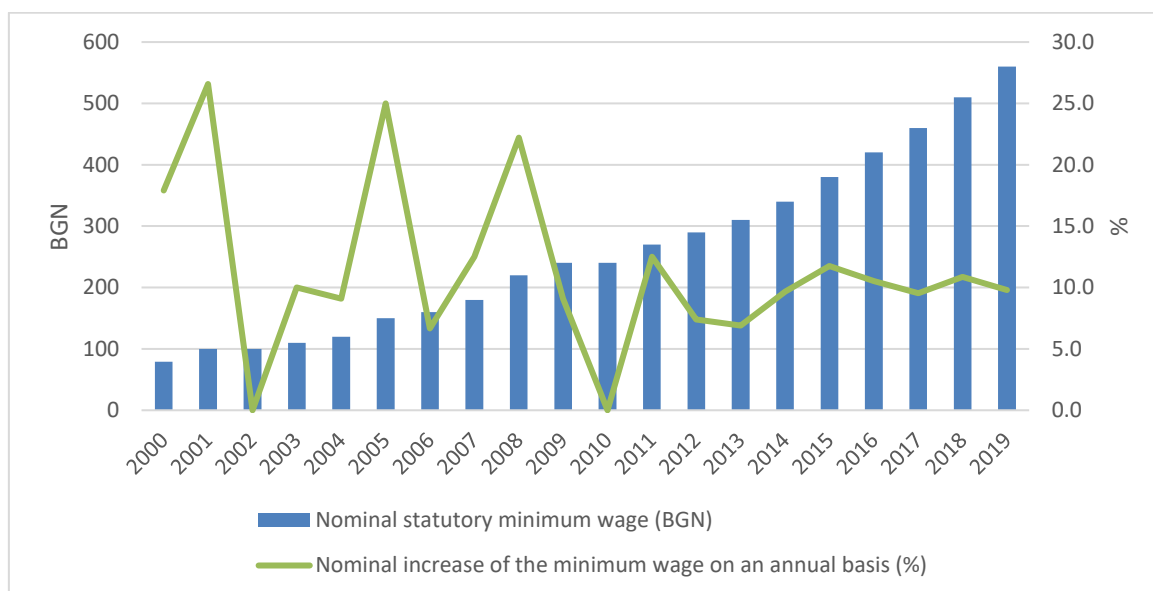
Bulgaria in compliance with International Labour Organisation’s Minimum Wage Fixing Convention (C131) with the ratification of the convention in January 2018.⁸

2.2 Minimum wage adjustment and dynamics in Bulgaria over the past two decades

During the past 20 years, the minimum wage in Bulgaria has usually been adjusted on an annual basis. Some exceptions can be observed however, which are in two directions. In each of the years 2000, 2001 and 2015 the Government made two indexations to the minimum wage. This was done in an attempt to compensate for the residual negative effects, which the deep national crisis of 1996-1997 and the global financial and economic crisis of 2008-2013 had on incomes. In 2002 and 2010 the minimum wage was frozen to the level of the previous year in an attempt to suppress the rising level of unemployment, which at the time was 16.8 % and 10.2 % respectively according to National Statistical Institute (NSI) data.

Since the year 2000, the annual increase of the nominal rate of statutory minimum wage in Bulgaria has been 11.4 % on average, with the highest increases observed in 2001, 2005 and 2008 (see Figure 1 below). The highest growth in the minimum wage rate on an annual basis was registered in 2001 (almost 27 percent, nominal), caused by the above-mentioned intention of the Government to partially alleviate the adverse effects of the 1996-97 national financial crisis. This is also the likely reason for the significant increase in the minimum wage in 2005 (25 percent, nominal), although some political motives may also have been behind that increase due to the upcoming parliamentary elections later that year. The nominal increase in the minimum wage from 2008 by more than 22 percent can be explained by the positive economic and fiscal results, but it does not however exclude the existence of political motives (Mancheva, Stamatev, 2017).

