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Introduction

Bulgarian welfare system was significantly changed in the late 1990's and in early 2000's following the whole economic and political changes since the collapse of communist system. On the next lines an attempt to summarize the most important changes in the Bulgarian economy in the early 2000's is made. The accent is put on the welfare system and social inclusion. The reforms in the pension system and in the system concerning the employment policy in Bulgaria are at the center of the research since these two spheres appeared to be the most sensitive to the changes that took place at that time.

We have organized our study chronologically according to according to the main stages of Bulgarian economy development: early transition and prior to the crisis in 1997 (part 1), after the Currency Board introduction (part 2). Part 3 is especially dedicated to the employment policy and part 4 deals with the welfare system after EU integration and in the crisis years.

I Bulgarian welfare system in the early transition and prior to Currency Board introduction (1989-1997)

After the collapse of the communist regime in 1989, Bulgarian industry needed a transformation, whose aim was to allow the existence of private property, to restructure the loss generating state factories and to introduce a price system that reflects the demand and supply of the produced goods and services, this way to overcome the constant deficits typical for the planned economy. Bulgarian economy was strongly connected with COMECON countries and mostly with the USSR. In the early 1990's Bulgarian policymakers were not fully convinced in unavoidability of the reforms. They made efforts to prolong the existence of some ineffective state factories and in this way tried to save jobs of many industrial workers and those working in state administration. The result was severe indebtedness of the inefficient state companies. The liabilities were met mostly by using unconventional monetary instruments. That was a controversial policy of loss monetization that boosted inflation in the mid 1990's and resulted in hyperinflation and huge banking crisis in 1997[1].

Finally the delayed economic reforms had to take place. One of the fundamental changes that were introduced in 1998 was the implementation of a Currency Board system that used to fix the exchange rate of Bulgarian lev to the German mark (later to euro) and total abolishment of discretionary monetary policy. The profound character of this reform marked most of the policy measures undertaken in the following years in country's economy and in social security system as an inseparable part of it.

The strong discipline effect of Currency Board exerts on the government and the central bank made possible the implementation of difficult but needed reforms concerning privatization of state assets, taxation, and changes in social sphere basically in pension system[2]. In the early 1990's the welfare system in Bulgaria was financed totally with state budget funds. The state used to take care of all social security services then provided. The economic crises affected both the revenue and the expenditure side of the system. The officially reported GDP of the country plunged with some 40% for the period 1990 – 1997

Table 1: GDP for the period: 1990-1997 (in USD)

	1990	1991	1992	1993	1994	1995	1996	1997

[1] For general survey on Bulgarian reforms see Dobrinsky (2000) and Vutcheva (2012).

[2] For more on the crisis and Currency board functioning see Nenovsky and Rizopoulos (2003), Nenovsky and Berlemann (2004), Ialnazov and Nenovsky (2003), Nenovsky (2008) and Ialnazov (2003).

GDP per capita	1163	945	1015	1278	1150	1564	1190	1251
GDP per capita in PPP*	5170	4740	4660	4800	5020	5380	5020	5920
Annual change (in %)	-9,1	-11,7	-7,3	-1,5	1,8	2,9	-9,4	-5,6

***Purchasing power parity**
Source: Bulgarian central bank www.bnb.bg , National Statistics Institute www.nsi.bg

The severe shock on the country's real economy influenced adversely the unemployment rate which jumped up significantly.

Table 2: Unemployment rate: 1990-1997 (in %)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Unemployment rate	2.9	6.8	13.2	15.8	14.1	11.4	11.0	14.0

Source: IMF, World economic Outlook, April 2014

The figures shown imply that the pressure on the revenue side of the state budged was tremendous. At the same time the raising number of unemployed individuals influenced negatively the expenditure side of the budget as well. Some populist decisions taken by the government at that time also contributed to the increasing deficit. For example, many of those left without a job were allowed to retire in preferential terms. The financial burden of all social security services supplied only by the state at that time was getting unbearable. It was a logical step to inflate the means necessary for the payment of all benefits which were governmentally provided. So the inflation rate high rocketed:

Table 3: Inflation rate: 1991-1997 (in %)

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**
Inflation rate	473.7	79.4	63.9	121.9	32.7	311.6	547.7

Source: National statistics institute, www.nsi.bg

The severe economic crises from the late 1990's put under pressure Bulgarian policy makers. They realized the necessity of fundamental economic changes in almost every sphere of the society. So the newly elected government in 1997 started reforms which were significantly delayed in time. Decisive measures were needed in pension system (the average pension amount at that time was at around 5 USD per month), health care system and employment policy system in order to prevent them from total collapse. After the introduction of a currency board system in July 1st 1997 and the resulted stabilization in inflation rates, the government undertook important steps to restructure the aforementioned social spheres.

