

BULGARIAN LABOR MARKET IN THE CONTEXT OF EUROPEAN UNION MEMBERSHIP

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Abstract

Bulgaria's membership in the EU has changed the economic and social environment for labor market development in Bulgaria. This membership leads to many new opportunities and challenges, but also problems that have to be solved by the Bulgarian labor market. The objective of this study is to review and analyze labor market development in Bulgaria and to identify similarities and differences in the levels of main labor market indicators between Bulgaria and EU-27. The article brings out the main problems that the Bulgarian labor market faces in the context of the EU membership. The opportunities for reaching the average parameters of the European labor market are connected with some changes in the Bulgarian labor market policy which implementation will improve the efficiency of the labor market in Bulgaria.

Key Words: *Labor market, Labor market policies, Labor market indicators, Labor market flexibility*

JEL Classification: J 00, J 08, J 21, J 31, J 61, J 62

1. INTRODUCTION

Bulgaria's membership in the EU has changed the economic and social environment for labor market development in Bulgaria. This membership leads to many new opportunities and challenges, but also problems that have to be solved by the Bulgarian labor market.

In Lisbon (March 2000) the European Council approved a new Strategy for European Union development for the next decade: “to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion and care about the environment”¹.

Labour market objectives of the Lisbon strategy are connected with reaching: 70% overall employment rate, 60% employment rate of women and 50% employment rate of elderly people (55 and older) by 2010. Implementation of employment policies aims at achieving full employment, improving quality and productivity at work, strengthening social and territorial cohesion. As a member of the European Union Bulgaria incorporated Lisbon Agenda objectives and policies as central to its employment strategies.

The main aim of the paper is to review and analyze labor market development in Bulgaria and to identify similarities and differences in the levels of main labor market indicators between Bulgaria and EU-27 in the context of the Lisbon strategy.

2. Bulgarian labour market development

During the last 20 years, there have been remarkable changes in Bulgarian economy. The country accomplished the transition from central planned to market economy and on January 1, 2007 became a member of the European Union. These changes were very important for the Bulgarian labour market and its development.

2.1. Population and its main characteristics

The analysis of the labour market must start with the population and its demographic characteristics. From an economic point of view the total population and its structure has a major contribution in order to determine the size and structure of the labour

¹ The European Council (2000), “Strategy for economic and social renewal of Europe”, approved by the European Council, which was held on 23-24 of March, 2000, Lisbon, Portugal

force. The population of Bulgaria is in a continuous and slow process of decrease from the beginning of the 1990s. This fact is due to the natural growth that is negative (Figure-1) especially because of the low birth rate and on the other hand because of the external migration. Data points out the following:

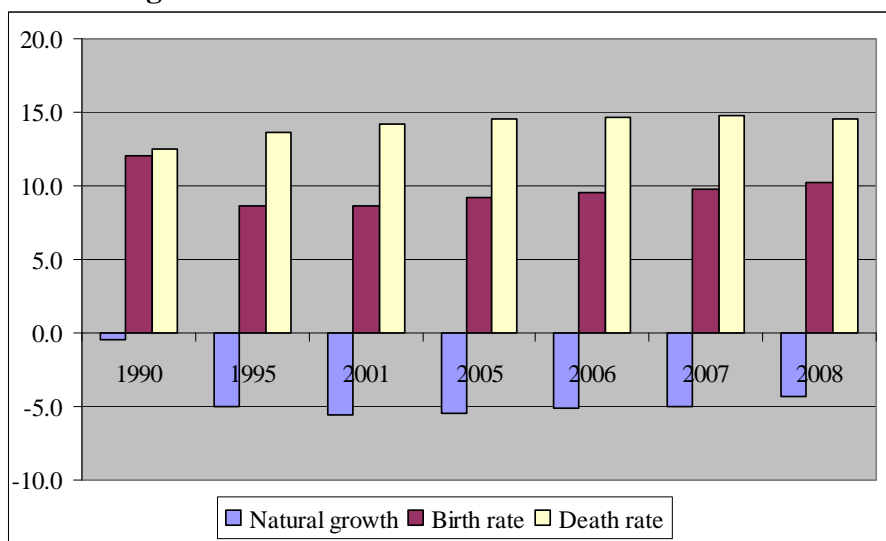
- In the period 1990-2008 the Bulgarian population has been reduced by 12.3% (1 062 718 people).
- The Bulgarian population amounts to 7 606 551 people in 2008. According to the National Statistical Institute predictions, the population of our country will reach 6.9 million people in 2025 and 5.8 million people in 2050.
- One of the main factors for the population reduction is the large external migration in recent years. According to estimates made by the National statistical institute, more than 20 thousand people leave the country each year.
- The female population is predominant and its share from the total amount of the population grew from 50.7% in 1990 to 51.6% in 2008.
- The process of population ageing continues, which leads to increase of population average age. It is 40.4 years in 2001, compared to 41.7 in 2008.