Figure 1. Nominal statutory minimum wage for Bulgaria in the period 2000-2019



Source: National Social Security Institute and own calculations

A positive relationship can be observed between the proportion of minimum wage-earners and the growth of nominal minimum wages in the period 2015-2018. NSI data indicate that the number of employees receiving minimum wage increased substantially from around 258 000 in 2015 to nearly 467 000 in 2018, representing 11.6 % and 20.4

⁸ Convention No. 131 of the International Labour Organisation concerning Minimum Wage Fixing, with Special Reference to Developing Countries was ratified by the Bulgarian Parliament on 24 January 2018.

% of the total number of employees respectively. This can, at least partially, be ascribed to the high growth rate of the minimum wage for the period.

From an international perspective, and despite the high minimum wage indexation rates observed in Bulgaria (9.81 % in 2019, one of the largest nominal increases in the EU), the country continues to have the lowest level of statutory minimum wage in the EU (EUR 286 monthly minimum wage for a full-time working employee). The second lowest rate for 2019 (in Romania) is EUR 446. In nominal terms, the minimum wage rate in Bulgaria for 2019 is 7.2 times lower than that of Luxembourg, which has been persistently the Member State with the highest statutory minimum wage rate in the EU. Still, this is a slight improvement, compared to 2018, when the ratio was 7.7. More positively, Bulgaria is one of the countries, which started with a low minimum wage in real terms and gained the most in the period 2010-2019. Thus, Bulgaria's minimum wage more than doubled in real terms with an increase of 114 % during the last 10 years. For 2019 alone, the real change was +7.39 %. Furthermore, over the period 2010-2019, the gap between Bulgaria and Luxembourg, as the country with the highest minimum wage, measured in purchasing power standards, has narrowed from 17 % (meaning that the purchasing power of the minimum wage in Bulgaria was 17 % of the purchasing power of the minimum wage in Luxembourg) to 35 % (Eurofound, 2019).

3 Opportunities and challenges of the introduction/ implementation of a statutory minimum wage

3.1 Minimum wage setting in Bulgaria – developments, difficulties and effectiveness

The determination of the minimum wage in Bulgaria raises many questions related to the procedures applied, but the main problem lies in the lack of a clear and transparent mechanism for setting the minimum wage rate. Each of the parties in the social dialogue (Government, trade unions and employers' organisations) makes their own assessments of the economically and socially justified level of minimum wage, which are based on different and, in most cases, unclear methodological approaches. As a result, the Government often cannot reach an agreement with the social partners on the proposed annual increase of the minimum wage, as employers usually claim that the level is too high, economically unjustified and will make companies uncompetitive, while trade unions are of the opinion that the minimum wage remains too low compared to the neighbouring countries and the average wage in Bulgaria (Eurofound, 2016).

These issues were reflected in a European Council Recommendation of July 2014, which stated that 'there are no clear guidelines for transparent minimum wage setting in Bulgaria.' (European Council, 2014), while the practical solution of the problems outlined depends on a number of factors, related to the interaction between the Government and social partners, as well as on a number of key macroeconomic indicators, such as GDP, labour productivity, employment and unemployment, poverty line, etc. (Tzanov, Shopov, 2017).

The reaction of the Government to the Council Recommendation above was immediate and the Minister of Labour and Social Policy at the time announced that the planned adjustment of the minimum wage in 2015 would follow new rules and would be associated with an automatic indexation, based on a formula, taking into account labour productivity, inflation and average wages in the country. As it proved in the years to follow, however, reaching an agreement with the trade unions and employers on such a mechanism was much more difficult than expected and has still not materialised.

Following the Council Recommendation, the Government also introduced the above-mentioned consultative procedure in relation to the annual adjustment of the minimum wage in the country, which aimed at raising awareness among key stakeholders and the general public about the needs and expected effects of the intended indexation of the

minimum wage. Over the past few years, this approach has provided an opportunity and actually encouraged a wide range of stakeholders (including representatives of NGOs and research organisations and independent experts) to publicly express their opinions on the annually proposed adjustment of the minimum wage and its justification. This is expected to have a positive effect on establishing a mechanism for transparent minimum wage setting in the country and can be recommended as a relevant policy practice to support the host country in the process of introducing a national minimum wage.