II

Welfare system development after the crisis and Currency Board introduction

The most profound reforms were made in pension system since it was absorbing the greatest part of the resources destined for social security. The system was embracing many people whose pension amounts were greatly reduced as a result of the hyperinflation. At the same time an adverse fundamental process was taking place whose negative effect was expecting to hit the pension system dramatically in medium and long term – the aging of the population.

In the early 1990's two trends started to affect negatively the demographic structure of the Bulgarian society – emigration and lowered birth rates. After the collapse of the communist regime the borders were opened and many young Bulgarians saw an opportunity to continue their professional careers abroad. At the same time the economic difficulties in the country prevented lots of families to give birth of more than one child. These two adverse tendencies have been continuing to exert pressure on the pension system for many years.

In the late 1990's the social security system functioned solely on pay-as-you-go basis so that the rising unemployment and emigration rates directly affected the revenue side of the state budged and from there the possibility for paying adequate pension amounts. Following the recommendations of the World Bank and the IMF, Bulgarian government started both parametric and structural reforms of the current pension system. The aim of the first type of reforms was to strengthen the financial health of the system in short term while the ultimate goal of the second type was to improve long term prospects of the pension system in Bulgaria.

The parametric reforms included the introduction of the so called point system in retirement whose aim was to raise the legal requirements for receiving pension by the state social security. The insured individuals needed to meet both age and contributory service criteria in order to obtain right for a pension benefit. Before this transformation the insured individuals had to reach only a predetermined specific age – 55 for women and 60 for men. The point system, introduced in Bulgarian pension system in 2000, required the sum formed by age and years of contributory service of the insured individuals to be 98 for men and 88 for women. At the same time the legal retirement age was raised by six months for both sexes - 55 years and 6 months for women and 60 years and 6 months for men. The adopted pension legislation envisaged a gradual increase both in retirement age and in points required for both sexes. Each year beginning from 1st of January 2001 the age needed had to increase by 6 months until it reaches 60 years for women and 63 years for men. At the same time the points required had to grow with 1 each year until they reach 94 for women and 100 for men. In 2011 the point system in pension insurance was eliminated and it was replaced by separately defined requirements for age and years of contributory service – 63 years of age and 37 years of contributory service for men and 60 years of age and 34 years of contributory service for women.

Other parametric reforms included the removal of some advantages designed to benefit certain types of professions such as military servicemen, policemen and people working in heavy labor conditions such as mine workers, metallurgists etc. All these reforms undertaken and applied in Bulgarian pension system aimed to relax the constantly rising financial burden on the state PAYG pension system. It is well known that the return to PAYG systems depends on two factors[3] – dependency ratio (contributing workers to pensioners) and the growth of average earnings which determines the growth in total contributions. A continuous deterioration in dependency ratio could put an increasing strain on pay-as-you-go system. This negative trend is typical for many countries in the World but it has an extreme character in Bulgaria. This is seen from the following table:

[3] Davis (1995).

Table 4: Number of contributing workers and pensioners for the period 2009 – 2013

(in thousands)

	2009	**2010**	**2011**	**2012**	**2013**
Number of contributing workers	3254	3053	2965	2934	2935
Number of pensioners	1696	1697	1696	1698	1667

The dependency ratio in Bulgaria is less than 2:1 which means that the current PAYG pension system exerts a severe pressure on public finances. However the average pension amount has been increasing constantly since 2000 mostly thanks to the increasing contributory income of the working individuals. It's worth noting also that contributory rate for pension insurance had been lowered several times for the period 2000 – 2010. In 2011 there was a slight increase in this rate but it could be assumed as an exception that proves the rule.

Table 5: Contributory income and contributory rate for pension for the period 2002-2013

Year	**Average monthly contributory income (euro)**	**Rate of increase of average monthly contributory income**	**Contributory rate for pension**
2002	132.81		27%
2003	143.55	8.09%	27%
2004	157.89	9.99%	26%
2005	169.55	7.39%	26%
2006	181.25	6.90%	19%
2007	203.58	12.32%	18%
2008	255.93	25.72%	17%
2009	283.65	10.83%	13%
2010	291.61	2 .80%	11%
2011	303.78	4.18%	12.80%
2012	316.01	4.02%	12.80%
2013	331.69	4.96%	12.80%

Source: National Social Security Institute, www.nssi.bg

The average pension amount in Bulgaria has been increasing but it is still far from adequate to the economic conditions. The average replacement rate is at about 40% which means that

Bulgarian retirees are facing a significant decrease in their income just after their retirement. It's not a surprise that all those pensioners who have an opportunity to keep their jobs after retirement, choose to stay at work and be active. In order to improve the perspective of receiving a higher pension amount and to raise the average replacement rate, Bulgarian policymakers made also a very significant structural reform in the late 1990s. Following the recommendations of the World Bank[4] they introduced a three pillar pension system. The first pillar constitutes the state PAYG system. It continues to absorb the greatest part of the resources but it has been complemented by second and third pillars which have been functioning on a fully funded principle. The second pillar is the so called supplementary compulsory pension insurance and it embraces two types of funds – universal pension funds and occupational pension funds. All insured individuals born after 31.12.1959 are obliged to make contributions into a universal pension fund of their own choice. Insured individuals who work in heavy conditions such as mine workers must contribute in occupational pension fund as well. The undertaken change is accepted as an important structural reform since its ultimate aim is to manage the expected severe shortfall in the current PAYG system. The third pillar of the system is the so called supplementary voluntary pension insurance. All individuals over the age of 16 years could make contributions in a pension fund of their own choice. Both compulsory and voluntary pension funds manage defined contribution pension schemes where the investment risk is borne by the insured individual.

