

EMPLOYMENT IN BULGARIA AS PART OF EUROPEAN LABOR MARKET – TRENDS AND INSTITUTIONAL CHALLENGES

The dynamics of employment in Bulgaria in the first decade of EU membership reflects the impact of various factors, including the application of the principle of free movement of workers on the European labor market. The main goal of this study is to highlight institutional challenges facing the labour law compliance control (national system of labor inspection) and the social insurance contributions dynamics in Bulgaria in the context of EU workers mobility. The changes in employment in Bulgaria as part of the European labor market reveal both the free movement of EU workers and the attraction of third-country nationals. The diversity of the nationality of the employed is reflected in the legislation (Labour Migration and Labour Mobility Act, 13 April 2016), which regulates the main processes in relation with workers mobility. These trends are accompanied by changes and complicating the activities of institutions that have responsibilities in the field of labor law compliance control and social security in Bulgaria as part of the European labor market.

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The employment transformations in Bulgaria as an EU member are related to the dynamics of various factors, among which stands out the territorial mobility of the workforce in the context of globalization, digitization and wide application of the right for free movement of workers. The effects of a country's economic integration in EU are spread overproduction, consumption, employment, income and a number of other socio-economic systems. Studies of the effects of economic integration on employment as a factor for growth include a focus on regional labor markets, with special attention to the dynamics of national and international labor markets, income policy and regional development. (Fertig, 2003; Huber, 2007; Marinov, 2015; Parushev, 2018; Conti, Sulis, 2016) Employment as a traditional parameter of a country's economic development plays a significant role in the state of public systems (with fiscal and non-fiscal functions), incl. social security. The main trends in the territorial mobility of the workforce in the EU are seen in the context of the existing differences in quality of life and the level of wages between the Member States. Certain EU countries are formed as attractive centers (Labour market attractiveness in the EU, 2018). From other Member States workforce flows out with all the ensuing consequences for their

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public systems, incl. the social insurance. These processes are accompanied by changes in legislation and in the functions of institutions that have responsibilities in the field of labor and social security relations.

The main goal of this study is to highlight institutional challenges facing the labour law compliance control (national system of labor inspection) and the social insurance contributions dynamics in Bulgaria in the context of free movement of EU workers. The focus is on the growing demand and expectations to the national system of labor inspection in the field of control of labor legislation on the free movement of workers within the EU and changes in the structure of insured persons by status and type of social insurance contributions. To achieve this goal a number of research tasks are carried out, conditionally divided into two main directions: major trends in employment in Bulgaria in the context of territorial mobility of workers within the EU and institutional challenges related to the labour law compliance control (national system of labor inspection) and to the social insurance contributions dynamics in Bulgaria. The complex and multi-faceted nature of the studied areas required to adopt a number of restrictions in the survey. The status and dynamics of employment in Bulgaria as a member of the EU in this study is mainly characterized by the quantitative indicators for the number of employed. The analysis of a number of significant qualitative parameters of employment is not commented. The changes in social insurance are focused on the dynamics in the structure of insured persons by employment status and type of social insurance contributions. Several other aspects incl. institutional transformations of social insurance system (Pandurska, R., 2018), financial reforms and etc. remain outside the scope of the study. The main sources of information are annual and periodical data from the administrative statistics of the National Social Security Institute (NSSI), the Employment Agency (EA), the National Revenue Agency and the Executive Agency of the General Labor Inspectorate (GLI EA), as well as from Eurostat and National Statistical Institute (NSSI) surveys – Employed persons, hours worked and labour productivity – ESA 2010, Labour Force Survey.

1. Employment changes in Bulgaria and workers mobility within the EU

Changes in employment in Bulgaria are considered in the context of the dynamics of employment in the EU in terms of the broad application of the right of free movement of workers. Official statistics show that in the EU over the last ten years, the number of employees has increased (by 2.2%) and in 2017 it has reached 221413 hl. (compared with 216 642 in 2007). The data shows an increase in the number of employed during the period in Germany, Poland, Hungary, Great Britain, Czech Republic (Table 1).