Despite these positive developments however, Bulgaria experienced some difficulties in implementing the consultative principle in determining the minimum wage for 2015. Thus, in May 2015, the Bulgarian Supreme Administrative Court revoked Council of Ministers Decree No 419 from 17 December 2014 for increasing minimum wage as of 1 January 2015 and 1 July 2015. The case was brought by the national employers' organisations who challenged the decree based on the fact that the Government failed to hold the mandatory consultations within the NCTC. In June 2015, the Government adopted a new decree No 139 from 4 June 2015 which re-established the foreseen minimum wage increases and followed the ruling of the Court (Eurofound, 2016).

A similar situation arose in 2017, when the employers' organisations represented in the NCTC criticised the government decree for increasing the minimum wage. They claimed that the decree had been adopted in violation of the legal procedure stipulated in art. 244 of the Labour Code, as it had not been consulted with the social partners in NCTC. In May 2017, the Supreme Administrative Court revoked the decree, which increased the monthly minimum wage from BGN 420 (EUR 215 as of 13 February 2018) to BGN 460 (EUR 235). Consequently, the Council of Ministers adopted a new decree for increasing the monthly statutory minimum wage to BGN 460, this time complying with the relevant regulations.

Despite these early setbacks, the joint efforts of the Bulgarian Government and the social partners to address the repeated minimum wage setting recommendations of the European Council continued in the years after 2015, as the discussions about the mechanism for setting the minimum wage continued. A tripartite working group presided by the Minister of Labour and Social Policy was established with the aim of developing, negotiating and adopting a methodologically sound mechanism for determining minimum wage in a transparent manner. The efforts are currently directed towards defining the rules for implementation, but due to disagreements on the mechanism between employers' organisations and trade unions, the work of this group is still not finalised.

Consequently, debates moved from NCTC to the highest political level due to the ongoing controversies regarding the introduction of the mechanism. The general position of trade unions, expressed over the last three years, has been associated with setting the minimum wage within a certain interval. In one instance, the proposed interval would range between next year's forecasts for the poverty line, multiplied by a coefficient of 1.3 and the average wage multiplied by 0.5. According to the trade unions, these two variables are to form the lower and upper thresholds of the interval, within which the minimum wage should be set. Employers' organisations however hold the position that the upper threshold of the minimum wage should be lower and not exceed 43 % of the projected level of the average wage. This would account for a difference of BGN 88 (EUR 45) between the levels proposed by trade unions and employers for 2019.

Thus, the discussions about the development of objective formulas for determining the level of change, as well as predefined targets for minimum wage are continuing. According to the Updated Midterm Budget Forecast of the Ministry of Finance for the period 2019-2021, the minimum wage is foreseen to be BGN 560 in 2019 (EUR 286), BGN 610 in 2020 (EUR 312) and BGN 650 [in 2021](#) (EUR 332). It is not explained however how these forecasted rates were calculated.

It shall be noted that the future discussions on the transparent minimum wage setting mechanism in Bulgaria shall also take into account the principles, laid down in the European Pillar of Social Rights in 2018, in which Article 6 on wages stipulates that 'all wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners' (European Parliament, 2018). It is still unclear however, how exactly these principles will be transposed in the new mechanism for determining minimum wage in Bulgaria.

As mentioned above, in January 2018, the Bulgarian Parliament ratified International Labour Organisation's Minimum Wage Fixing Convention (C131), which was acknowledged by the European Commission as a good basis for setting an objective mechanism (European Commission, 2018). This has created expectations, that the Government will take the necessary steps in order to elaborate a wage setting mechanism in collaboration with the social partners that complies with the requirements of the convention (Eurofound, 2019).

