Organisation for Economic Co-operation and Development

ECO/WKP(2023)12

Unclassified

English - Or. English

26 May 2023

ECONOMICS DEPARTMENT

BETTER JOBS AND INCOMES IN BULGARIA

ECONOMICS DEPARTMENT WORKING PAPERS No.1759

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JT03519820

ABSTRACT/RÉSUMÉ

Better jobs and incomes in Bulgaria

The shrinking number of workers due to smaller young cohorts entering the labour market and large-scale outward migration are undermining Bulgaria's growth prospects, the sustainability of its social institutions and society more widely. Bulgaria needs to provide more support for families and make staying in the country more attractive by raising productivity, fostering the creation of more good-quality formal jobs and reinforcing the social safety net. Bulgarian women have high activity rates, a high share in management jobs and a low wage gap with men, but all this translates into high opportunity costs for educated women of having children. Policies, including access to affordable quality childcare countrywide, more egalitarian burden sharing with men and greater incentives to get back to work, would help reduce those costs. Women from disadvantaged backgrounds should be offered a career path through upgrading skills and lifelong learning. Inactivity rates among the working age population should be addressed by reforms to the social welfare system that would improve activation and through targeted measures. Vulnerable groups, including ethnic minorities, are disadvantaged in multiple ways and need tailored measures to escape poverty, acquire skills and integrate into the labour market.

This Working Paper relates to the 2023 Economic Survey of Bulgaria
https://www.oecd.org/economy/bulgaria-economic-snapshot/

Keywords: Bulgaria, jobs, incomes, skills, migration, labour market policies demographics, fertility, childcare, informality, ethnic minorities, social insurance, social assistance
JEL codes: J11, J13, J14, J15, J16, J21, J24, J46, J82, F22, R23,

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De meilleurs emplois et revenus en Bulgarie

La diminution du nombre de travailleurs due à l'arrivée sur le marché du travail de cohortes de jeunes moins nombreuses et à l'émigration massive, compromet les perspectives de croissance de la Bulgarie, la viabilité de ses institutions sociales et la société dans son ensemble. La Bulgarie doit apporter un plus grand soutien aux familles et faire en sorte qu'il soit plus intéressant de rester dans le pays en augmentant la productivité, en favorisant la création d'un plus grand nombre d'emplois formels de bonne qualité et en renforçant le filet de sécurité sociale. Les femmes bulgares ont des taux d'activité élevés, une forte proportion d'emplois de direction et un faible écart salarial avec les hommes, mais tout cela se traduit par des coûts d'opportunité élevés pour les femmes instruites qui veulent avoir des enfants. Des politiques telles que l'accès à des services de garde d'enfants abordables et de qualité dans tout le pays, un partage plus égalitaire de la charge avec les hommes et des incitations plus fortes à reprendre le travail, contribueraient à réduire ces coûts. Les femmes issues de milieux défavorisés devraient se voir offrir un plan de carrière grâce à l'amélioration de leurs compétences et en devenant apprenant à vie. Les taux d'inactivité parmi la population en âge de travailler devraient être traités au travers de réformes du système de protection sociale qui amélioreraient la reprise d'activité ainsi que par des mesures ciblées. Les groupes les plus vulnérables, y compris les minorités ethniques, sont désavantagés de façons multiples et ont besoin de mesures adaptées pour échapper à la pauvreté, acquérir des compétences et s'intégrer au marché du travail.

Ce document de travail concerne l'Étude économique de la Bulgarie de 2023
https://www.oecd.org/economy/bulgaria-economic-snapshot/

Mots clés : Bulgarie, emplois, revenus, compétences, migration, politiques du marché du travail, démographie, fertilité, garde d'enfants, informalité, minorités ethniques, assurance sociale, assistance sociale
Codes JEL : J11, J13, J14, J15, J16, J21, J24, J46, J82, F22, R23,

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Better jobs and incomes in Bulgaria

By Margit Molnar, Michael Abendschein, Zvezdelina Zhelyazkova[1]

Introduction

Bulgaria's incomes are steadily converging to the OECD average, but unfavour Figure 1 able demographic trends with a falling number of children and large-scale outward migration are undermining its growth prospects. Indeed, population projections for Bulgaria are among the gloomiest in the world: with the current trends, the population could halve in roughly 65 years. This risks shrinking the size of the economy and creating labour shortages. Net outward migration represents a loss for Bulgaria of the investment made in the education of the population that leaves. To avoid such outcomes, specific policies could help to improve the demographic outlook and make better use of people of working age. More equitable opportunities should be provided to maintain good health, upgrade skills, create more high quality jobs, and avoid people falling into poverty in between jobs.

These unfavourable demographic trends reflect a number of factors. First, the overall fertility rate is close to the OECD average, but masks lower-than-desired rates for highly educated women for whom having children imposes a heavy cost. Teenage childbearing is high, with many children born to unemployed parents and in deprived circumstances (Clarke et al., 2022[1]), increasing infant mortality. Second, many highly educated and skilled workers leave the country and vacancies have not been filled by immigration. Net outward migration of people of child-bearing age further depresses the number of children growing up in Bulgaria.

This paper considers a package of policies that would facilitate a better balance between work and childbearing, make staying in the country more attractive by raising productivity, and foster the creation of more good-quality formal jobs. Reinforcing the social safety net would make Bulgaria a more attractive place to work. Vulnerable groups, including ethnic minorities, are disadvantaged in multiple ways and need tailored measures to escape poverty, acquire skills and integrate into the labour market.

1. The population is shrinking and getting older

Bulgaria's working-age population is on a trend decline (Figure 1), amid rapid ageing (Figure 2). The 18th Census of the Population and Housing, reflecting the situation as of 7 September 2021, showed a 19% decline in the working-age population since the 2011 Census, while the number of people aged above 65 increased by 12.6%. There were 6.5 million people living in Bulgaria in 2021: nearly 2.5 million fewer than

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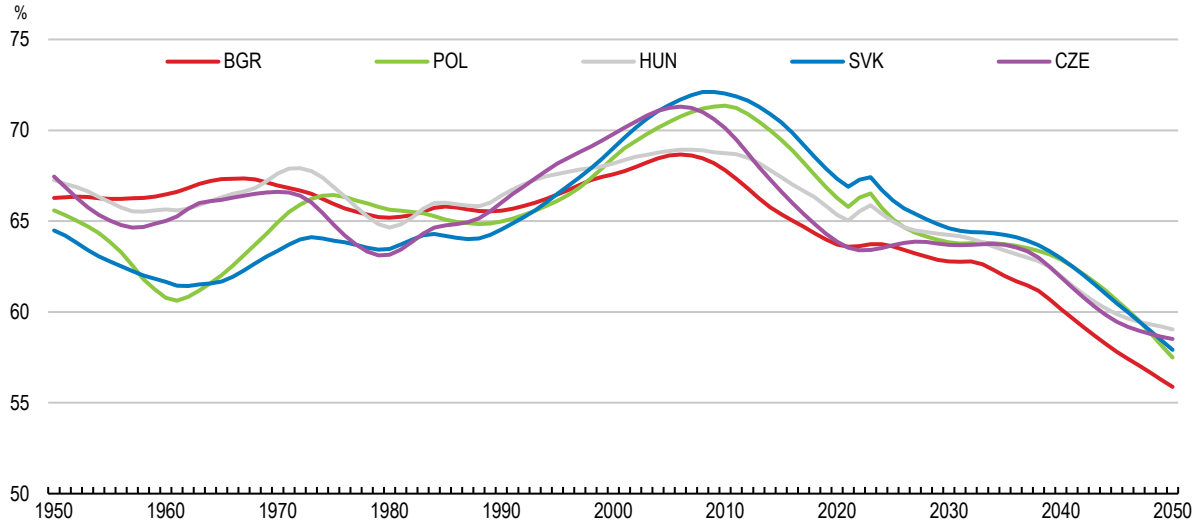
in 1981, when the population decline started (UN World Population Prospects). These demographic trends will affect the economy's growth potential and its convergence prospects. The 2022 revision of the UN World Population Prospects projects that by 2050 Bulgaria will have one of the largest relative reductions in population alongside Latvia, Lithuania, Serbia and Ukraine (United Nations, 2022[2]).

Figure 1. The working-age population is shrinking

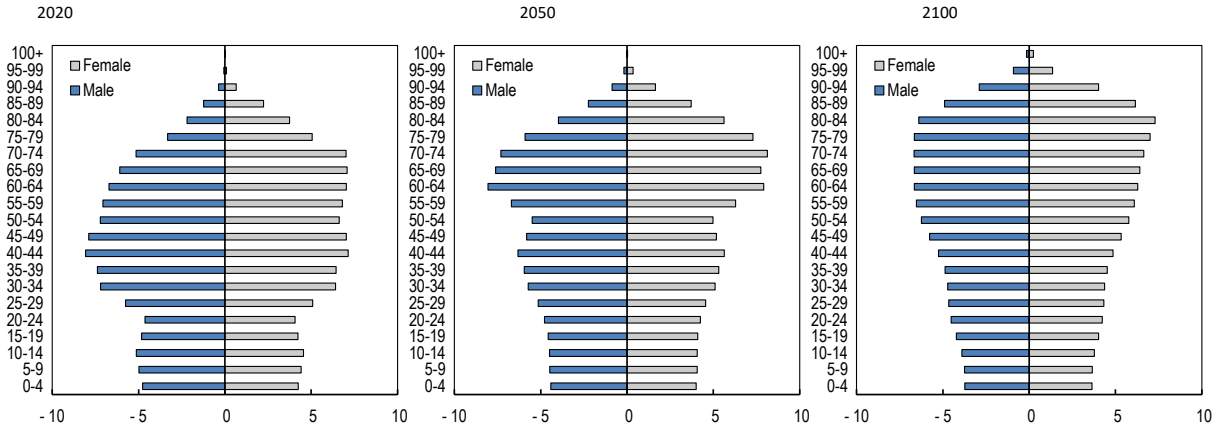
The share of the working-age population in the total



Note: Medium fertility variant.
Source: United Nations World Population Prospects 2022.