Tendency of population ageing leads to changes in the age structure - distribution of population under, at and over working age. The number of population at and over working age is influenced not only by the population ageing, but also by the legislative changes in the retirement age also. The share of population between 0-14 years has reduced from 21.6% in 1990 to 14.5% in 2008, while the share of population over 65 has remained relatively constant - 22.9% and 22.3%. The share of the working-aged population grew from 55.5% to 63.2% in the same period.

The working-aged population has remained relatively stable for the period 1990-2008 - 4 811 444 people in 1990 and 4 806 000 people in 2008. In 2008 the population over working age is 1701 thousand persons. It decreased by nearly 280 thousand compared to

1990 due not only to the natural decrease (mortality), but to the exclusion of part of women from this category also (retirement age is changed and part of female population is referred to the population at working age). The population under working age also decreased by nearly 770 thousand for the period 1990-2008. The number of population in this age category is 1100 thousand in 2008.

Figure-1: The evolution of natural growth, birth rate and death rate in Bulgaria between 1990-2008



Source: Bulgarian National Statistical Institute - www.nsi.bg

The outlined negative demographic processes lead to an accelerated ageing of the population and limit the possibilities for its “renovation” and extended reproduction on the labour market.

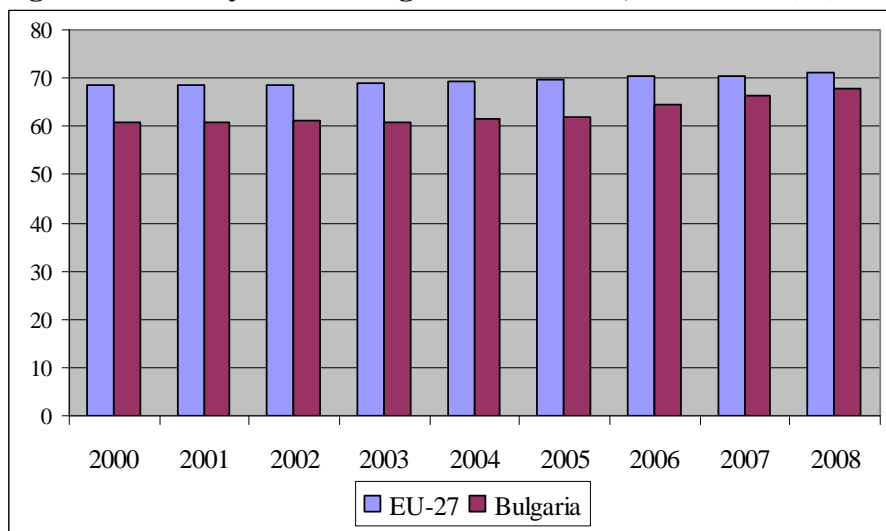
2.2. Employment

During the last 20 years, there have been remarkable changes in Bulgarian economy. The initial years of the transition from central planned to market economy were connected with the collapse of the real output. After 1998, the GDP stopped decreasing and there was a

decade of uninterrupted economic growth. The changes in the real output determined the changes in the main labour market indicators such as activity rate, employment rate and unemployment rate.

The activity rate of the Bulgarian population fell from 66.4% in 1993 to 60.7% in 2001 but after that started to increase and reached 67.8% in 2008. Despite the increase in recent years the activity rate in Bulgaria is still lower (by 3.5 percentage points) than that in EU-27 - 71.3% (Figure 2).