3.2 Ensuring transparency and predictability in determining the minimum wage in Bulgaria – the way ahead

Minimum wage setting and adjustment depend on a number of economic and social factors and according to ILO's Convention No 131, both the needs of workers and the level of economic indicators must be taken into account in the process. In order to develop a sound mechanism for setting minimum wage in Bulgaria, the following factors shall be taken into account: the needs of workers and their families, the level of wages in the country, the level of social security contributions, the cost of living, economic factors (including GDP growth, inflation, employment and labour productivity). The practice in different countries varies substantially both in terms of mechanisms and procedures and regulations (Loredana, 2015) and it is unlikely that a mechanism for minimum wage setting based on only one variable (e.g. average wage) would work in the Bulgarian case. Thus, in a study from 2017 Tzanov and Shopov propose a mechanism, based on the forecasted values of the following variables, namely: poverty line, average wage for the country and consumer price index (Tzanov, Shopov, 2017). The details of the developed model are, as follows:

- the poverty line is adopted as the lower limit, below which the net minimum wage should not fall;
- the change in the minimum wage is linked to the dynamics of average wage and consumer price index, whereas the ratio between minimum and average (mean) wage does not exceed 50 % and the minimum wage growth is lower than the consumer price index;
- in cases when the inflation rate is above 10 % on an annual basis, a semi-annual indexation of the minimum wage is envisaged.

The advantages of the model can be outlined in a number of aspects – for example such a mechanism for setting minimum wage would:

- satisfy the minimum income needs of workers;
- take into account the economic function of minimum wage and the labour market situation;
- ensure stability of the purchasing power of the minimum wage; and
- create opportunities for reducing the number of working poor.

The mechanism has also some disadvantages, as it does not:

- provide for the minimum income needs of the families, as it does not take into account the number of family members (including those who are working) in a household;

- take into account the regional disparities in the average wage level;
- reflect certain industry specificities, related to wage dynamics; and
- take into account the ability of some employers to pay minimum wage.

The results of the testing of the mechanism described above, performed by Tzanov and Shopov, indicate that the actual rates of indexation of the minimum wage during the last several years fall within the framework of the model. Whether this approach however can actually serve as a basis for developing a working minimum wage setting mechanism in Bulgaria or even the host country, would depend on the respective economic and social developments and the effectiveness of the social dialogue.

4 Questions

- What specific structures and mechanisms for setting and adjusting minimum wage does the host country plan to put in place in order to transpose the principles, laid down in Article 6 on wages of the European Pillar of Social Rights, which among others, stipulates that 'all wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners'?
- Has the host country ever considered the introduction of a national minimum wage applicable to all workers regardless of their industry, age or occupation, at a rate below the current level (EUR 870 upon hiring and EUR 924 after six months, which applies to occupations that are not unionised), in order to avoid excluding persons with disabilities, refugee claimants and employed in the agriculture/animal husbandry sector from the national minimum wage system?
- What would be the expected impact of the introduction of a national minimum wage on low-skilled workers? Is it considered to be statistically significant, so as to trigger a serious decrease in the employment rates for this group?
- Under what circumstances would it be appropriate to relate the minimum wage to age, as is the practice in the UK? What would be the advantages and disadvantages of adopting such an approach in the case of Cyprus?

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Annex 1 Summary table

The main points covered by the paper are summarised below.

Situation in the peer country

- A national minimum wage was first introduced in Bulgaria in 1966. At present the regulatory basis for setting the minimum wage can be found in art. 244 of the Labour Code.
- The national monthly and hourly rate of the minimum wage, which is applicable to the employed, regardless of the industry, age or occupation, is set with a government decree, following consultations with the social partners in the National Council for Tripartite Cooperation (NCTC).
- The mechanism presently used for setting the statutory minimum wage entails a monthlong public consultation of the proposed government decree package for the (usually annual) adjustment of the minimum wage rate via the Council of Ministers Public consultations portal (<https://www.strategy.bg/>).
- Steps were taken to bring the present mechanism for determining the minimum wage in Bulgaria in compliance with International Labour Organisation's Minimum Wage Fixing Convention (C131) with the ratification of the convention in January 2018.
- During the past 20 years, the minimum wage in Bulgaria has usually been adjusted on an annual basis. The annual increase of the nominal rate of statutory minimum wage in Bulgaria was 11.4 % on average during the period 2000-2019. Nevertheless, it remains the lowest level of statutory minimum wage in the EU (EUR 286 monthly minimum wage for a full-time working employee).