Figure 2. The population is set to age sharply

Projected age and gender structure of the population



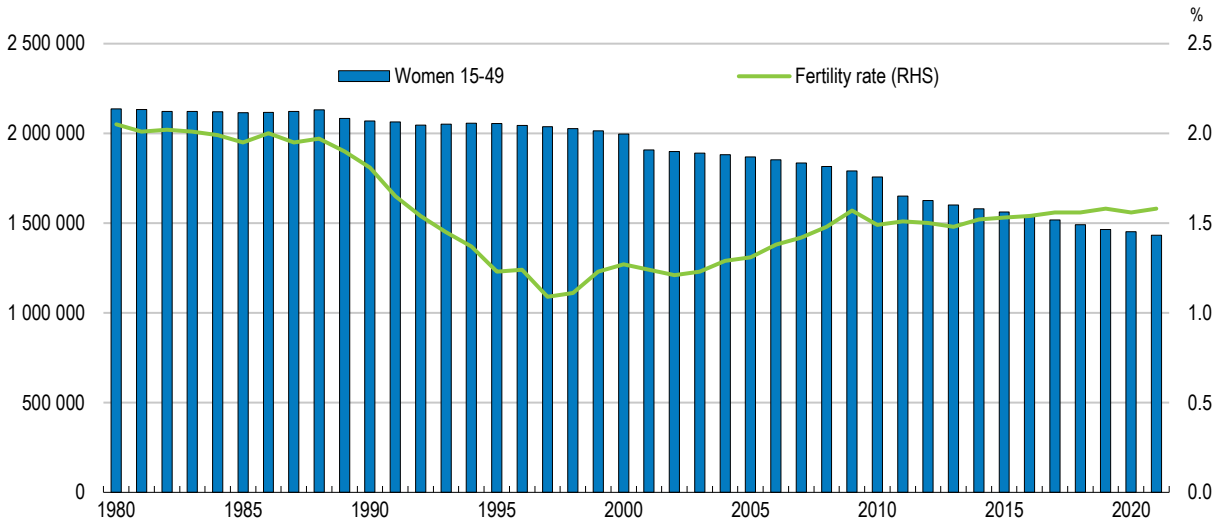
Note: Medium fertility variant.
Source: United Nations World Population Prospects 2022.

The cohorts of those aged under 25 are about half the size of the largest cohorts (those in their late 40s). The average fertility rate – the average number of live born children per woman – at 1.58 is not particularly low in international comparison (OECD Family database), but it is significantly less than the 2.1 children per woman necessary to maintain a steady population. In addition, the number of women of childbearing age (15-49) is falling (Figure 3). At the same time, Bulgaria has seen consistent emigration on a significant

scale (Figure 4). Although the number of people leaving the country has declined, Bulgaria still lost around 30 000 people (0.4% of the population) on average per year between 2015 and 2020 as a consequence of emigration. This development puts further pressure on the number of births as around half of those who leave are of the age when people have children. While the number of immigrants has been increasing recently, it remains small relative to the outflow.

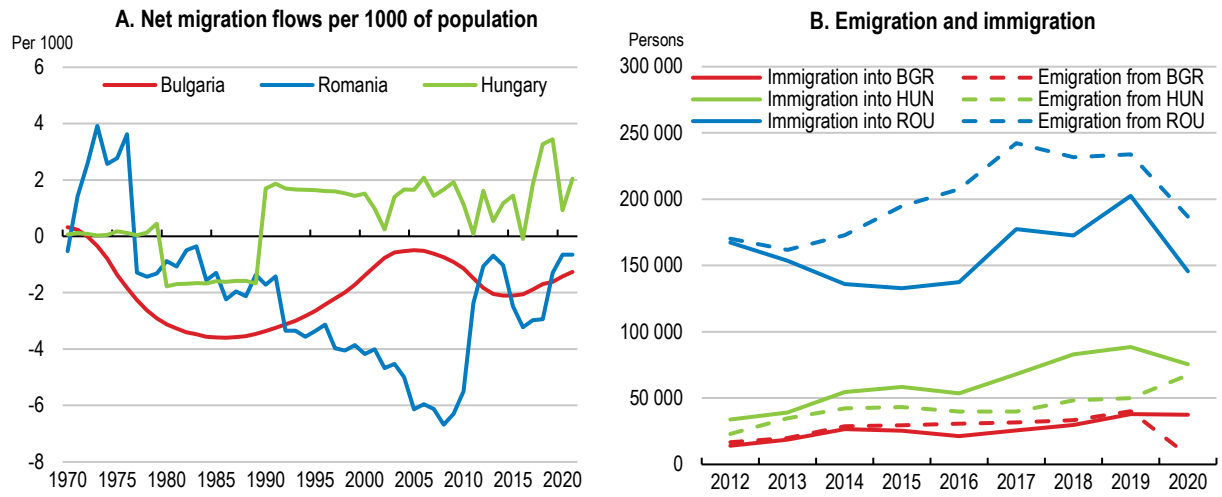
Figure 3. The number of women of childbearing age is declining rapidly, while the fertility rate is stable

Number of women aged 15-49 and the total fertility rate



Source: National Statistical Institute.

Figure 4. Bulgaria has seen consistent large-scale emigration



Source: Panel A: United Nations World Population Prospects 2022. Panel B: Eurostat.

The ageing of the population is also driven by rising life expectancy. While the expected life span (at birth) is gradually increasing as Bulgaria catches up in GDP per capita with more advanced countries, it is still lower than in any OECD country, both for men (69.9 years) and women (77.5 years) (World Bank World

Development Indicators). Moreover, the gap between men and women at 7-8 years is larger than in most OECD countries with the exception of the Baltic states. The young and old-age dependency ratio increased by 10 percentage points between 2000 and 2021 to 57%. This ratio is well above the OECD average and only six OECD countries had higher dependency ratios in 2021. These changes can also impact the regional structure of the country: while Sofia still attracts younger people, the dependency ratio in the district of Vidin is over 75% and on a par with a small number of regions in the OECD with very aged populations.

The steady decline in the population has raised the issue of demographics on the policy agenda in Bulgaria. In 2021, the government introduced a demographic impact assessment for every new piece of legislation. The preliminary assessment is done by the proposer of the legislative act through a questionnaire. Following this preliminary assessment, the Council of Ministers evaluates the potential demographic impact of the proposal.

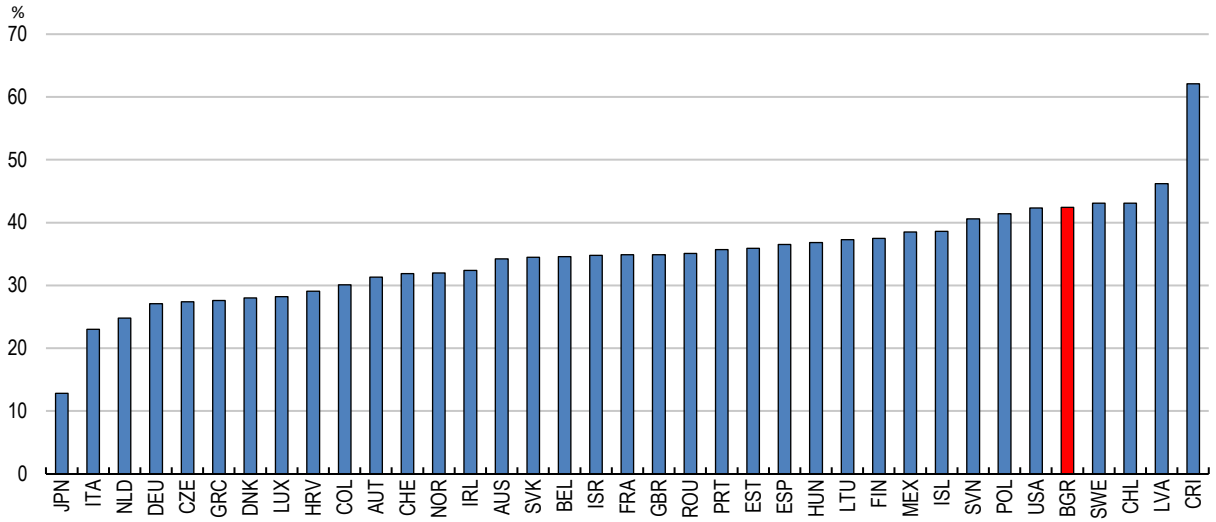
1.1. The number of children has been decreasing

While the 1.58 average fertility rate is not particularly low in international comparison, it masks a relatively low fertility rate for highly educated and urban women and a relatively high birth rate for some other social groups. The urban-rural divide is significant, with the average number of children per woman higher by 0.31 in rural areas. In contrast, fertility rates are the lowest in Sofia city, other large cities and in several districts along the Romanian border. The highest average fertility rates are in the northwest and the southeast of the country, both regions comprising areas with large shares of ethnic minorities. Historically, these groups have significantly higher fertility rates than ethnic Bulgarians (Koytcheva and Philipov, 2008[3]). The higher fertility rate for Roma women is also observed in several Central and Eastern European countries (Szabó et al., 2020[4]).

The employment rate for Bulgarian women is above the OECD average. The gender gap in the full-time equivalent employment-to-population rate stood at 8.6 percentage points in 2021 with only the Baltics and Finland displaying a lower gap. The female share of employment at senior and mid-manager levels in 2020 was higher than in all OECD countries except for Sweden, Latvia and Costa Rica (Figure 5). The share of women in top management is higher than in most OECD countries. Bulgarian women also appear to be remunerated in a more equitable manner: the gender wage gap for full-time employees, at 2.55% in 2020, was lower than in any OECD country (Figure 6). Bulgaria is perceived to be among the best countries in Europe for women to work, according to some surveys (such as Reboot online). Such rankings are partly related to the large number of women in leadership positions. The European Institute for Gender Equality's index ranks Bulgaria lower than the EU average on several components, but on the political, economic and social power component, the country exceeds the EU average (European Institute for Gender Equality, 2022[5]). Due to their high social status and high activity rates, Bulgarian women are well represented in professional and scientific work. In economics, for example, according to RePEC, half of the registered Bulgarian authors are women – far above the share in most OECD countries, where it is hovering around 20-30%.