Table 1
Dynamics in the number of employed in the EU and some EU countries in 2007-2017
(thousand)

	2007	2008	2014	2015	2016	2017
Total EU 28	216 642	218 995	212 912	215 232	218 381	221 413
Germany	37 397	37 902	38 908	39 176	40 165	40 482
Czech Republic	4 856	4 934	4 883	4 934	5 016	5 094
Poland	14 996	15 557	15 591	15 812	15 902	16 079
Great Britain	28 622	28 827	29 559	30 016	30 424	30 783
Hungary	3 872	3 818	4 070	4 176	4 309	4 373
Bulgaria	3 209	3 306	2 927	2 974	2 954	3 073
Spain	20 437	20 316	17 211	17 717	18 183	18 649
Romania	8 842	8 882	8 254	8 235	8 166	8 363
Portugal	4 756	4 786	4 254	4 309	4 371	4 515
Latvia	1 016	1 009	859	868	862	862
Lithuania	1 422	1 397	1 288	1 301	1 318	1 306
Greece	4 476	4 523	3 480	3 548	3 610	3 683

Source: Eurostat, Labor Force Survey <http://appsso.eurostat.ec.europa.eu>, 17.10.2018.

Since 2007, the number of people employed has decreased in several of EU countries, including Greece, Latvia, Spain and Lithuania, where the decrease in the number of employed exceeds 8%. In some of these countries, growth in the number of employed has been recorded over the past 2-3 years, but this does not result in the 2007 level being reached. Bulgaria is also in the group, which reported a decrease (by 136 thousand) in the number of employees. In our country, in 2017 there is an increase (by 119 thousand compared to 2016), but the 2007 level is not reached. The dynamics of employment over the period show increasing the total number of employed in EU, but for a certain part of the countries last ten years have been accompanied by a decrease in the number of employed with all the ensuing consequences for long-term human capital development and the state of public systems (including social insurance) in the countries concerned. (Zareva, 2010; Beleva, 2012; Lukanova, Zareva, 2008) The employment dynamics in the EU countries are driven by a variety of factors, (linked to both the natural and mechanical movement of the population) which are the subject of in-depth analyzes (Zareva, 2018; Vladinirova, 2016; Nonchev, Hristova, 2018; Mintchev, Boshnakov, 2018) which is beyond the scope of this study. The dynamics of the number of employed in Bulgaria are analyzed in relation to the territorial mobility of workers in the EU, accompanied by a number of changes in the outflow and inward flow in the population. Article 45 of the Treaty on Functioning of the European Union and “Regulation No 492/2011 of the European Parliament and of the Council of 5 April 2011 on freedom of movement for workers within the Union” are in the basis of EU workers mobility. Data show that over the past ten years, the number of EU citizens living or working in another EU country has doubled and already reached 17 million. The increasing mobility of workers within the EU is also reflected by increasing number of EU citizens (over 1 million), which every day commute to another Member State to go to work. The number of posted workers (services in another Member States on a temporary basis) and workers in the road transport sector (crossing intra-EU borders on a

daily basis) exceeds 4 million (European Pillar of Social Rights, 2018) In the process of development of this study, no source of regular statistical public accessible information was found about the number of Bulgarian citizens who work (employed and self-employed) in other EU countries as well as the number of citizens of EU countries working in Bulgaria. For the purposes of traditional annual and periodic statistical employment and workforce surveys (including Labor Force Survey), the concept of EU citizens is used. The EU citizens have the right to look for a job in another EU member state and to work there without any work permission, under the same conditions as the citizens of the respective member state. Several specialized studies (Ruben, A., et al 2016) show that significant groups of Bulgarian citizens flowed out from Bulgaria and choose to live and work in EU countries. A publication from 2018 (CEDR, 2018) shows that more than half a million Bulgarians aged 20-64 live in EU countries and 70% of them work. It is stressed that about 30% of Bulgarians living outside the country have higher education. In the group of countries with a high percentage of active citizens residing in another EU country, the following are mentioned: Romania – 20%, Lithuania, Croatia and Portugal – 14%, Latvia – 13%, Bulgaria – 12%. The growing demand for labor in Bulgaria (the relatively low wages in our country are a traditional factor for this employer's labor market behavior) is accompanied by the facilitation of the access of third country nationals to the labor market (including for short-term employment) in Bulgaria. Basic data on this process are provided by the EA – the number of short-term employment permits for persons from Ukraine, Moldova, and others are increasing. The short-term changes in employment in Bulgaria as part of the European labor market reveal both the free movement of workers in the EU (for these workers' movements within the EU there is still no publicly accessible regular statistical data) and the attraction of third-country nationals. The diversity of the nationality of the employed is reflected in the legislation (Labour Migration and Labour Mobility Act, 13 April 2016), which regulates the main processes in relation with workers mobility. The total number of employed in Bulgaria covers persons of diverse nationality, which can be grouped into three main sectors: Bulgarian citizens, citizens of other EU countries and third country nationals. The contemporary dynamics in employment in Bulgaria as part of the European labor market pose a number of institutional challenges both for the national labor inspection and the social insurance system.

