

■ BULGARIA

Impact of the Global Economic Crisis on Social Exclusion in Bulgaria

Plamenka Markova
Bulgarian Gender Research Foundation

The global economic crisis hit Bulgaria in 2009 and its macroeconomic impact continued in 2010. Household income shocks have been experienced primarily through a contraction of the labour market. The most significant impacts have been concentrated among the most vulnerable and distributed unevenly across ethnic groups. Poor households have been unable to cope with the decline in income and have had to reduce expenditure on health, education and social contributions such as healthcare.

Defining poverty in Bulgaria

Bulgaria is the poorest country in the EU with an annual income per capita of USD 12,600 in 2009 (Eurostat 2009). Bulgaria adopted the Eurostat official poverty line for the first time in 2007. At the end of 2009, a new poverty line was set at Bulgarian lev (BGN) 211 per month (about €108 as at 8 February 2010). The minimum wage is established by the Government after consultation with trade unions and employers. Table 1 shows that the minimum wage came very close to the poverty line in 2009 (BGN 240 per month compared to a poverty line of BGN 194) and is expected to come even closer in 2010 (BGN 240 per month compared to a poverty line of BGN 211).

The trade unions and civil society in Bulgaria have raised the question of the applicability of the Eurostat methodology for determining the poverty line in Bulgaria. The Eurostat method is referred to as the 'at risk of poverty rate' and set at 60% of the median equivalent income. The poor in Bulgaria are a relatively constant share of the population – about 1.1 to 1.2 million people out of 7.6 million (Economic and Social Council of Bulgaria 2009).

Data from international comparisons shows

that the relative share of the poor in Bulgaria does not differ a lot from that in the EU Member States, including newly acceded countries. However, there are considerable differences in the poverty lines used by the different Member States. For example, in Bulgaria, the poverty line in euro is 2.8 times lower than the average for newly acceded countries and 13 times lower than the average poverty line for the old EU Member States (EU15).

The differences in poverty lines are reduced considerably when measured in purchasing power parity (PPP). Using PPP, the poverty line in Bulgaria is two times lower than that in newly acceded countries and about five times lower than that in the EU15.

It should be noted that pensions, as a basic social safety net, are of the utmost importance in reducing poverty in Bulgaria. Despite their low nominal amount, pensions (mostly received by older members of households and disabled persons) constitute a relatively high share of total household income. Other social security benefits have considerably less influence on poverty reduction. Data for 2008 show an at risk of poverty rate of 43.5% before social security payments, which declines strongly to 18.3% when pensions are taken into account, and to barely to 14.4% when other types of social security are included (Economic and Social Council of Bulgaria 2010).

Mechanisms for setting the minimum wage and the social security system according to the poverty line are under discussion. At present, the poverty line is not used to determine the level of social security benefits and allowances. The Government is committed to improving the method used to set the poverty line, including developing appropriate political mechanisms for linking the poverty line and the minimum wage. However, given the current crisis, it might be more appropriate to postpone any decisions

on these issues until better economic times. At the end of 2009, the promise was that 2011 will be the turning point. This remains to be seen.

Social impact of the global economic crisis

The Bulgarian economy was moderately affected by the global economic crisis in 2009, experiencing a 5% decline in GDP (compared to growth of 6% in previous years). The impact of the crisis tended to be felt by households after the peak of the macroeconomic contraction. The World Bank partnered with the Open Society Institute in Sofia in late 2009 to assess the impact of the crisis on households. The primary tool used to conduct this assessment was a Crisis Monitoring Survey, which quantified the economic impact of the economic crisis on households and individuals.

The first results of the Crisis Monitoring Survey were presented in May 2010 to the Government and the public (World Bank and Open Society Institute 2010). Some of the main findings of the survey are presented here.

Who has been affected and how?

The global economic crisis has affected household income through salary cuts, reduced working hours and even job losses. Vulnerable groups, like those with low levels of education and Roma people, have been the worst affected.

- **Decline in household income:** Approximately 30% of households reported a decline in income between March 2009 and February 2010 due to labour market shocks, a decline in family businesses, decreased remittances, increased mortgage payments and the cessation of social security benefits.
- **Salary cuts and reduced working hours:** Approximately 34% of workers reported an income shock through their job, primarily through lost or reduced employment or reduced wages. Salary cuts and reduced working hours affected close to 30% of workers (salary cuts 15.6%; reduced working hours 15.9%). Salary reductions have been concentrated in the private (informal) sector.
- **Unemployment:** Job loss resulting in unemployment, which is the most severe type of labour market shock, has affected 6.3% of workers in Bulgaria. Job losses were concentrated in construction and manufacturing.