Figure 5. Many women make it to manager positions

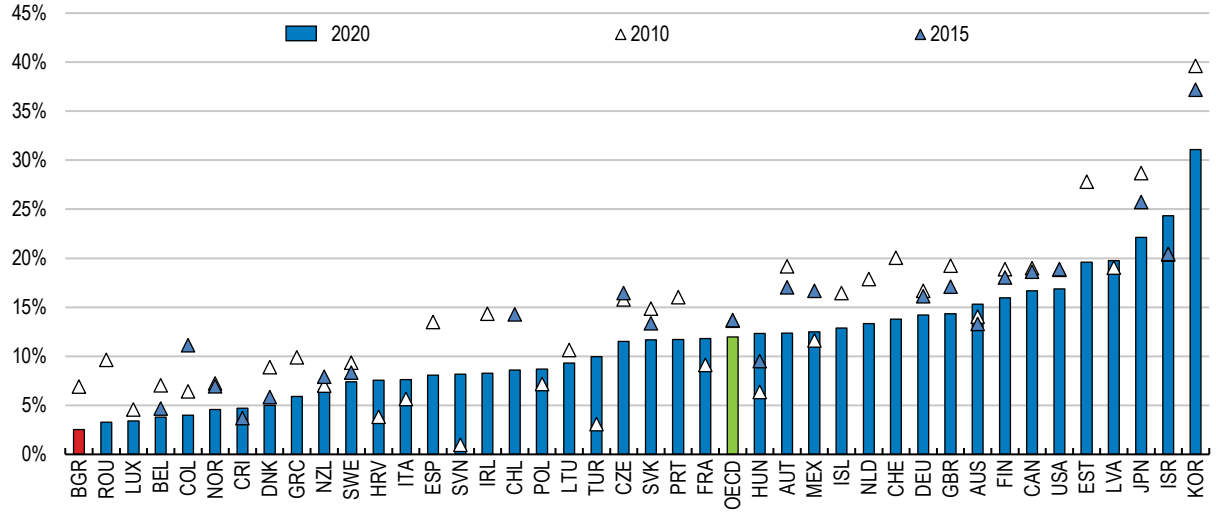
Female share of employment in senior and middle management, 2020



Source: World Bank World Development Indicators database.

Figure 6. The gender wage gap is low

Gender wage gap at median earnings for full-time workers



Note: 2020 refers to 2019 data where 2020 data were not available.
Source: OECD Earnings database.

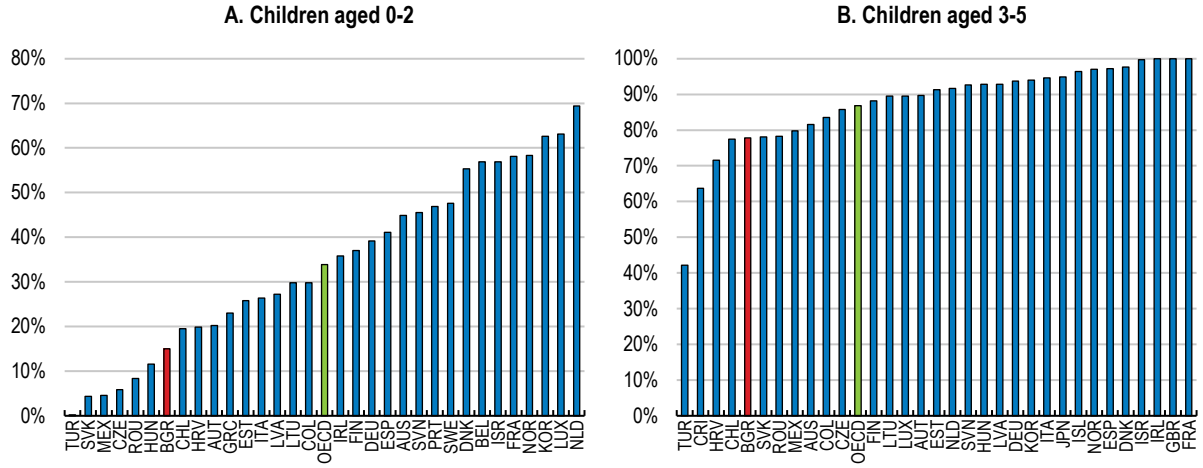
Greater career opportunities can imply greater opportunity costs of having children for high-skilled women. Indeed, the population census data confirm that highly educated women are more likely to be childless than the general population. Fertility intention surveys show that educated women would, on average, like to have 2.1 children, but in fact they only have 1.2 (Fertility Survey, 2021). In many advanced economies, women are observed to postpone the birth of the first child to achieve a higher position in the labour market, but education appears to have a positive impact on the propensity to have a second child and the transition

to the second child is faster (Adema, Fluchtmann and Gustafsson, 2023[6]). By contrast, in Bulgaria, the impact of education on the likelihood of having a second child is negative (Impicciatore and Tomatis, 2020[7]). Less egalitarian sharing of the burden of childcare tasks between men and women in Bulgaria, together with difficulties meeting expectations both at work and home, may explain the lower propensity to have a child for educated women. There is currently an optional 15-day paternity leave for men, but the take-up rate is low. There is also a 2-month paternity leave that can be taken any time before the child turns eight and can be taken at once or in parts. A lengthening of paternity leave with a high replacement rate but short duration, such as 2-3 months during the first year of the child, could encourage a more equal sharing of the burden of childcare with women and help to change perceptions of people taking leave to look after children. Alternatively, compulsory paternity leave, which has been implemented in some OECD countries, could also be considered.

Improved access to quality childcare and preschool education would help to reconcile work and family life, making it more attractive to have children. Currently, only 15% of children attend nursery school and, even at the kindergarten level, enrolment is not complete (Figure 7). The decision to abolish fees in public nurseries and kindergartens from 1 April 2022 is a welcome step in the direction of making childcare affordable for all. However, the number of childcare places is lacking and widespread availability needs to be guaranteed. Around 25% of inactive working-age adults have caring responsibilities, most of whom are women. Affordable and high-quality childcare should be available to all. Investment in kindergartens is being stepped up under the Recovery and Resilience Plan and four-year olds are to be included in pre-school education. In addition to building more facilities and training teachers, alternative schemes could be considered. In smaller towns and rural areas, where the number of children may be too small to operate nurseries, a scheme similar to the French “assistante maternelle” system could be adopted, where a handful of families join to hire a full-time caregiver, who often has her own child among the children to take care of. There is a system in place in Bulgaria called “Parents in employment”, implemented as part of the Ministry of Labour and Social Policy’s Human Resources Development Programme (2021-27), where the Employment Agency finances the costs of hiring unemployed people to take care of children. This is the continuation of a similar programme from 2017-23, used by some 7 700 parents. However, as those people only take care of children of the same family, costs are high and places limited. Grouping more children could help reduce the costs.

Figure 7. Only 15% of children attend nursery school and many are not in kindergarten

Proportion of children of the respective age-group enrolled in formal education, 2020



Source: OECD Family Database.

High opportunity costs of having children can be lowered by incentivising women to get back to work when they want without losing all benefits. Re-integration is guaranteed for all women after childbearing: they are not only entitled to return to the same position they had before their maternity leave, but even to a salary raise if these were granted to others in similar positions. Maternity leave is paid at 90% of pre-maternity leave salary for an entire year, followed by another year of parental leave with benefits equal to the minimum wage. New mothers can go back to work after the 135 days of pregnancy and childbirth leave (which includes 45 days leave before birth), while keeping 50% of their maternity benefits. Parental leave can be transferred to the father or a grandparent who is employed and covered by social security insurance. In either case, the recipient is entitled to 90% of pre-parental leave salary until the child turns one and then to the minimum wage until two. Benefits are capped at the maximum monthly insurance base of BGN 3400, but this is only binding for around 5% of the workforce earning high wages according to National Revenue Agency data. Overall, this system aligns to international evidence that maternity leave with a high replacement rate, as most OECD countries have, is a prerequisite for maintaining living standards during childbearing and providing the necessary care for the new-born. However, while there is empirical evidence on the positive effects of maternity leave on children's cognitive abilities and motor skills (Albagli and Rau, 2019[8]), this benefit becomes marginal after six months of leave (Baker and Milligan, 2010[9]), while the costs of being out of work for longer in terms of lost skills and opportunities is likely to rise. Incentives to go back to work could be raised in Bulgaria by allowing mothers to keep 75% of the maternity benefit instead of the current 50% when returning to work before one year. This would increase willingness to have children as the perceived opportunity cost would be lower. The second year of the maternity leave could also be removed or the benefits tapered more quickly out to support the transition to work. The removal of the second year of paid maternal leave in other countries did not result in socio-economic development gaps across groups (Huebener, Kuehnle and Spiess, 2018[10]).

At 27 on average, Bulgarian women are among the youngest to have their first child in the European Union (Figure 8), driven by districts with high ethnic minority shares such as Sliven or Montana. The adolescent fertility rate (births per 1 000 women ages 15-19) is nearly four times the OECD average. Overall, 10% of children are born to mothers aged below 20 (NSI, 2021) and 13% to mothers without social security coverage, resulting in inadequate care and high infant mortality and morbidity rates (UNFPA, 2013[11]).