Figure-2: Activity rate in Bulgaria and EU-27, 2000-2008 (%)

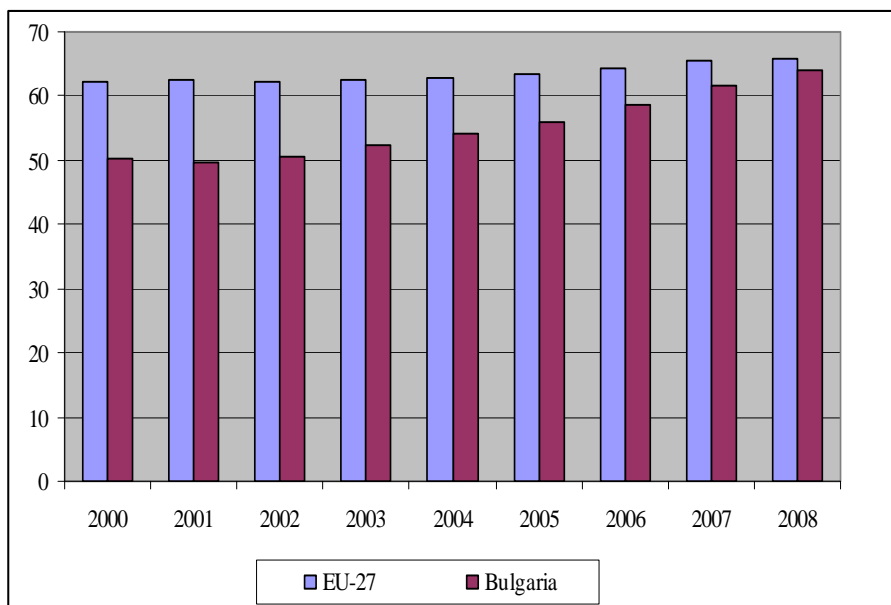


Source: Employment in Europe, 2008

In the period between 1990 and 2001, the employment rate had declined sharply and in 2001 reached 49.7%. The employment rate started to increase more lately - in 2002 and reached 64% in 2008 (Figure 3). Despite this remarkable improvement, in 2008 the employment rate in Bulgaria was approximately 2 percentage point lower than the EU-27 average and 6 percentage point lower than the Lisbon target (70% overall employment rate).

Towards the end of 2008, the employment rate in Bulgaria started to diminish, following the world financial crisis and it reached 62.6% in the first quarter of 2009.

Figure-3: Employment rate in Bulgaria and EU-27, 2000-2008 (%)



Source: Employment in Europe, 2008

Bulgarian employment rate for women (59.5%) stood considerably lower than that for men (68.5%). One of the objectives of the Lisbon strategy is 60% employment rate of women by 2010 and the Bulgarian labour market almost covers this target.

As for the age structure of the employment, the situation of young people is still worse than that of adults. The employment rates have separated these two groups even more in recent years. In 2001 the employment rate for young people (15-24) was 19.4% and for adults (55-64) - 20.8%. In 2008, the values of the two indexes were

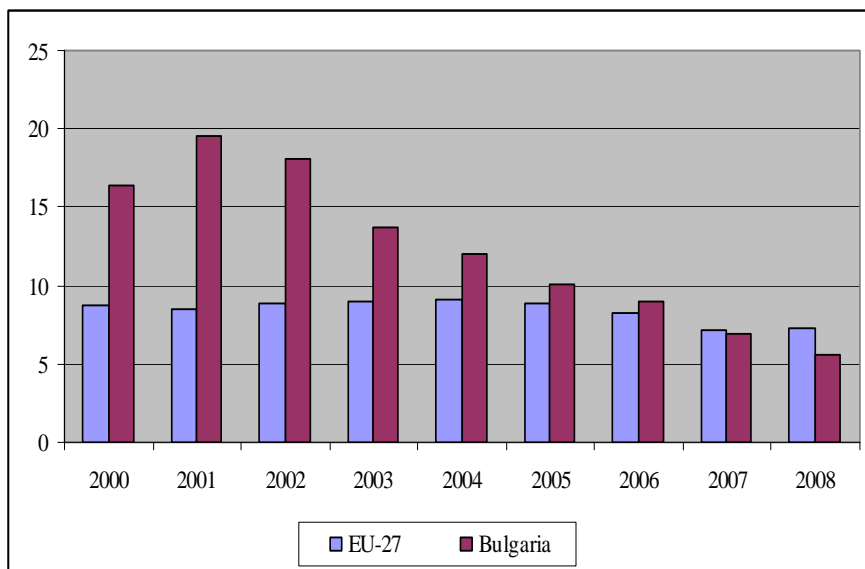
respectively - 26.3% and 46%. Bulgarian labour market is still far from covering the 50% target for elderly people.