The introduction of a system that functions on a fully funded principle was a serious challenge for the Bulgarian regulators. The implementation of a compulsory second pillar in a country where the capital market has been just started with low liquidity and a few financial instruments suitable for investment vehicles for this type of institutions imposes many risks both on insured individuals and pension companies. The lack of traditions in pension insurance of this kind was also an obstacle with unforeseeable consequences as no one was sure whether the public would support the reform. The regulators had to reflect all these constraints into the rules supposed to govern the newly formed pension insurance companies. So it was of a little surprise that they gave a priority to strict investment regulation. During the first years of their existence, pension insurance companies from the second pillar of the system were obliged to invest

[4] World Bank (1994).

minimum 50% of their assets into government bonds. The investment constraints concerning the universal and occupational pension funds in Bulgaria were the following:

Table 6: Investment limits concerning second pillar pension funds in Bulgaria until 2006

	Instrument	**Investment limit**
1.	Government bonds	Min. 50%
2.	Bank deposits	Max. 25%
3.	Corporate bonds	Max. 20%
4.	Corporate equities	Max. 10%
5.	Mortgage bonds	Max. 30%
6.	Municipal bonds	Max. 10%
7.	Investment property	Max. 5%
8.	Foreign instruments	Max. 20%

Source: Social security code, 2000

By adopting such investment limits the legislator was clearly trying to prevent pension companies from assuming risky investments in their initial years of operation. At the same time these rules were aiming to convince the insured individuals in the financial security of the system. The last was very important because many people suffered huge money losses from their "investments" in some financial pyramids, very popular in the mid 1990's in Bulgaria. This type of investment regulation was reasonable for the first years of operation of the Bulgarian pension funds. But it is well-known from financial theory that low-risk instruments are associated with low return. Pension funds are long term investors and they have some comparative advantages in investments on capital markets. Variable income assets are more volatile in value than fixed income instruments but their yield tend to exceed that of bonds especially in the long term.

One of the most important risks that face insured individuals in a funded pension system is the inflation risk. If pension funds were not able to compensate the insured for the lost purchasing power of their accumulated savings they would not serve the aim for which they were established. That's why it was very important Bulgarian pension funds to extend their investments in corporate instruments such as equities and bonds in order to increase their chances of achieving a positive real return in the long horizon. In 2006 some very important changes were introduced in pension fund investment regulations partly because of the upcoming membership in European Union in 2007. Many of the limits were relaxed and the existing minimum requirement for investments in government debt was removed.

Table 7: Current investment limits concerning second pillar pension funds in Bulgaria

	Instrument	**Investment limit**
1.	Government bonds	No limit
2.	Bank deposits	Max. 25%
3.	Corporate bonds	Max. 25%
4.	Corporate equities	Max. 20%
5.	Shares and/or units issued by collective investment schemes	Max. 15%
6	Shares in special purpose investment company	Max. 5%
7.	Mortgage bonds	Max. 30%
8.	Municipal bonds	Max. 15%
9.	Investment property	Max. 5%
10.	Investments in assets denominated in currency different from lev and euro	Max. 20%

Source: Social security code, 2007

All these changes used to have a positive impact on pension funds. They were able to restructure their asset portfolios short after the implementation of the new regulations. The portfolio share of government bonds was significantly reduced on account of that of corporate instruments. Before this alteration some funds used to invest almost 80% of their resources into government debt. This could be assumed as a shortcoming because the pension system was changed in order to supplement the PAYG system with some funded components. But if pension funds predominantly invest in government debt many of the advantages of the funded pension system could be seriously undermined in the long term. The restructuring of the asset portfolios in the late 2006 and during the whole 2007 coincided with the extreme price increases at the Bulgarian stock exchange.

Many portfolio investors not only pension funds but also banks, insurance companies and mutual funds located in the country were eager to put some money into the fast growing Bulgarian equity market. In 2007 pension funds were able to realize a double digit return which was varying between 13.51% and 24.91% for the different universal pension funds. The average officially announced yield was 17.19%. This was a huge number which was possible only because of the investments made on the capital market that year. The asset price balloon was clearly formed and when the financial crises hit the country in the following year the results were devastating. The main stock price index (Sofix) plunged with some 80% and the losses reported by pension funds for 2008 were great. The stock market crash was able to sweep away more than 20% of the savings amount accumulated by the insured individuals. The average announced loss was -21.14% for all universal pension funds as one of the funds published -29.31%.