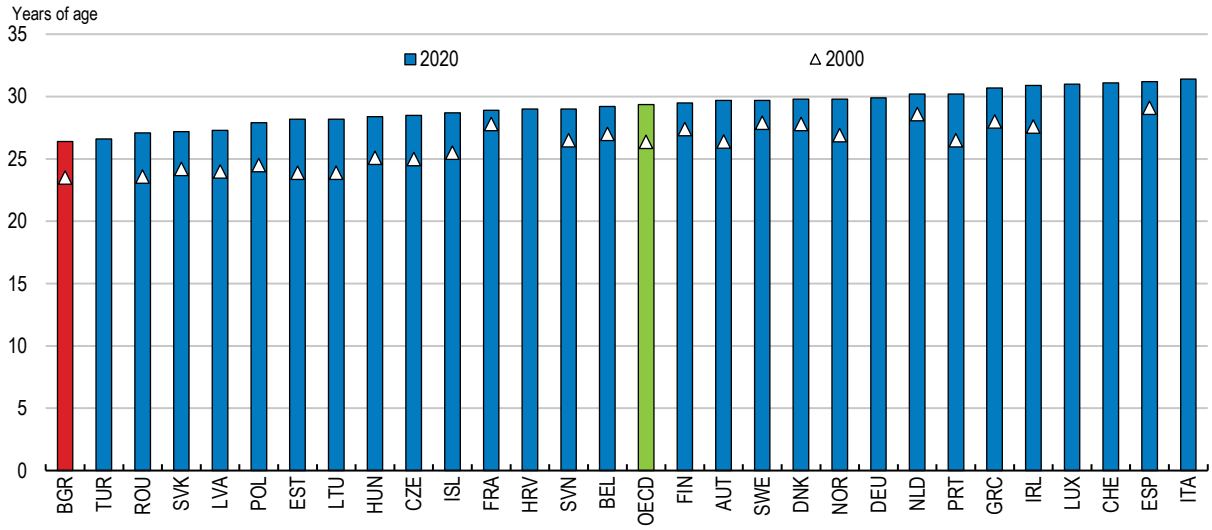
The prevalence of teenage age pregnancies would be reduced by preventing early school leaving and providing better prospects for a career as an alternative to childbearing and raising children at a young age. For many women with low education levels, having a child is considered as raising their social status. While the reduction of teenage childbearing would likely reduce the number of children born, it would also likely reduce child mortality and morbidity rates. Improving prospects for a career path could include personalised training in basic skills for girls in disadvantaged groups to catch up with peers and career counselling. Extracurricular activities and sports can also help keep children engaged with school who otherwise may not be interested in academic learning. A programme was established in 2018 (CM Decree 100 of 8 June 2018) aimed at identifying the reasons for early school leaving and finding region-specific policies to address them. The programme emphasises a joint effort by parents, mediators, social workers and public educators to increase children's motivation and develop their sense of responsibility. There is also a potential penalty of suspending social assistance to families when parents do not ensure that their children attend school. The performance of the programme is evaluated twice a year, which has resulted in close collaboration with border authorities in de-registering emigrating children from the school leaver list. Efforts could be stepped up to better track returning children. In addition, the education component of the Recovery and Resilience Plan envisages introducing and adapting vocational training for school dropouts.

A large number of children are born to parents from disadvantaged groups and 11% of Bulgarian children between 0-14 live in households where no adult is working, higher than in most OECD countries (Figure 9). Living in households without stable income may reduce children's chance to grow up healthily and acquire the necessary social and practical skills to participate in economic activities and realise their potential

(OECD, 2018[12]). Available child well-being indicators reflect the range of issues that need to be tackled: over a quarter of children live in housing without basic sanitation facilities, 61% in overcrowded households and over one-fifth in areas with problems of crime or violence, all higher than in any OECD country for which data are available. Strengthening outreach to the inactive, encouraging them to register with the Employment Agency, providing health insurance coverage and basic social assistance (as discussed further in this paper) would be key to prevent child poverty and improve their chances for a better future.

Figure 8. Bulgarian women on average have their first child at a young age

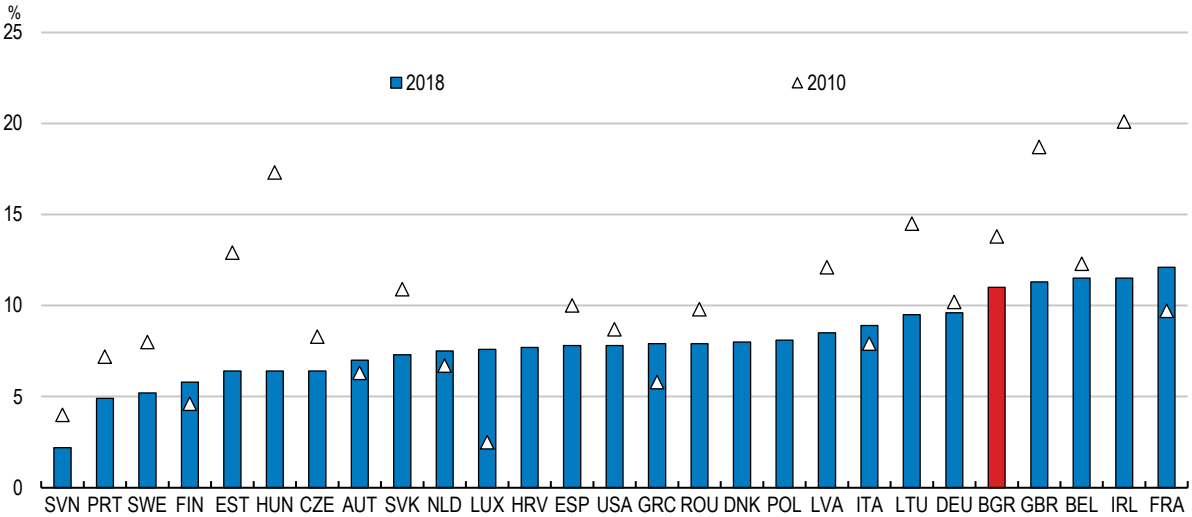
Mean age of women at the birth of their first child



Source: ESTAT database.

Figure 9. Many children are born into households without working adults

Distribution (%) of children (aged 0-14) in all households by the employment status of adults in the household



Note: Data for Türkiye refer to 2013, and for Israel to 2017. For Israel and the United States, data refer to children aged 0-17. For the United States, data cover children living with at least one parent and refer to the labour force status of the child's parent(s) only and refer to whether or not the child's parents are active in the labour force, as opposed to in employment

Source: For European countries, EU-LFS. For Israel, Central Bureau of Statistics. For Türkiye, Turkish Household Labour Force Survey. For the United States, U.S. Census Bureau.

1.2. Net emigration is contributing to the population decline

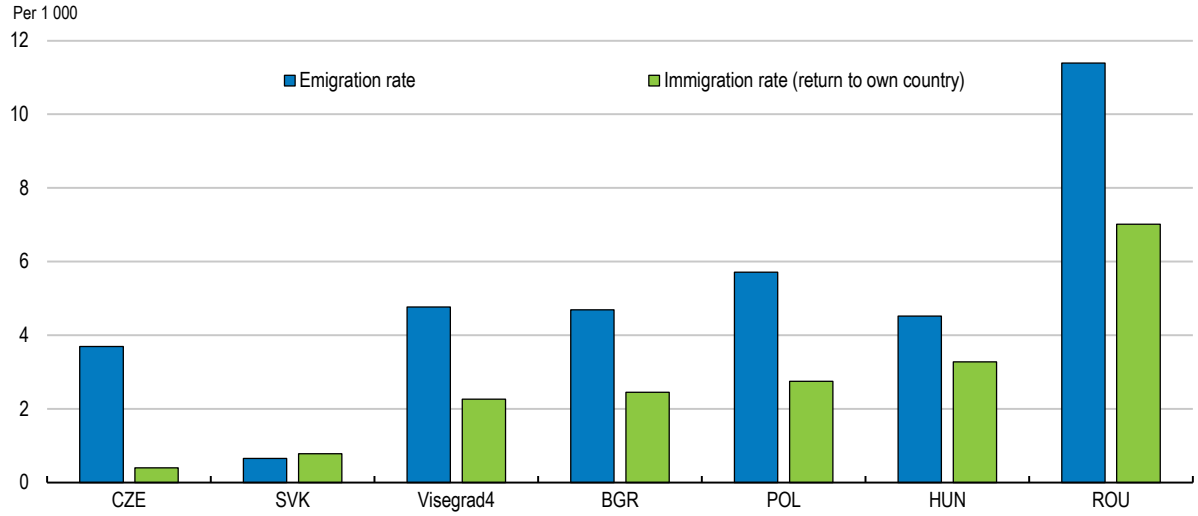
Despite robust economic development in recent years, a large number of Bulgarians still leaves the country every year to live and work elsewhere: around 27 000 did so in 2021. The total diaspora is estimated to amount to up to 2.5 million people, although some estimates record both significantly lower and higher figures. The largest share of Bulgarians abroad live in Germany, followed by Spain, the United Kingdom and Greece. 85% of emigrants are of working age and around half of them between 15 and 34 years on average in recent years, with a broadly equal share between women and men. The COVID-19 pandemic reversed this trend for the first time: the number of emigrants dropped to less than 7 000 in 2020, while the number of returning Bulgarian emigrants jumped up to around 24 000 given employment losses in contact-intensive sectors and widespread teleworking regimes abroad. However, the flow of emigrants is likely to have picked up as economies re-opened.

Higher wages and better living conditions abroad are the main reasons to migrate and Bulgaria's EU membership in 2007 has considerably facilitated the access of workers to other EU labour markets (Garotte Sanchez, Kreuder and Testaverde, 2021[13]). A package of measures to raise productivity, wages and offer good-quality jobs and attractive living conditions as set out in the remaining sections of this paper will be needed to stem the tide of outward migration. Several Central and Eastern European countries, such as Slovenia, the Slovak Republic or Estonia, have seen a reversal in migration flows during the past 20 years, following Ireland's transition from a net source of migrants to a net receiving country in the 1990s. These experiences have been diverse. However, comparing wage levels at the turning point from net outflows to net inflows suggests that wages in Bulgaria might still need to rise before the trend is reversed. While Ireland stands out with an average annual wage comparable to the EU-OECD average in 1995, Central and Eastern European countries experienced a trend reversal with relatively lower wage levels with wages between 65-90% of EU-OECD wages. Bulgarian wages are still lower at around half of the EU-OECD average in 2021, suggesting that these wages are not sufficiently attractive for a significant part of potential migrants who can freely move to alternative EU countries. At the same time, labour shortages have become more pressing in many OECD countries, including in many EU countries, not least since the recovery from the pandemic (Causa et al., 2022[14]). The concomitant wage increases in these countries may further pull workers from other countries, typically those which have already served as a source of workers, such as Bulgaria. Consequently, the tight Bulgarian labour market could come under additional pressure and might see new waves of workers leaving.