In the conditions of the world financial crises which has affected the Bulgarian economy since the end of 2008, it is thus unlikely that the Lisbon targets for employment, other than for women, will be achieved by 2010.

2.3. Unemployment

The unemployment rate dramatically increased between 1990 and 2001 and reached 19.5%. This was associated with the restructuring and liquidation of some loss making sectors. Since 2002 the unemployment started to decrease and even for the last two years Bulgarian unemployment rate is smaller than that in EU-27 (Figure 4).

Figure-4: Unemployment rate in Bulgaria and EU-27, 2000-2008 (%)



Source: Employment in Europe, 2008 and Bulgarian National statistical Institute

The world financial crisis has affected the Bulgarian labour market at the end of 2008. The unemployment rate started to increase and by May 2009 it reached 7.08%. The economic analysts predict that unemployment rate in Bulgaria will be over 8% for 2009. In comparison, the EU27 unemployment rate was 8.9% in May 2009 and the forecast for 2009 is over 10%.

Youth unemployment (aged 15-24) remains a serious concern and efforts to integrate young people into the labour market and to support them as they pursue careers alternating between employment, study and unemployment should remain high on the policy agenda. Youth unemployment stood at 15.1% in Bulgaria in 2008, down from 22.4% in 2005, but still more than twice the prime-age adult unemployment.

People with secondary or lower education dominate the unemployment structure - 61.7% while those with higher education number 6.3%. Over 65% of the unemployed are with low skills.

2.4. Labour market flexibility

Bulgarian labour market has lower flexibility than the EU labour market as a whole. The ratio of the long-term unemployment provides one measure of labour market flexibility. The long-term unemployment rate has declined from 6 % in 2001 to 2.9% in 2008 and almost reached the average long-term unemployment rate for the EU-27 - 2.6%. One of the main problems on the Bulgarian labour market is that long-term unemployed form a significant part of all unemployed people - 51.8% for 2008.

Table-1: Main indicators for labour market flexibility in Bulgaria and EU-27, 2007

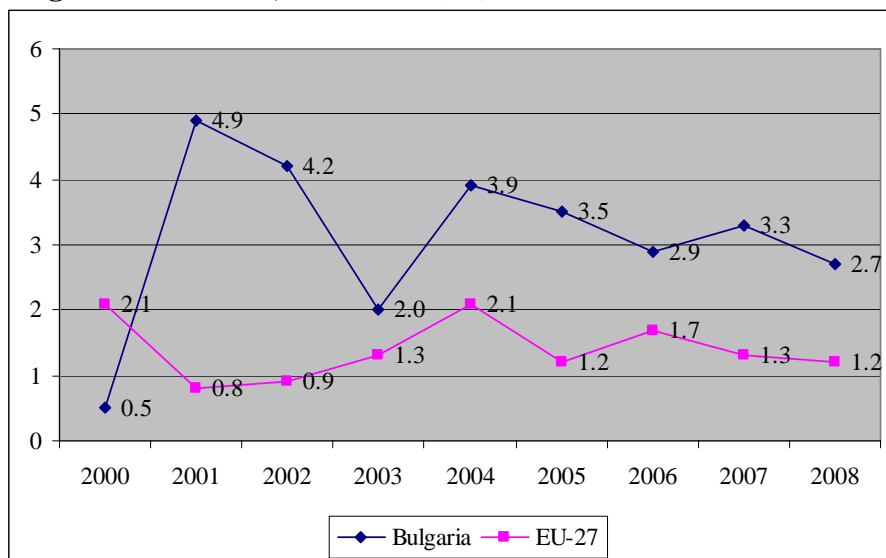
Main indicators (%)	Bulgaria	EU-27
1. Job vacancy rate	0.9	2.1
2. Share of temporary employees	5.2	14.3
3. Persons working part-time	1.7	18.1
4. Long-term unemployment	2.9	2.6