Table 1: Correlation between minimum wage, poverty line and average wage 2007–2010

Year	2007	2008	2009	2010
Official poverty line (in BGN per month)	152	166	194	211
Minimum wage (in BGN per month)	180	220	240	240
Average wage (in BGN per month)	430	524	578*	600**
Minimum wage/official poverty line (%)	118.4	132.5	123.7	113.7
Minimum wage/average wage (%)	41.9	42.0	41.5	40.0

Notes: EUR 1 = BGN 1.96

* Figures are for the first nine months of 2009, ** Estimates are for the first nine months of 2010

Source: Institute for Social and Trade Union Rights (2009)

Table 2: Poverty in Bulgaria 2004–2009

Laeken indicators of poverty	2004	2005	2006	2007	2008	2009
Median equivalised disposable income per month (BGN)	237.03	253.51	277.64	322.52	352.38	384.37
Mean equivalised disposable income per month (BGN)	261.21	276.02	298.38	348.94	391.69	418.67
At risk of poverty threshold (BGN)	142.22	152.10	166.59	193.51	211.43	230.62
At risk of poverty rate (%):						
• Total before social security benefits	40.1	39.1	40.5	40.5	43.5	46.9
• Total including pensions, but before other social security benefits	17.6	17.2	16.9	17.2	18.3	18.4
• Total including pensions and social security benefits	15.3	14.2	13.9	14.1	14.4	14.7

Note: The at risk of poverty rate is discriminated by various criteria in Table 3.

Workers from the most vulnerable groups – those with only a primary education or less, or Roma people – were most likely to suffer from unemployment (World Bank and Open Society Institute 2010).

How have people coped with the crisis?

Bulgarians have tried to cope with the crisis by seeking additional work, relying on savings and taking loans, and drawing on remittances and social security benefits.

- **Additional work:** Most households have tried to cope with the reduction in income by sending non-working family members to look for work or by seeking additional part-time work – but only the well-educated and rich have succeeded in finding additional work. Of the households that are crisis-affected and

poor, 60% have looked for additional work and failed to find any.

- **Savings and loans:** Only 22% of Bulgarian households reported having any savings. Most of the crisis-affected households reported having no savings and being in debt.
- **Informal transfers:** Approximately 20% of households reported relying on some type of informal transfer (14% of households received remittances from abroad), and 6.7% of households sought, but did not receive, informal transfers.
- **Social security benefits:** Key social assistance programmes (child allowance, heating allowance and the guaranteed minimum income programme) are responding to the crisis – however, only 60% of households

from the poorest quintile who suffered an income shock are receiving at least one benefit from these three programmes (World Bank and Open Society Institute 2010).

What are the impacts of the crisis on people's social rights?

The crisis has impacted on people's social rights by reducing consumption including forcing some to skip meals, as well as reducing spending on health, education and social safety nets like insurance.

- **Consumption:** Households responded to the economic contraction by reducing expenditure on basic necessities: 41% reported reducing use of basic utilities, 29% reduced consumption of staple foods and 8% reported skipping meals.
- **Health:** As in other Central and Eastern European countries, crisis-affected households have significantly reduced expenditure on health, including stopping use of regular prescribed medications and skipping visits to doctors.
- **Social contributions/insurance:** Crisis-affected households were more likely to stop paying social contributions and health insurance – increasing their vulnerability if exposed to additional shocks (falling ill or becoming unemployed) (World Bank and Open Society Institute 2010).

Pension system

Recent changes in the pension system in Bulgaria have led to the provision of higher pensions, but they have put significant pressure on Bulgaria's budget. While this is partly a result of the recession, it also reflects a number of policy changes. The National Social Security Institute estimates that pension payments were raised by about 17% in 2009. At the same time, the compulsory pension contribution rate was lowered from 22% to 18%. In combination with the economic downturn, this has reduced pension contributions by over 11% (NSSI 2009).

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Table 3: At risk of poverty rate according to different factors in Bulgaria 2004–2009

Factor	2004	2005	2006	2007	2008	2009
According to age						
• 0–15	21.5	17.8	15.1	18.8	17.1	21.4
• 16–64	13.9	12.4	12.3	12.0	12.5	13.4
• 65+	15.7	17.5	18.0	17.7	17.8	14.9
According to gender						
• Male	13.0	12.8	11.8	11.3	12.7	12.8
• Female	17.4	15.4	15.7	16.6	15.8	16.4
According to other factors						
At work – total:	6.8	5.9	5.5	5.0	5.0	5.7
• Employed	6.9	5.6	5.7	4.9	4.5	5.3
• Self-employed	6.1	8.7	2.8	5.9	10.0	9.8
Not at work – total:	19.3	19.5	20.2	20.5	21.4	20.4
• Unemployed	33.8	34.2	35.8	37.9	43.3	44.0
• Pensioners	14.8	16.4	16.9	17.5	17.0	15.5
• Other/inactive	17.3	14.8	15.6	15.5	19.9	17.0
Household type:						
• Households without children	12.7	13.3	13.4	12.9	13.9	12.8
• Households with children	17.8	15.1	14.4	15.4	14.9	16.9
Ownership status:						
• Owners and rent free	14.8	13.7	13.9	14.4	14.5	14.6
• Tenants	29.6	24.6	14.7	2.8	10.4	18.2

Note: The total at risk of poverty rate including pensions and social security benefits is shown in Table 2.