There is significant potential for Bulgaria to further increase the number of returning migrants to levels observed in other countries (Figure 10). Returning Bulgarian emigrants often return with new skills and qualifications acquired abroad (Nonchev and Hristova, 2018[15]). While their number has grown in recent years, there is considerable potential to further increase return migration. The decision to return to a country of origin is a complex process that is influenced by different factors. While an economic rationale in terms of higher wages and better living conditions abroad are typical pull factors for initial emigration, non-economic factors are predominant behind the decision to return (Bakalova and Misheva, 2018[16]). Studies show that personal and family-related reasons, such as homesickness, marriage or the need to take care of elderly relatives or children, are among the most important reasons to return to Bulgaria (Zareva, 2018[17]). Nevertheless, there is scope for policy interventions to attract potential returnees, even if working conditions cannot compete with those in Western European countries.

Figure 10. Returning Bulgarians help to counterbalance emigration

Emigration rate and immigration rate of citizens to their own country of origin, average 2016-2020



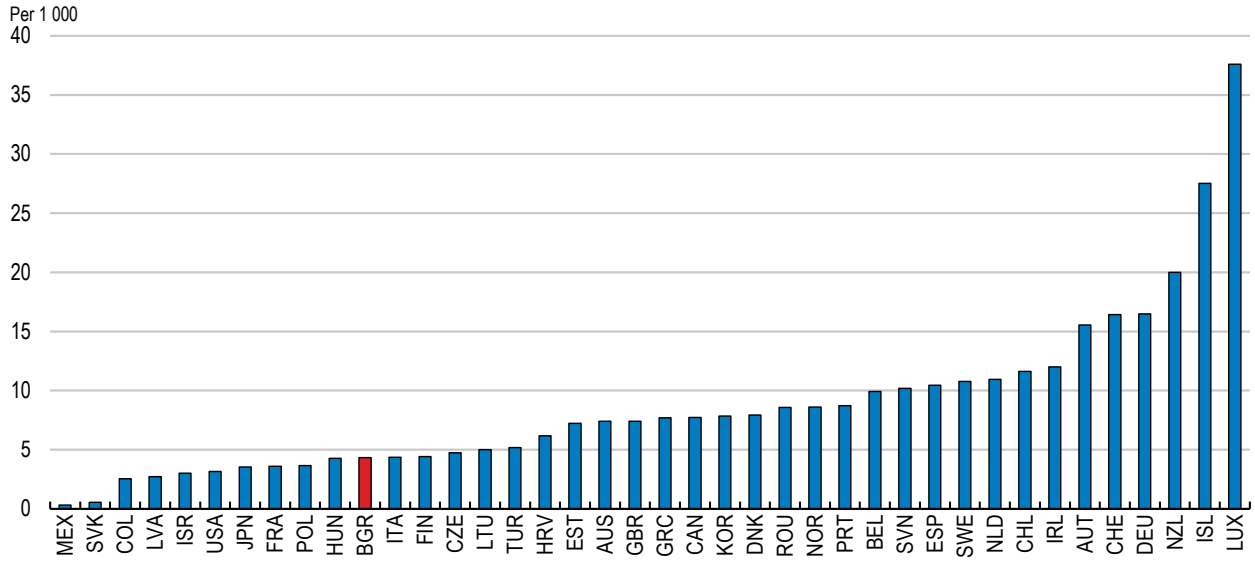
Source: Eurostat.

Bulgarian governments have repeatedly articulated the intention to increase efforts to target Bulgarians working abroad, most recently in the Bulgarian Migration Strategy 2021-25, but no action plans have been formulated to date (European Commission, 2021[18]). In line with (OECD, 2023[19]), a comprehensive suite of measures and services should be envisaged to reach out to Bulgarians working abroad and to help them integrate back into the Bulgarian labour market. So far, the Bulgarian authorities lack detailed information on citizens working abroad. Data collection on Bulgarians living abroad needs to be broadened. Outreach could be encouraged during administrative procedures at the respective embassies, such as passport issuance or election registration. A more detailed knowledge of the diaspora would allow for a more targeted promotion of the benefits of returning to Bulgaria. Support for job search could be provided via online tools, accompanied by significant promotion through popular websites and social media. A first online career forum was organised in 2021 on behalf of the Ministry of Labour and Social Policy and the Employment Agency and attracted around 1 500 participants, including 200 Bulgarian employers, highlighting the significant interest from employers and job seekers alike. Strengthened cooperation with Bulgarian employers is needed to ensure that labour demand at home is adequately communicated to those abroad. Information related to administrative requirements, such as insurance, or the recognition of qualifications acquired abroad needs to be easily accessible. Other countries go one step further, such as Hungary, where initiatives to attract young former emigrants include a monthly stipend during the initial re-immigration phase provided for highly qualified returnees, amongst others (Zareva, 2018[17]).

The number of foreign immigrants is very low in international comparison, contributing only marginally to offsetting outward migration (Figure 11). Around 90% of foreign immigrants in 2019 entered from non-EU countries. The largest share relocates from neighbouring countries such as Türkiye (Figure 12), which has a long-lasting relationship with Bulgaria through mutual citizenship of parts of the population, as well as from Russia and Ukraine (OECD, 2022[20]). Family-related reasons (35%) followed by work-related reasons (21%) were the main drivers of immigration from non-EU countries in 2021 according to Eurostat. However, there is potential to attract more immigrants to enter Bulgaria, not least from countries from the broader neighbourhood where common Slavic language roots and Cyrillic script would facilitate integration.

Figure 11. Immigration is low in international comparison

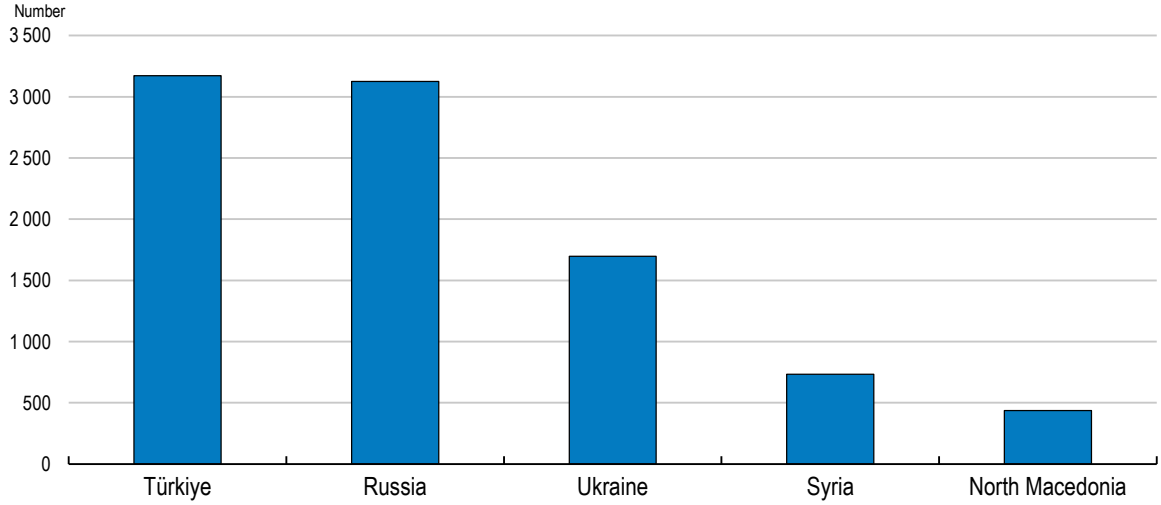
Immigration rate, average 2016-2020



Source: OECD Migration Database and Eurostat.

Figure 12. Immigrants are mainly from nearby countries

Number of immigrants to Bulgaria from top 5 source countries, 2020



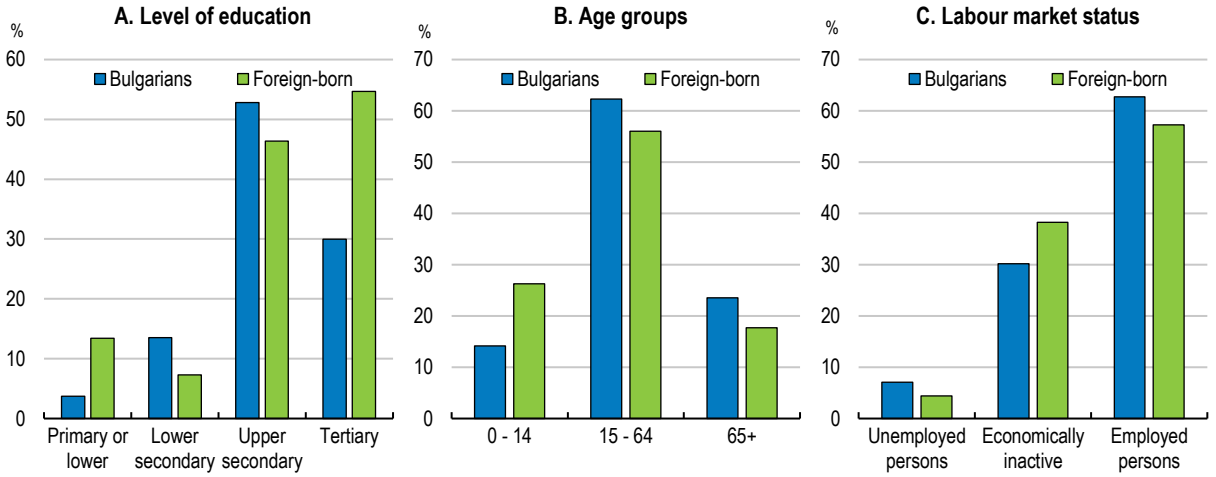
Source: Eurostat.