Job vacancy rate in Bulgaria is over 2 times smaller than the average for the European Union. The share of temporary employees (percentage of total number of employees) in Bulgaria is 3 times lower than in EU-27. The disparities in part-time employment are even bigger -the index is 10 times smaller in Bulgaria than in EU-27.

2.5. Labour productivity

In recent years, Bulgaria realized the labour productivity growth between 2% and 4% (Figure 5) which is over the average labour productivity growth of EU-27 - 1-2%, but lower than those in the Baltic countries and Romania - 4-8%.

Figure-5: Growth in productivity per person employed in Bulgaria and EU-27, 2000-2008 (%)



Source: Employment in Europe, 2008 and National Statistical Institute - Bulgaria

Despite this growth, Bulgaria is the country with the lowest labour productivity in the European Union - GDP per person

employed relative to EU-27 (EU=100) is 36.4% in 2008, mainly because of the lower starting position.

Bulgaria has to realize the sustainable growth of the labour productivity if it is to converge rapidly to the income levels of the rest of the EU. According to the World Bank predictions², if labour productivity continues to grow at 2 percent per year until 2015, Bulgaria's GDP per capita will reach 44% of EU-27 GDP per capita. After 2015, the two scenarios diverge. First, if the labour productivity growth remains at 2 percent, Bulgaria will never converge. Second, if the labour productivity growth increases to 5 percent, Bulgaria's GDP per capita will converge to that of EU-27 and achieves parity around year 2040. To rise to the challenge, Bulgaria needs to accelerate its already strong reform program in four key areas: promoting competitive product markets, enhancing flexibility of labor markets, narrowing the skills gap and strengthening R&D to support innovation.

2.6. Life-long learning

As regards to life-long learning, Bulgaria has the smallest participation of adults - 1.3% (2007) in the whole European Union. The average value of this index for EU-27 is 9.7% (2007) and the official EU target is 12.5% by 2010. There are large differences in participation between member states. The best performance is that of the Scandinavian countries and the UK, above 30%.

The main challenges that face the Bulgarian labour market could be summarized in a few points:

- Ageing labour force;
- High number of unskilled unemployment;
- High share or long-term unemployment;
- Regional disparities;

² The World Bank Report (2007), "Accelerating Bulgaria's Convergence: the Challenge of Raising Productivity", The World Bank Report No.38570, July 2007

- Insufficient participation in life-long learning;
- Shortage of qualified workers;
- Low labour productivity;
- Large income gaps between Bulgaria and most EU countries.

As a way to respond to these challenges, the Bulgarian government adopted (April 2008) a renewed employment strategy for 2008-2015. The strategy is in line with the updated EU Lisbon strategy, which focuses on a flexicurity approach. The strategy was drawn up with the participation of the social partners and aims to increase the employment rate, cut unemployment, reduce early school-leaving and boost labour productivity.

The main aims of the renewed strategy include ‘activating’ economically inactive people and ‘non-integrated’ and disadvantaged groups. It is hoped that the strategy will also ensure adequate education to enable Bulgaria’s transition to a knowledge-based economy. Further, the strategy seeks to increase labour market flexibility and security and encourage a policy of economic growth that will lead to higher quality jobs.

The strategy’s implementation is expected to: increase the employment rate to 72% by 2015 (currently around 64%); increase the labour force participation of older workers, up to an average retirement age of 68; cut the unemployment rate (currently around 7%) by three percentage points; reduce the early school-leaving rate from 16.6% to 10%; and increase labour productivity.

3. CONCLUSION

The implemented analysis of the Bulgarian labour market shows that despite the positive development in recent years, Bulgaria still has a long way to catch up with its fellow EU member countries.

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