2. Institutional Challenges

2.1. Labour law compliance control

The labour law compliance control in Bulgaria is reglamented through a number of juridical acts, including the Labor Inspection Act (LIA), which states the leading role of the General Labour Inspectorate Executive Agency (GLI-EA). Among the main activities of GLI-EA stands the labour law compliance control, incl. the territorial mobility of workers. In recent years, the main focus in this area is the compliance with the regulations laid down in the Ordinance on the Terms and Procedure for Posting and Sending Workers in the Service (29.12.2016). According to the legislation, the main institution with responsibilities in the field of external movements of workers is the Employment Agency (EA). The data from the annual reports of the EA show that over the past three years the number of permits) for

access to the labor market of workers who are nationals of countries outside the EU has increased (from 490 in 2015 to- 785 in 2017). At the end of the period, the rapid increase in the number of short-term employment of third-country workers registered in the EA is also highlighted. EA has responsibilities in relation to the introduction and implementation of the new organizational forms of labor activities through the Enterprises Providing Temporary Work (EPTW) The data from the annual reports of the EA show that by the end of 2017 there are 151 EPTW with a valid registration. In connection with the changes in the labor force mobility legislation in Bulgaria as part of the European labor market in the last years in the control activity of GLI-EA , a growing attention is paid to the control of EPTW and to the inspections of employers who post and send employees within the provision of services in Member States. According to the GLI EA inspected enterprises send workers to over 250 Bulgarian enterprises users and abroad (France, Belgium, Holland, Britain, Italy, etc.) Employment models of EPTW includes relatively new to Bulgaria practices in human resources management and therefore the GLI EA control results show a number of violations of rules regarding the assignment of the job tasks, payment standards, job roles, training process, personnel documentation and others. Compliance with the standards in employment in EPTW and user enterprises can be supported by various management practices, incl. the systematic audit of human resources (Peicheva, M.,2015) In this context, the audit of human resources and social audit is regarded as an important tool for the prevention of violations of labor legislation and tackling undeclared work. Effective Labour law compliance control in Bulgaria as part of the European labor market is a major challenge to the national labor inspection system, whose priority areas for inspections in the next period are related to the territorial mobility of workers, EPTW and user enterprises; compliance with the legal requirements of employment of foreigners in Bulgaria, posting of workers in countries - EU members. The changes in employment related to the mobility of workers in the EU lead to complicating the subject of labour law compliance control and increasing the need for intensive communication and coordination with inspection bodies from other EU countries.

2.2. Social Insurance

The widespread application of the fundamental right to free movement in the EU creates prerequisites for greater choice of workers and employers for the location of both employment and social insurance contributions. The characteristics of employment (salary, additional benefits, career opportunities, etc.) should be seen in a set with the characteristics of the social security system both from the positions of the workers and from the point of view of the employers interests (labour costs) on the European labor market. In the context of the free movement of workers in the EU, the person's nationality is not a sole determining factor for the location of employment and social insurance decisions. In this part of the study, specific information (from NSSI official administrative statistics and National Revenue Agency) on the dynamics and structure of the insured persons in Bulgaria is analyzed. Selected data in Table 2 show several structural changes in the group of insured persons – by labor status and by type of social insurance contributions

Table 2

Dynamics of insured persons in Bulgaria during the period 2014-2017

Year	Insured persons*			Self-insured persons – subgroups by risks	
	Total	Incl.		Pension	All risks without accidents at work and unemployment
		Insured by employer	Self-insured persons		
2014	2735	2 501	234	79.9	120.3
2015	2756	2 514	242	76.7	130.7
2016	2765	2 515	250	77.8	134.4
2017 -total	2780	2529	251	74.5	130.5
Incl: other EU countries citizens**	18	12.3	5.7		

Source: * NSSI, *Statistical guide, time series, 2018*, p.63, **Administrative information provided by National Revenue Agency, 2018.