Immigrants are primarily of working age and relatively well-educated, but many are not in employment. Results from the latest census from 2021 show that 45% of the foreign-born working-age population has completed tertiary education, compared to 30% among the native working-age population (Figure 13). However, the potential of this young and well-educated group of the population is not sufficiently used. Only 57% of the foreign-born working-age population is employed and up to 38% of them are inactive (compared to 63% and 30% respectively for native Bulgarians). Both highly-educated and low-qualified women are often inactive, possibly reflecting lack of access to childcare. Language problems might also

hold back more active labour market participation. The shortfall in participation compared to the native population is especially pronounced in poorer regions.

Figure 13. The foreign-born population is relatively young and well educated, but has weak labour market outcomes

Share of Bulgarians and foreign-born citizens among their respective population, 2021

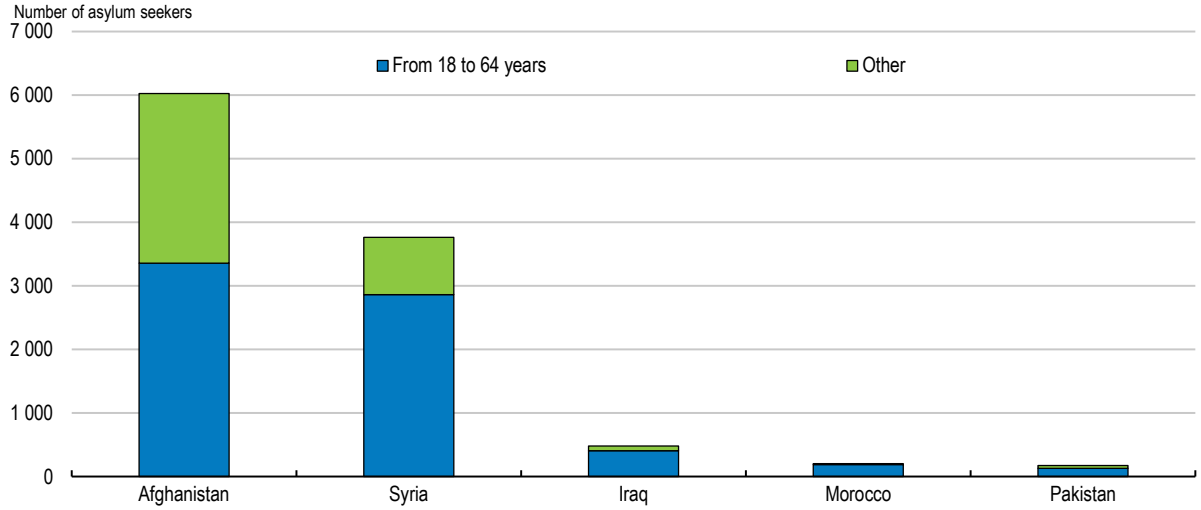


Note: Panel A and C refer to the working age population.
Source: National Statistical Institute 2021 Population Census.

Bulgaria is currently hosting a large number of refugees from Ukraine, adding to around 11 000 asylum seekers mostly from Afghanistan, Syria, and Iraq due to Bulgaria's geographic position between Europe and the Middle East (Figure 14). Up to February 2023, around 1.1 million Ukrainian refugees had crossed the border into Bulgaria according to the UNHCR, where they are allowed to enter freely. However, many of them did not stay and only around 148 000 applied for and were granted temporary protection. The number of Ukrainians declined over the second half of 2022 to reach 50 000 in February 2023. Around 87% of these Ukrainians are women and children. Ukrainian refugees are likely to be better educated and could integrate into the labour market, while asylum seekers of different origin often have a limited educational background, with 77% having at most primary education according to the Bulgarian State Agency for Refugees. Laws and regulations in Bulgaria allow refugees to take up work quickly. Ukrainian refugees can directly work, while asylum seekers need to wait for three months before starting employment.

Figure 14. Most refugees prior to 2022 were of working age and from a few countries

Number and age structure of asylum seekers, 2021



Source: Eurostat.

Bulgaria could do more to attract foreign workers to bring in additional skills and improve its demographic diversity. The current migration channels are set out in (Box 1). However, Bulgaria ranks relatively poorly in the Migration Integration Policy Index (Solano and Huddelston, 2020[21]) that measures the quality of policies to support integration, according to several sub-categories such as labour market access, family reunion, access to citizenship or discrimination. While Bulgaria's overall score is weak, labour markets are somewhat more accessible with quick access to the social security system, although targeted training opportunities and support for labour market integration were assessed to lag behind (Figure 17).

Box 1. How can foreigners legally stay and work in Bulgaria?

EU nationals can live and work in Bulgaria. Non-EU foreigners (third country citizens, or with no citizenship) are allowed to reside in the country on several grounds: protection and asylum reasons, family, work, studying, business and investment activity. They can work in the country in the following cases:

- If they are a citizen of a country with which Bulgaria has a bilateral labour market access agreement.
- Foreigners with temporary protection have rights to work and access to professional training without a work permit.
- If they have a unified residence and work permit (URWP) issued by an EU country, this allows a third-country national to reside legally in EU territory for the purpose of work.
- If they have an EU Blue Card, which entitles the holder to reside and work in an EU country on the basis of documented high professional competence. It is issued for a period of up to four years.

According to the Law on Foreigners, the status of residence can be:

- Short-term stay - up to 90 days from the date of entry.
- Prolonged (long-stay) residence - with a permitted term of up to one year.
- Long-term residence - with a permitted initial period of five years and the possibility of renewal.
- Permanent residence - with an indefinite period.
- According to the Asylum and Refugees Law, temporary or international protection can be given,

as well as refugee or humanitarian status, depending on the grounds of the request.

People with the above categories of residence status can also work in Bulgaria.

The prolonged residence permit can be obtained by foreigners who carry out commercial activity in the country and maintain for the duration of the stay at least 10 full-time jobs for Bulgarian citizens, or by experts when agreed in an international agreement. This type of permit can also be granted to representatives of a registered foreign commercial company, or people setting up businesses, especially in poor regions of the country, on family and other grounds. To obtain a prolonged residence permit, foreigners should have secured housing, health insurance, sufficient means of subsistence without resorting to the social assistance system, in an amount not less than the minimum monthly wage, the minimum stipend or the minimum pension according to the legislation for the period of residence.

Long-term residence status is granted to a foreigner who has resided legally and without interruption in Bulgaria for a period of five years. Citizenship now can be granted to foreigners if born in Bulgaria, with at least one Bulgarian parent, when married to a Bulgarian, on the basis of a permanent or long-term residence permit of at least five years, etc.

A permanent residence permit can be obtained for foreigners with a Bulgarian origin, or for family reasons/relationship, or for foreigners investing in shares or bonds of Bulgarian commercial companies (no less than BGN 2 million), or in collective investment schemes in Bulgaria and rights under concession contracts (no less than BGN 1 million).

Bulgaria used to issue so-called “golden passports” to investors in government securities, and over a hundred such passports had been issued when this practice was terminated in 2022. Citizenship now can be granted to foreigners if born in Bulgaria, with at least one Bulgarian parent, when married to a Bulgarian, on the basis of a permanent or long-term residence permit of at least five years, etc.

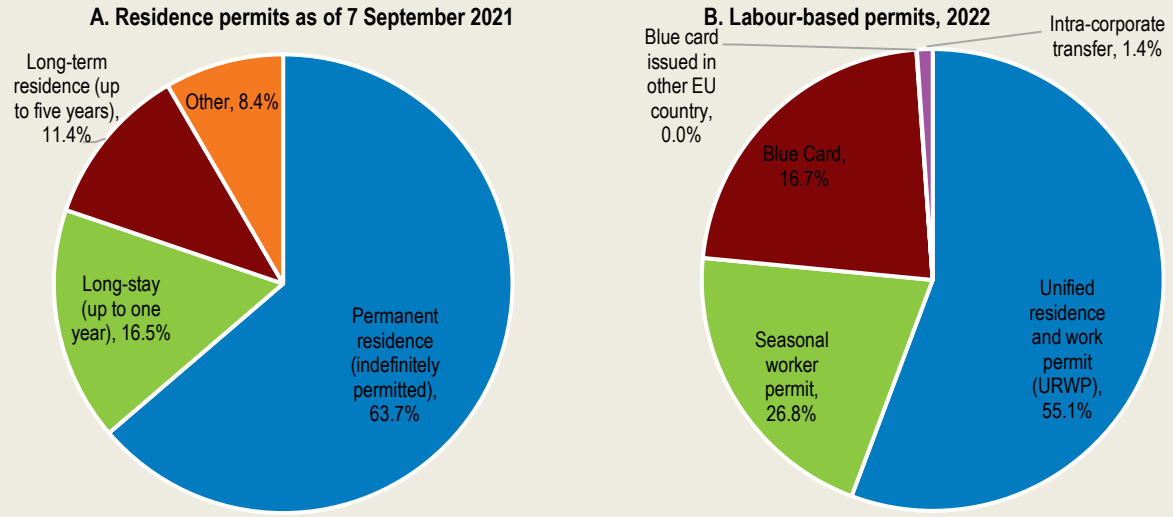
Non-residents can also stay and work in the country in the following cases:

- If they have a unified residence and work permit (URWP) issued by an EU country. It allows a third-country national to reside legally in EU territory for the purpose of work.
- If they have an EU Blue Card, which entitles the holder to reside and work in an EU country on the basis of documented high professional competence. It is issued for a period of up to four years.
- If they are a citizen of a country with which Bulgaria has a bilateral labour market access agreement.
- Foreigners with temporary protection have rights to work and access to professional training without a work permit.

There are around 50 000 foreigners in the country with residence permits, the biggest share (around 64%) has permanent residence, those permitted to stay up to one year make up 16.5%, and refugees and persons in an international protection procedure only 4.3% (Figure 15). 38% of the foreigners live in the Southwest (Yugozapaden), 18% in the Southeast (Yugoiztochen) and 17% in the Northeast (Severoiztochen). They mainly reside in the districts of Sofia, Burgas, Varna, Plovidv, Blagoevgrad and Haskovo.