Opportunities and challenges of the introduction/ implementation of a statutory minimum wage

- The determination of the minimum wage in Bulgaria raises many questions related to the procedures applied, but the main problem lies in the lack of a clear and transparent mechanism for setting the minimum wage rate.
- Following a European Council Recommendation of July 2014, which stated that 'there are no clear guidelines for transparent minimum wage setting in Bulgaria', social dialogue was initiated on the establishment of a mechanism for transparent minimum wage setting in the country. This has still not produced the desired result due to the ongoing controversies regarding the introduction of the mechanism.
- It is still unclear how exactly the principles, laid down in the European Pillar of Social Rights in 2018, in which Article 6 on wages stipulates that 'all wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners', will be transposed in the new mechanism for determining minimum wage in Bulgaria.
- The 2018 ratification of the International Labour Organisation's Minimum Wage Fixing Convention (C131) was acknowledged by the European Commission as a good basis for setting an objective mechanism and has created expectations, that the Bulgarian Government will take the necessary steps in order to elaborate a wage setting mechanism in collaboration with the social partners that complies with the requirements of the convention.
- A possible approach to an objective minimum wage setting mechanism might be based on the forecasted dynamics of the poverty line, average wage and consumer price index. Whether such a model is applicable to the Bulgarian or even the host

country's case would depend on the respective economic and social developments and the effectiveness of the social dialogue.

Questions

- What specific structures and mechanisms for setting and adjusting minimum wage does the host country plan to put in place in order to transpose the principles, laid down in Article 6 on wages of the European Pillar of Social Rights, which among others, stipulates that 'all wages shall be set in a transparent and predictable way according to national practices and respecting the autonomy of the social partners'?
- Has the host country ever considered the introduction of a national minimum wage applicable to all workers regardless of their industry, age or occupation, at a rate below the current level (EUR 870 upon hiring and EUR 924 after six months, which applies to occupations that are not unionised), in order to avoid excluding persons with disabilities, refugee claimants and employed in the agriculture/animal husbandry sector from the national minimum wage system?
- What would be the expected impact of the introduction of a national minimum wage on low-skilled workers? Is it considered to be statistically significant, so as to trigger a serious decrease in the employment rates for this group?
- Under what circumstances would it be appropriate to relate the minimum wage to age, as is the practice in the UK? What would be the advantages and disadvantages of adopting such an approach in the case of Cyprus?

Annex 2 Example of relevant practice

Name of the practice:	Public consultations on the annual adjustment of the statutory minimum wage in Bulgaria
Year of implementation:	2015 – onward
Coordinating authority:	Ministry of Labour and Social Policy
Objectives:	The public consultations on the annual adjustment of the statutory minimum wage in Bulgaria aim to raise awareness among key stakeholders and the general public about the needs and expected effects of the intended indexation of the minimum wage in terms of economic growth, inflation, labour market developments, living standard and poverty reduction.
Main activities:	<p>The mechanism for setting the statutory minimum wage in Bulgaria, which is presently in place, entails a monthlong public consultation of the proposed government decree package for the annual adjustment of the statutory minimum wage via the Council of Ministers Public consultations portal (https://www.strategy.bg/). Together with the draft decree, specifying the intended minimum wage for the year to follow, proposed by the Government, the consultation package includes a report by the Minister of Labour and Social Policy addressed to the Council of Ministers and a partial ex-ante impact assessment of the planned indexation of the minimum wage.</p> <p>During the public consultation period, all stakeholders are welcome to submit their comments on the above documents, whereas at the end of the period the comments are summarised and taken into consideration during the process of consultations with the social partners in the National Council for Tripartite Cooperation.</p>
Results so far:	Over the past few years, the introduced policy practice has provided an opportunity and actually encouraged a wide range of stakeholders (incl. representatives of NGOs and research organisations and independent experts) to publicly express their opinions on the annually proposed adjustment of the minimum wage and its justification. This is expected to have had a positive impact on the efforts of the Bulgarian Government to reach an agreement with the social partners on establishing a transparent mechanism for setting and adjusting the minimum wage in the country.