These disappointing results marked the development of the pension funds in the next years. The insured individuals realized that their savings were not guaranteed and they bore significant risks[5]. The problem was the most serious for those individuals insured in a voluntary pension fund whose retirement was coming close. The pension funds were having no chance to compensate them for a year or two. The insured had to make a tough choice - pension amounts should be reduced or otherwise they needed to work some extra years. The insured individuals in universal pension funds were having the advantage their retirement to be in a more distant future. The first who are going to get pension from this type of funds are those born in 1960 whose retirement is planned for the years after 2020.

The crises showed clearly that pension funds in Bulgaria should be allowed to construct asset portfolios with different risk profiles. The so called multifund system has been established in a number of countries in Latin America (Chile, Peru, Columbia, etc.) and in Central Europe (Slovakia, Poland, Hungary until 2012), but not in Bulgaria. The crises demonstrated that the risk that faces individuals with long and those with short investment horizon is different. If the insured has planned his or her retirement for the next 2 or 3 years the portfolio portion invested in secure instruments should be much larger than it used to be in 2008. At the same time those insured that have just started their professional carrier should have the opportunity to invest more aggressively in a portfolio containing variable income instruments whose yield is more likely to exceed the inflation rate in the long term.

All changes that were made at the beginning of the new century were consistent with the regulations of the European Union**.** Unfortunately some of the reforms were delayed in time; others have not been introduced yet, some others have been stopped. For example in 2011 the ruling party adopted a regulation that stipulated a gradual increase both in pension age and contributory service required for retirement. As a result the age needed for receiving pension benefit was planned to increase by 4 months each year until it reaches 65 years for men and 63 years for women. The required contributory service was also planned to increase by 4 months each successive calendar year until it touches 40 years for men and 37 years for women. This normative rule was in force only for two years (2012 and 2013).

In 2013 the new ruling coalition stopped the reform and froze the envisaged increase for one year. All this shows how difficult is to implement painful reforms and how much important

[5] Blake (2006)

is to vote such changes only in the presence of widespread public support. It is crucial for the success of any long term decision to be accepted by all participants in the political life in the country. Pension system requires long term rules otherwise it is doomed to failure. Another reform which is still subject only to hot discussions is the introduction of the multifund system within the second and third pillar of the pension insurance. The establishment of several asset portfolios with a different risk profile is an important measure that will underpin the pension funds in Bulgaria and will reduce the risk that faces insured individuals in the long term. At the same time the introduction of such system will involve the insured much deeper in the process of accumulating assets for retirement. Currently three portfolio options have been discussing – a conservative, balanced and aggressive one. They will differ by the portion invested in variable income instruments. Having a choice, the insured must take the responsibility for their pension savings. One of the serious problems of the system today is that young persons are not interested in their future pension benefits and they have left the decisions of this type totally to the state. Multifund system has the potential to change this disturbing feature of today's working generations. Of course, the normative rules in this area must be constructed carefully in order to prevent the insured from taking decisions that can harm and not protect their interests.

III

Employment policy

Another important social system that was significantly changed in the 2000's concerns the employment policy in Bulgaria. In the late 1990's the economy suffered a severe decline as a result of the lack of reforms which were needed in order to restructure some big but inefficient state factories which were not able to function in a competitive environment. After the hyperinflation that evolved in 1997, the newly elected government started a process of privatization of state assets. As a result many workers lost their job and were not able to switch fast to a new one because the structure of Bulgarian economy was different. Many state factories were sold and after that were just cut into scrap. There was no market for the products they used to produce for decades and the state budged was not able to support them any more especially in such strict monetary conditions imposed by the currency board system introduced in the same period. So the greatest part of the unemployment which reached the level of nearly 18% at that time was a structural one.

Table 8: Unemployment rate: 1998-2001 (in %)

	1998	**1999**	**2000**	**2001**
Unemployment rate	12.2	16.0	17.9	17.3

Source: Statistics Review, 2002, published by Bulgarian National Statistical Institute

The government put into place both passive and active measures in order to reverse this negative trend. The passive instruments include certain benefits and payments destined for all those individuals left without a job. The active measures embrace different educational and qualification programs whose ultimate aim is to raise the skills and professional knowledge of the unemployed. The provision of temporary and permanent employment is also part of the active measures undertaken by the so called Employment agency which is responsible for the implementation of the government policy in this area.

In early 2000's new legislation was adopted in this field and as a result a special fund was established. The so called unemployment fund, together with the pension fund, the employment injury and occupational diseases fund and the common disease and maternity fund have formed the first pillar of the Bulgarian social security system. Each of these funds has its own budget. All of them are financed by special contributions that are paid by all working individuals and their employers and the resources are used on a solidarity basis. The contributory rate for the unemployment fund has been changed several times for the years after 2000.