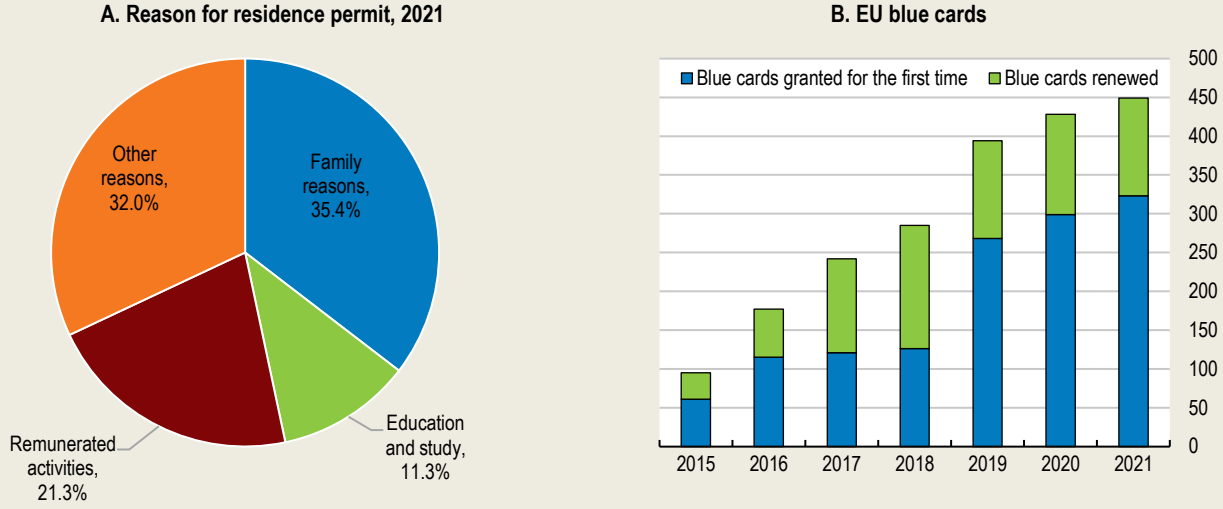
Around 35.4% of people who received some type of residence permit in 2021 stay for family reasons, while the share of those working is 21.3%. The number of renewed and newly issued EU-Blue cards has also been trending upwards in recent years (Figure 16) (Residence Permit Statistics).

Figure 15. Most foreigners are permanent residents and have EU work permits



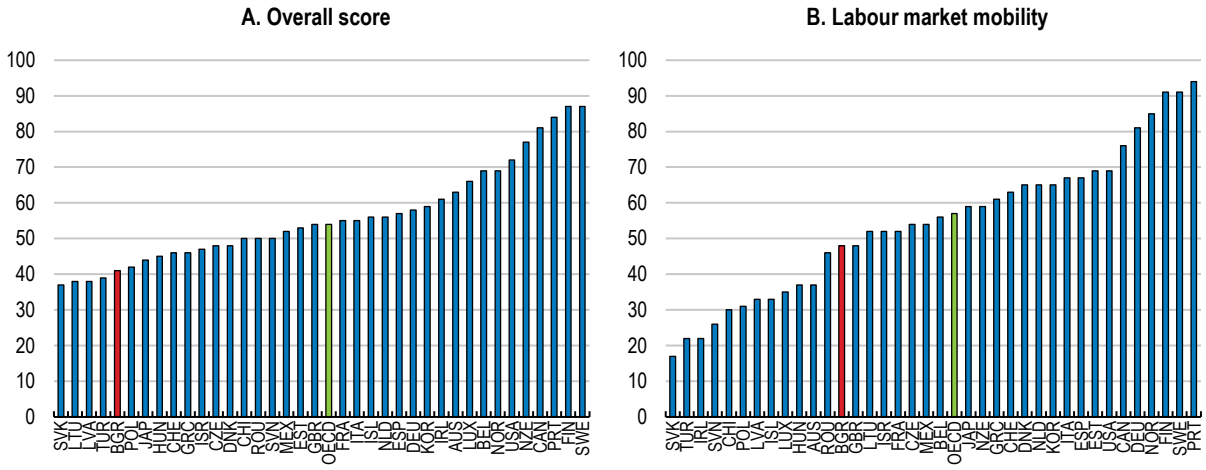
Note: Panel A: The Other category includes humanitarian, international protection procedure, refugee and other reasons.
Source: OECD calculations based on the National Statistical Institute 2021 Population Census and Ministry of the Interior.

Figure 16. Most foreigners stay for family reasons, but EU blue card issuance has risen



Source: OECD calculations based on the National Statistical Institute 2021 Residence Permit Statistics and Ministry of the Interior.

Figure 17. Integration of migrants is insufficient in international comparison



Note: Migrant integration policy index score 0-100, with the maximum of 100 is awarded when policies meet the highest standards for equal treatment. All available OECD countries.
Source: Migrant Integration Policy Index 2020 (Solano and Huddelston, 2020[21]).

Recent amendments to the Foreigners Act, targeted at both high-skilled and low-skilled workers, are meant to facilitate market entry and working conditions of prospective foreign workers. Measures include a "Start-up visa" that accelerates the residence permit procedure for foreign investors and a long-term residence permit for entrepreneurs in the ICT sector that would mean that workers no longer lose their rights in case of a change of employer (OECD, 2022[20]). Bulgaria is actively collaborating with countries in the region through bilateral agreements to further facilitate access of foreign workers, such as those currently in place with Moldova (2018), Armenia and Georgia (2019). There are further draft agreements and ongoing discussions with Albania, Azerbaijan, Kyrgyzstan, Turkmenistan and Uzbekistan. Prior to the war, Bulgaria had also started procedures with Belarus and Ukraine.

The Migration Strategy 2021-25 sets out objectives to attract an increasing number of immigrants, both of Bulgarian and foreign origin, by easing administrative requirements, promoting Bulgaria as a choice of place to work and by providing assistance to facilitate integration into the labour market. It envisages to ease residency requirements by accelerated visa procedures and a reduced number of required documents; to strengthen cooperation between national authorities to increase the quality of offered services for potential and actual immigrants, and to roll out and update targeted programmes to support labour market integration according to the individual background and need of immigrants. However, the formulation and implementation of specific policies to address the objectives laid out in the Migration Strategy is lagging behind, in particular regarding initiatives to foster integration into the labour market (Staykova, 2022[22]).

Going forward, it will be important to implement additional concrete steps that facilitate labour market integration of economic immigrants and refugees (OECD, 2023[19]). This includes help to find a job and accommodation upon arrival, facilitating recognition of education and skills from abroad, providing support for family-related issues, such as schooling and nurseries, and stepping up targeted active labour market policies. The possibility and associated advantages of registration with the Employment Agency need to be communicated more clearly. Language barriers need to be addressed from the very beginning by offering and promoting the availability of a sufficient number of courses that are easily accessible at a low cost, given that language barriers are reported to be the main single factor that impedes recruitment of refugees in Bulgaria (UNHCR, 2017[23]). A smooth recognition of foreign degrees accompanied by adequate professional training is even more pressing. Where foreign qualifications cannot be recognised, training and re-qualification needs to be offered to equip workers with the necessary knowledge and skills.

At the same time, employers are reported to lack information on the availability and qualification of refugees who are looking for work (CATRO-UNHCR, 2018[24]). The educational background and qualifications acquired abroad are not automatically recorded upon registration with the State Agency for Refugees (SAR), so neither potential employers nor the Employment Agency have access to this information right away, unless the refugees register with the Employment Agency at a later stage. Such information gaps could be avoided by recording all information on education and work history directly at the SAR, such that it could be made available directly to the Employment Agency. A designated contact within the Employment Agency could then disseminate information on job searchers including their qualifications directly with employers who are looking for workers. Specific job fairs targeted at refugees and employers who would like to hire them have already been organised, but often on behalf of NGOs (UNHCR, 2017[23]). There is a case for the Employment Agency to step in and help coordinating between refugees, employers and other involved parties such as the SAR and NGOs.

1.3. Migration to the cities improves the situation of some, but can have negative consequences for regional development

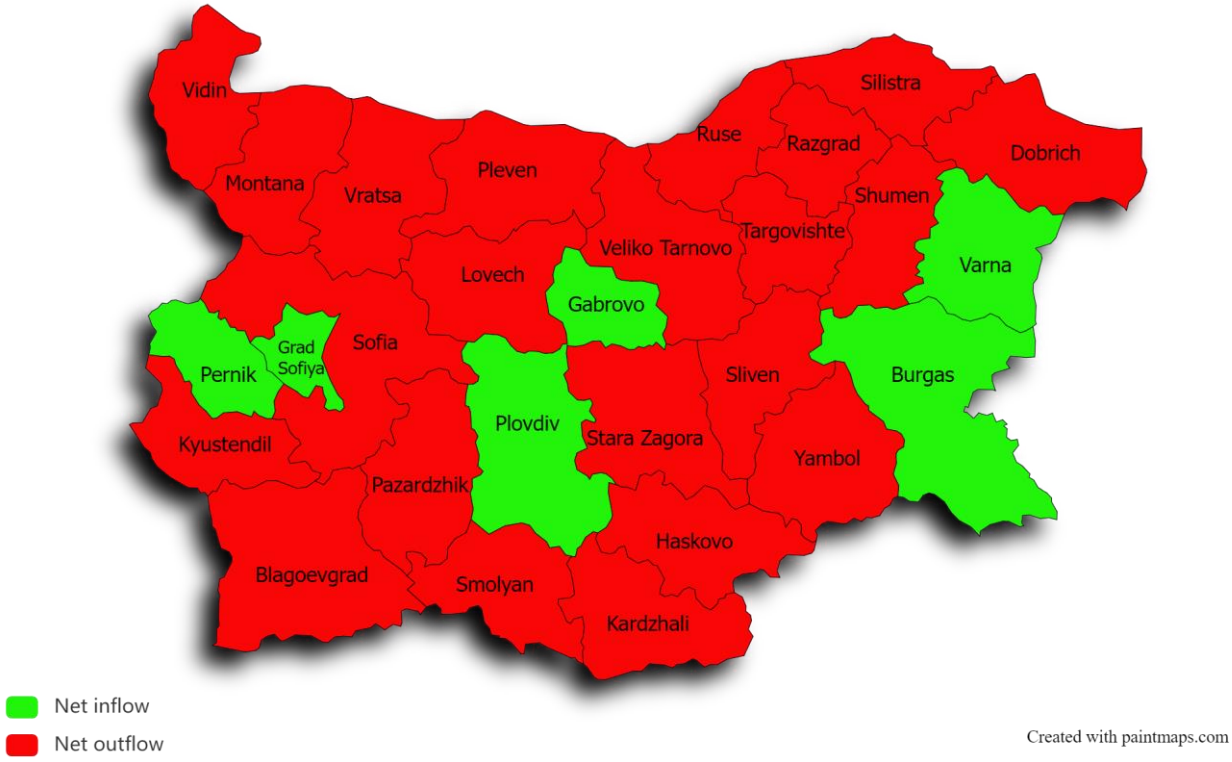
Urban areas such as Sofia and Plovdiv are growing due to internal migrants from more rural areas and smaller urban areas, whereas deprived regions such as Montana or Vidin are losing considerable parts of their population (Figure 18). These poorer areas are also major sources of emigration to other countries. Internal migration can improve living and working conditions for those who are willing to move to places that offer better jobs, salaries or amenities. Higher regional GDP and lower regional unemployment are "pull" factors for internal migration (Causa, Abendschein and Cavalleri, 2021[25]), (Cavalleri, Luu and Causa, 2021[26]). Typically, attractive regions and cities, such as the capital Sofia, benefit from a constant inflow of workers that support growth and compensate for a generally declining population at the expense of regions where internal migrants add to considerable international emigration, resulting in depopulated regions of mostly elderly and immobile population groups.