According to official information for the period 2014- 2017 there is an increased number of insured persons (1.6%) in Bulgaria. The number of self-insured persons is growing more rapidly (by 7%) and the number of persons insured by employers is growing more slowly (by 1.1%) In the same period, the number of self-insured persons for all insurance cases without labor accident and unemployment, increases by over 8%. The briefly presented trends in the number and structure of insured persons in Bulgaria raise several questions three of which must be the starting point for future in-depth research. The first issue is related to the growing relative share of self-insured persons (from 8.5% in 2014 to 9% 2017) in the total number of insured persons. The second question is related to the gradual (albeit slow) increase of that part of the self-employed group, which is insured for all risks without accidents at work and unemployment. Thirdly we need to put the topic on the growing gap between the number of employed and the number of insured persons – in 2014 that difference represents 6.5% of the employed, and in 2017 reached 9.5% of the employed in Bulgaria. The outlined changes in the number and structure of insured persons (including by type of social insurance contributions) have the potential to affect the status of the main funds in the state social insurance and should be subject to in-depth future research. These changes must be analyzed in the context of the dynamics of citizens of other EU countries who are insured in Bulgaria. The data provided by the NRA's Register show that 18,000 citizens from other EU countries in 2017 are insured in Bulgaria. About 32% of the citizens of other EU countries insured in Bulgaria are Self-insured persons. These data should in the future be compared with information on the number of citizens of other EU countries working in Bulgaria.

The future in-depth study of the changes in the structure of insured persons in Bulgaria requires that a variety of factors be taken into account- including the capacity of the control institutions, methodological deficits of the registration system etc. In the context of the main goal of the study there is a focus on the expansion of employers 'and employers' opportunities in the EU to choose a preferred location for the social insurance contributions. Under the current legislation (Income Taxes and Natural Persons Act / ITNPA), the legal decisions and selecting the country where the person will pay social insurance contributions are associated with the concepts of "country of residence" and "center of interest".

Opportunities are regulated for one person to carry out his professional activities in Bulgaria but to be insured in another EU country. The basic rule is that the person is insured in the country where he/she carries out a significant part of his/her professional activities. According to Art. 4, of the ITNPA, the center of vital interests is located in Bulgaria, when the interests of the person are closely related to the country and in this decision we have to take into account the family, the property, the place from which the person performs labor, professional or economic activity, and the place where he/she manages her/his property. In each case, judgment is made to determine the center of vital interests that justifies the location of the person's social insurance contributions. In this context, there are legal possibilities for a person to work in Bulgaria but to have social insurance contributions in another Member State. Various legal rules are applicable in this regard, three of which are presented here: an employed person who does not carry out a significant part of his activity in the country of residence must be insured where the head office or enterprise of his employer is located; a person working for two employers whose headquarters are located in different countries (the one in the country of residence of the person) then there is a possibility for social security of the person to be performed outside the country of residence; a self-employed person who does not carry out a significant part of his activity in the country of residence must be provided where the center of interests of his activity is located. These varied social insurance opportunities are applied in practice and affect both the dynamics of the insured persons and the financial parameters of the social insurance system in Bulgaria. These changes complicate the subject of social insurance legislation compliance control and raise the issue of new requirements to the activity and capacity of the respective responsible institutions.

Conclusion

The employment dynamics in Bulgaria as a EU member is a prerequisite for several challenges to the functioning of both the national labor inspection and the social system of insurance. Workers mobility in the EU is accompanied by legal selecting of the employment location and the types of social insurance contributions. For EU citizens the person's nationality is not a sole determinant in the employment location and social insurance decisions taken in the context of the free movement of workers. Under these conditions employment and social insurance in Bulgaria must be analysed and considered as part of the employment and social insurance in the EU. The results of the study show that workers mobility in EU leads to changes and an increase in the complexity of the functions and tasks of the institutions with responsibilities in the field of labor inspection and social insurance in Bulgaria. The briefly presented dynamics in the legislation regulating the flexibility of the social insurance regimes is the basis of a number of challenges for the labor and social insurance compliance control at a national level. The requirements for joint actions of the National Labor Inspection System in Bulgaria with the relevant institutions in the other Member States are increasing. The new European Labor Authority (the operating start is expected in 2019) primary objective is to contribute to the provision of fair labor mobility within the internal market. The European Labor Authority will enhance cooperation amongst EU countries and provide national authorities with operational and technical support. To achieve this, a key role will have the establishment of

an effective workers movements monitoring and an appropriate social insurance information system at EU level which take into account the new stage in the development of the European labor market.

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