Table 9: Contributory rates due by the employees and their employers for the unemployment fund for the period 2002 - 2014

Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Contributory rate "unemployment fund"	4%	4%	4%	3.5%	3%	I-IX - 3%, X-XII - 1%	1%	1%
Year	**2010**	**2011**	**2012**	**2013**	**2014**			
Contributory rate "unemployment fund"	1%	1%	1%	1%	1%			

Source: National Social Security Institute, www.nssi.bg

Initially the contribution is divided between the employer and his/her employee at a ratio of 80:20. It has also been changed a couple of times for all these years and currently it is 60:40. The means of this special fund have been spent for financing certain benefits for the individuals left without a job. Cash unemployment benefit is paid to those persons for whom social insurance contributions have been paid or are due with the unemployment fund for at least nine months out of the last fifteen months preceding the termination of the social insurance[6]. The unemployed must also have a registration with the National Employment Agency and he/she must not have been granted a pension benefit. The exact procedure for determining the amount of the benefit has been changed slightly during the years. It is estimated as 60% of the average daily wage on which contributions have been paid or are due for the period of 18 calendar months preceding the month in which insurance was terminated. It is important to note that currently unemployment cash benefit is not constrained by upper limit. This was not the case for many years. Each year the parliament used to vote a maximum daily amount of this type of benefit valid for the next calendar year. In this way individuals insured on a high amount of income were not allowed to receive an adequate to their paid contributions benefit.

This normative rule was changed in 2010 and since then high income insured persons can get a benefit determined on the amount of their contributory income. The period used as a basis for determining the average daily wage of the insured has also been changed several times. Initially this period was fixed at nine months, but after that it was prolonged to twenty-four months and currently it is eighteen calendar months preceding the month of losing job. The number of months for which the insured has right for receiving this type of benefit depends on the period of contributory service:

Table 10: Period for payment of cash unemployment benefit in Bulgaria

Contributory service in years	Period for payment of benefit in months
Up to 3	4
From 3 to 5	6
From 5 to 10	8
From 10 to 15	9

[6] See: Social insurance code, State Gazette No. 110/17.12.1999, effective 1.01.2000

From 15 to 20	10
From 20 to 25	11
Over 25	12

Source: Social security code, 2000

It is seen from the table above that the maximum period of time for which the insured has right for receiving unemployment cash benefit is 12 months. The longest period for payment of such benefit concerns those individuals with the longest record of contribution payments into the unemployment fund of the state social security system. If the insured has acquired an entitlement to a cash unemployment benefit prior to the lapse of three years from a preceding entitlement to such benefit, he or she has right to the minimum amount of the benefit for a period of four months. If the person is hired to work part time during the period of payment of the unemployment benefit and receives remuneration which is less than the national minimum wage, he/she has the right to the entitlement of 50% of the already determined unemployment benefit for the rest of the period.

In addition to these passive measures, there are some active ones applied by the state employment agency, whose aim is to support unemployed with the whole process of finding a new job or acquiring some new skills necessary for the available positions. The activities of this state agency could be divided into seven groups: Information services for registered unemployed for the available vacancies; Mediation services for finding a new job; Professional consultancy services; Educational services; Financing programs and projects for subsidized employment for specific groups of unemployed persons; Providing stimuli for raising the employment level in the country (for the unemployed - to start a job and for the employers - to open new working positions); Administrative and information services concerning different EU programs in the sphere of employment and professional qualification.

All these passive and active measures could have only a supportive rule in the process of opening new working positions and raising the level of employment. It is well known that in fact businesses and proprietors hold the leading position in developing the working environment and the creation of new job opportunities. That’s why the policymakers are trying to support the labor market with some indirect measures concerning exactly the business conditions in the country. For example there is a clear tendency of reducing the tax burden both on corporate and personal income for the period after 2000. In this way the government is trying to reduce the costs of making business and at the same time to stimulate those businesses that operate in the "grey" economy and don't pay any taxes to accept the rules and compete justly with the other participants at the market.

Table 11: Marginal tax rate on corporate profits and personal income for the period 2001-2013

Year	Marginal tax rate on corporate profits	Marginal tax rate on personal income
2001	28%	38%
2002	23.5%	29%
2003	23.5%	29%
2004	19.5%	29%
2005	15%	24%
2006	15%	24%
2007	10%	24%
2008	10%	10%
2009	10%	10%
2010	10%	10%
2011	10%	10%
2012	10%	10%
2013	10%	10%
2014	10%	10%

Source: National Revenue Agency, www.nap.bg

It's worth mentioning that some of the undertaken measures in the sphere of social policy have controversial effects on the labor market. In an effort to manage the grey sector of the economy, the Ministry of Labor and Social policy introduced the so called minimum contributory thresholds in 2003. The minimum contributory income is determined administratively and separately for each professional group and sector of the economy. These thresholds are used for estimating the contributions due for each of the funds of the state social security system, pension funds from the second pillar and for health insurance. Even if the contracted wage is below the minimum contributory level, the employer and employee should pay contributions on the so determined threshold. The basic idea here is that if we have a "grey" sector in the economy, then a significant part of the employees receives wages on which no social security contributions are paid or they are paid but not in their full amount which is the most common case. The problem is how to determine the exact amount of these contributory thresholds. If they are too low then they'll not accomplish the job for which they are invented. If they are too high then they could have an adverse effect on the labor market and to support the upward trend in the unemployment rate in the country. It's hard to assess the effect these contributory thresholds have been exerting on the labor market since their inception in 2003. The years just after their introduction coincided with the boom years of the Bulgarian economy.

There were many other factors which supported the observed increase in the amount of wages and in that of the paid social security contributions. This positive tendency was reversed in 2008 when the world financial crises hit Bulgarian economy as well. It's important to mention that these contributory thresholds have never been reduced for the whole period after 2003. Even when the negative effects of the crises were on the surface and the unemployment rate started to move upward yet again, Bulgarian policymakers didn't take any steps to relax the rising financial pressure on many businesses in the country. Contrary to that they were trying to compensate the declining revenues by increasing both the minimum contributory income and the legal minimum wage. The latter has been also constantly increasing since 2000 at rates which are not related to the labor productivity and the growth of the economy.

Table 12: Minimum monthly wage in Bulgaria (in euro)

Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Minimum wage per month	34	43	51	56	61	77	82	92
Rate of increase		26%	19%	10%	9%	25%	7%	13%
Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	
Minimum wage per month	112	123	123	138	148	159	174	
Rate of increase	22%	9%	0%	13%	7%	7%	10%	

Source: National social security institute, www.nssi.bg, own calculation

The above table shows that the accumulated rate of increase of the monthly minimum wage is more than 176% for the whole period between 2000 and 2014. At the same time the growth rate of the officially reported GDP is much smaller:

Table 13: Growth rate of the Bulgarian GDP (in %)

Year	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Growth rate	4.2	4.7	5.5	6.7	6.4	6.5	6.4
Year	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	
Rate of increase	6.2	-5.5	0.4	1.8	0.6	0.9	

Source: National statistics institute, www.nsi.bg

The level of minimum wage and contributory thresholds are fixed and valid for the whole country. There is no differentiation among regions. At the same time there is no economic equality among different regions in Bulgaria. There are areas where the unemployment levels are higher (e.g. north-west region of Bulgaria) so that the average monthly payments there tend to be lower than the levels in the other parts of the country. Raising the minimum wage without considering these variations, the government decreases artificially the differences between the average and minimum income in those areas. In this way it discourages further those individuals who are qualified and receive wages above the minimum ones. They have an extra stimulus to leave those regions and to look for a better payment in some other place. This negative tendency makes the economically underdeveloped territories in the country even more unattractive for businesses and hampers their social recovery.

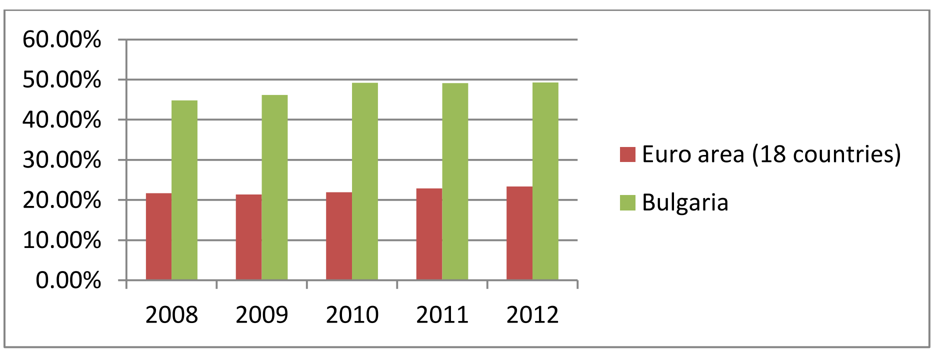
IV

Welfare system in crisis years

The crisis of 2008 influenced quite negatively the labor market in the country. The economic slump was caused by the reduced amount of foreign investments which used to be the main growth engine during the years before 2008. The export oriented sectors of the economy also suffered because of the lowered demand for the products they were producing and selling at the EU market.

One of the businesses that were hurt seriously was the construction industry. There was a real boom in designing and building vacation complexes (hotels and apartments) in the sea and winter resorts of the country and business offices and residential buildings in the big cities. It was a logical result that many of the employed in this sector of the economy have lost their jobs. The construction industry used to absorb many of those with specific professional skills and comparatively low education. These individuals were hit the most by the effects of the crises. They were unable to switch fast into a new occupation. At the same time a significant part of those employed in building industry was not insured on the real wage. Many low paid workers preferred to receive part of their remuneration without paying social security contributions. In this way they were not able to qualify for a full unemployment benefit from the state social security fund. As a result of the crises the number of people exposed at risk of poverty and social exclusion has increased.

Figure 1: Percentage of people exposed at risk of poverty and social exclusion[7]

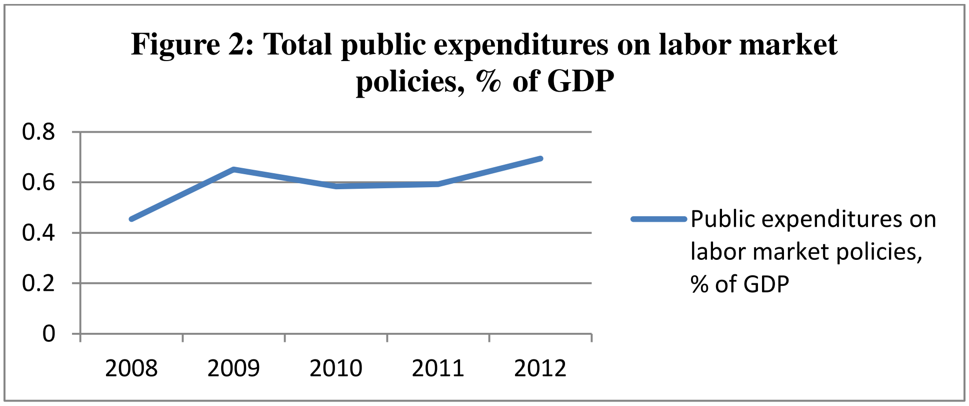


Source: http://epp.eurostat.ec.europa.eu/

The data in the above table shows that the number of the Bulgarians exposed to this specific risk has increased with almost 5 percentage points for the period 2008 – 2012. It's much higher than

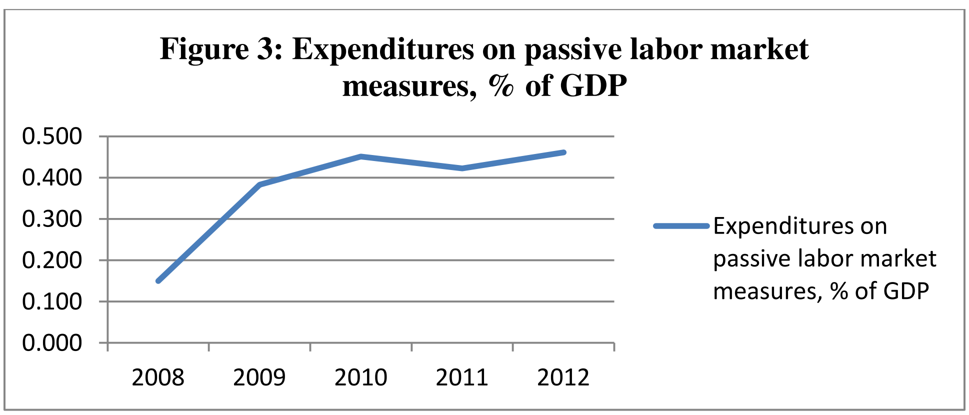
[7] The Europe 2020 strategy promotes social inclusion, in particular through the reduction of poverty, by aiming to lift at least 20 million people out of the risk of poverty and social exclusion. This indicator corresponds to the sum of persons who are: at risk of poverty or severely materially deprived or living in households with very low work intensity. At risk-of-poverty are persons with an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least 4 out of 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a color TV, or ix) a telephone. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) work less than 20% of their total work potential during the past year.

the average rate of increase for the countries members of Euro area. Accordingly, the public expenditures on labor market policies have also increased for the period:



Source: http://epp.eurostat.ec.europa.eu/[8]

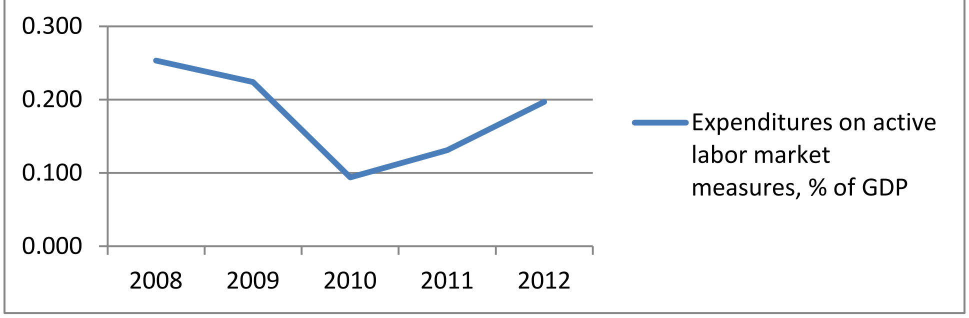
It's worth noting that the greatest part of the increase is caused by the implemented passive measures, basically paid unemployment benefits. At the same time the statistics shows that the resources devoted to active measures have decreased both in proportion to GDP and in absolute value.



Source: http://epp.eurostat.ec.europa.eu/

[8] Expenditure on labor market policies (LMP) is limited to public interventions which are explicitly targeted at groups of persons with difficulties in the labor market: the unemployed, the employed at risk of involuntary job loss and inactive persons who would like to enter the labor market. Total expenditure is broken down into LMP services (category 1), which covers the costs of the public employment service (PES) together with any other publicly funded services for jobseekers; LMP measures (categories 2-7), which covers activation measures for the unemployed and other target groups including the categories of training, job rotation and job sharing, employment incentives, supported employment and rehabilitation, direct job creation, and start-up incentives; and LMP supports (categories 8-9), which covers out-of-work income maintenance and support (mostly unemployment benefits) and early retirement benefits.

Figure 4: Expenditures on active labor market measures, % of GDP



Source: http://epp.eurostat.ec.europa.eu/

A possible reason behind this data could be the time needed for the implementation of new programs and services by the state administration as well as the period necessary for the public to learn and get used to the novelties. After 2010 there has been an upward trend in this type of expenditures which is a clear sign that the negative effects of the crises are still on the surface.

Bulgarian policymakers are trying to support the labor market in the country by indirect measures as well– introducing some electronic services for communication with the unemployed, fostering proprietorship among them, elaborating some guarantee schemes for facilitating the access for financing. Unfortunately, the efficiency of the state administration is far from perfect and many of those looking for a job are dissatisfied with the opportunities they currently have for managing their unfavorable situation. Bulgarian government is constrained in its active policy measures because it must observe strictly its expenditures. The budget deficit should not surpass the limit of 3% of the GDP and the public debt must be kept under control if Bulgarian politicians want to keep the currency board system and the fixed exchange rate towards the euro.

At the same time the limit of 3% budget deficit is the maximum level which the government should keep or the European commission could start a special penalty procedure for tolerating excess deficit and breaking the rules of the Stability and Growth pact. So in such situation the implementation of a typical Keynesian type policy is highly limited which means that the government cannot support the labor market with some short term measures whose efficiency, however, is controversial in the long term. The crisis was able to put the employment policy of the government under pressure. Notwithstanding the gradual recovery of the economy driven by the export oriented sectors has begun and the national statistics was able to register a slight decrease in unemployment levels in the second quarter of 2014. The process of repairing the economy would be difficult and it requires coordinated efforts by all of the participating parties – government, businesses, and academics.

Conclusion

The reforms implemented within the Bulgarian social security system were aiming to establish a model which is similar in structure to the one that functions in Germany.

For example, for each of the basic social security risks (old age and death, maternity and childcare, unemployment, occupational disease and employment injury) a distinct fund has been established within the pay-as-you-go first pillar of the system. A particular contribution has been defined for each of these funds. The benefits are to a great extent related to the contributions paid. In theory the social security system was separated by the state budget and accordingly by the resources collected via taxation. In practice, the system has been experiencing constant deficits for the last decade and it is effectively supported by state budget funds. At the same time a universal coverage of the system has been always a prerogative for the last 15 years. So the reality is that there are many exceptions by the rule that make possible even people without working history to receive certain benefits (pension, maternity, health care). The last concerns basically some minority groups within the society.

Using Esping Andersen's 1990's classification Variety of Welfare Regime in Bulgaria, we can stand the position that it is a sort of a compromise between conservative and social democratic model[9]. Private institutions in this field have relatively short history of operation and with the exception of pension funds, the others manage small resources and don't have great popularity in the country. Currently the role of the private sector for financing certain social security benefits is insignificant having in mind that even pension funds are still in their accumulation phase and accordingly the cash outflows are small.

At the same time it is expected that the role of the privately managed institutions will grow in the next years and they will be able to support effectively the state organizations in supplying social security services. This concerns mainly pension security organization which has

[9] The East European welfare system could be interpreted in different way following the Nölke and Vliegenthart (2009) classification of East Europe as a Dependent Market Economy Capitalism, where fundamental dependence on foreign capital is observed. Bohle and Greskovits (2012) develop a different theory for European periphery diversity. In any case such research is a bulky task that we leave for another day.

been changed fundamentally and as a result a three pillar system was established. The implemented funded components are supposed to support the pension system in a moment when the aging of the population could cause enormous deficits in the PAYG system.

The start of the reform was promising but after the crisis of 2008 it became clear that some further changes were needed. The insured individuals are exposed to significant risks within defined contribution pension schemes. So the right regulation of the pension fund investments should try to mitigate some future failures. At the same time the reforms within PAYG pillar of the system (e.g. rising the pension age, restricting the requirements for receiving benefits) must continue in order to soften the expected shortfall in the next years.

The other very important reform in the social security system was implemented within the employment policy organization. Bulgarian economy structure was changed significantly after the collapse it went through in 1996-1997 and as a result the unemployment level rose in the late 1990's and early 2000's. The policymakers were trying to manage this structural unemployment by adopting both active and passive measures but their efforts were constrained by a number of factors. The social inclusion of some "risky" groups of the population (those with no or low education, low qualification and professional skills) are and will be at the center of the policy measures.

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