Managing this process requires a balanced approach that does not prevent people from moving to more prosperous regions, while continuing to invest in the development of all regions by means of place-based policies throughout the country. Remote and deprived regions need to be connected to the rest of the country, in particular by providing adequate infrastructure in terms of roads and public transportation, subject to a cost-benefit analysis. Some remote areas could also benefit from better connections to neighbouring countries, such as Romania and Greece, to encourage cross-border activities.

At the same time, improving living conditions in more depopulated regions will help encourage people to stay or return. This includes ensuring that good schools, kindergartens and hospitals are available. Targeted regional support can help business creation and encourage cooperation between firms, educational institutions and the employment agency to increase the number of good quality jobs and qualified workers in poorer regions. Necessary investments in the digital infrastructure will also allow more rural regions to benefit from the trend towards more remote working arrangements. Region-specific initiatives have recently been introduced in several OECD countries to counter the effects of the pandemic on labour markets. In Australia, local job market programmes launched in 2020 fostered the local cooperation between employers and employment agency to provide training opportunities for workers in places where a special taskforce identified particular needs. Canada set up a similar spatially-targeted programme in 2020 to support regions that were particularly hard hit by the pandemic (Causa, Abendschein and Cavalleri, 2021[25]).

Figure 18. People are moving to the bigger cities

Net internal migration flows across regions, 2021



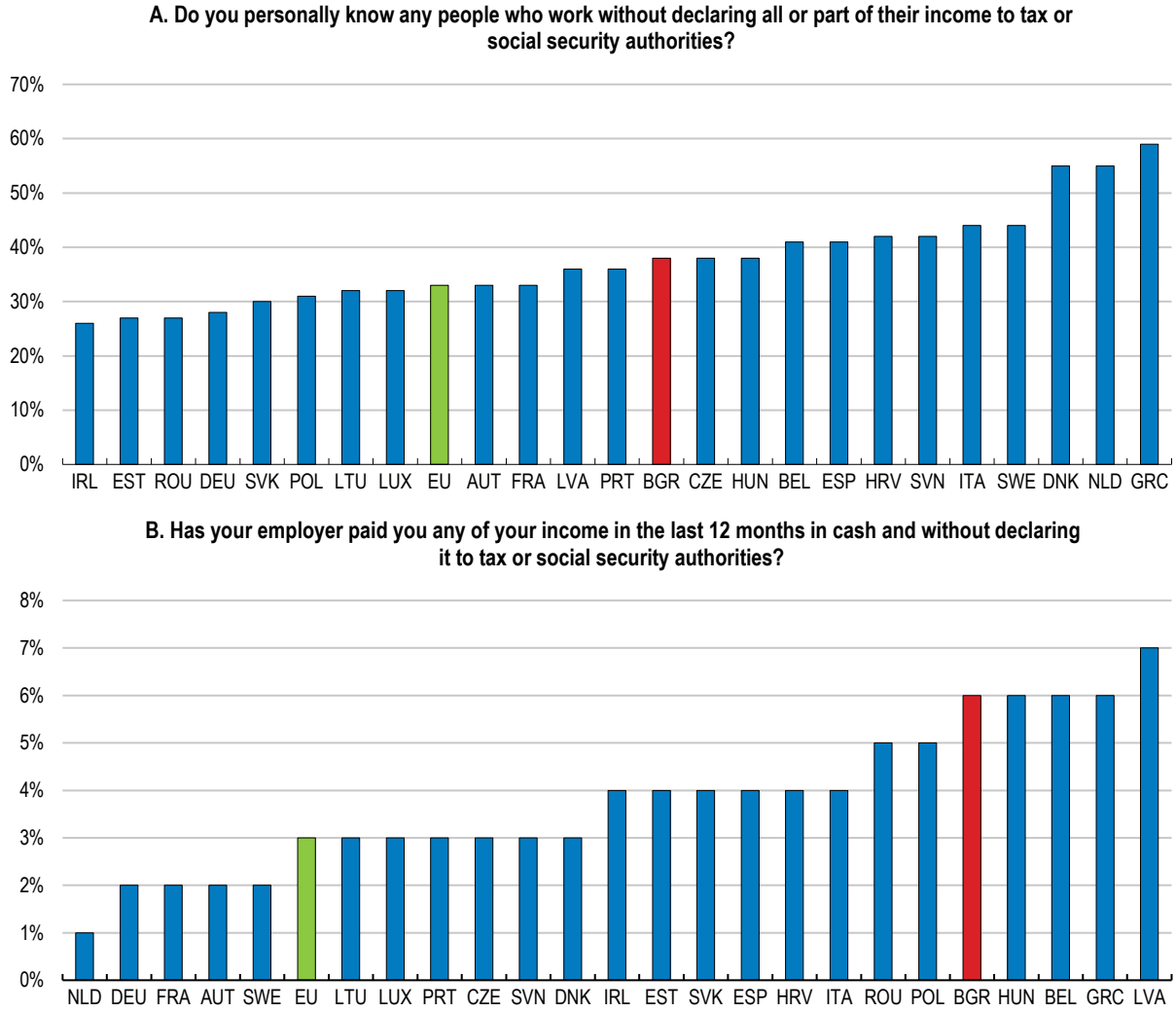
Source: National Statistical Institute.

2. Reducing informal work would improve job quality and raise productivity

Addressing informality and raising job quality would improve workers' situations, raise productivity and make it more attractive for young people to stay in Bulgaria. Informality is a common characteristic of the Bulgarian economy, leading to poor quality jobs, inadequate pension coverage, lost tax revenues and lost opportunities to enhance productivity and retain workers. Informality is estimated to account for up to 19% of total economic activity, more than in most OECD countries (Medina and Schneider, 2018[27]). Undeclared work is a prevalent type, mostly in form of so-called "envelope wages", where workers are registered at a lower wage than they actually receive (Stefanov, Williams and Rodgers, 2017[28]). Typically, earnings are declared at the minimum wage or the relevant minimal social insurance threshold, but workers receive additional payments that are not declared to labour and tax authorities. Taxes and social security contributions are then only paid with respect to the lower official salary, while the remaining part of the salary is paid "in an envelope".

Figure 19. Undeclared work is common

Share of respondents answering 'yes' to the following question, 2019



Source: Eurobarometer 2019.

The informal nature of undeclared work makes it difficult to get precise data, so that estimates based on surveys or administrative data can differ considerably. Data from the Eurobarometer survey suggest that Bulgarians are more familiar and more exposed to informal work than EU-OECD countries. Figure 19 shows that some 6% of the Bulgarian workforce received extra payments, twice as many as the European average, in 2019. A recent study from the Bulgarian Industrial Capital Association, an employer association, estimates the share of workers with envelope wages at up to 10% of the workforce. The wholesale and retail trade sectors, accommodation and food, construction and agriculture are particularly prone to informal work. Envelope wages can be paid for overtime only, as part of the salary for regular work, or for a combination of both. By contrast, fully undeclared work appears to be unusual and makes up only around 6% of total informal work arrangements, according to estimates from the National Revenue Agency (NRA) in Bulgaria.

Undeclared work, even if only partial, poses considerable problems for workers, employers and the state. Workers face a multitude of risks when parts of their salary are not declared. They suffer from lower entitlements to social benefits that are based on reported income, such as pensions and unemployment

insurance, leading to insufficient future incomes and risks of poverty. Similarly, access to credit is impeded given the lack of official proof for the entire income (Horodnic and Williams, 2021[29]). Informal workers find themselves in a weaker position with respect to their employer (Martinelli, 2021[30]), for example given that undeclared extra-payments cannot be enforced in court. Employers are also concerned by the prevalence of informal labour, not only on account of administrative burdens from investigations and sanctions, but also through unfair competition if their competitors are able to reduce costs because of cheaper informal labour contracts. Overall, this may encourage a labour market focussed on keeping labour costs low rather than investing in raising human capital and productivity and creating good-quality and well-paid jobs. The income loss for the state budget and social security system, such as the health and pension system, is estimated to amount to up to BGN 320 million (EUR 164 million) in 2021 according to the NRA, around 0.25% of GDP. The estimates suggest a downward trend in forgone revenue, with losses estimated at around BGN 420 million in 2014, but the potential loss in income is still significant, not least against the background of generally low tax revenues and a health and pension system struggling to provide adequate services.

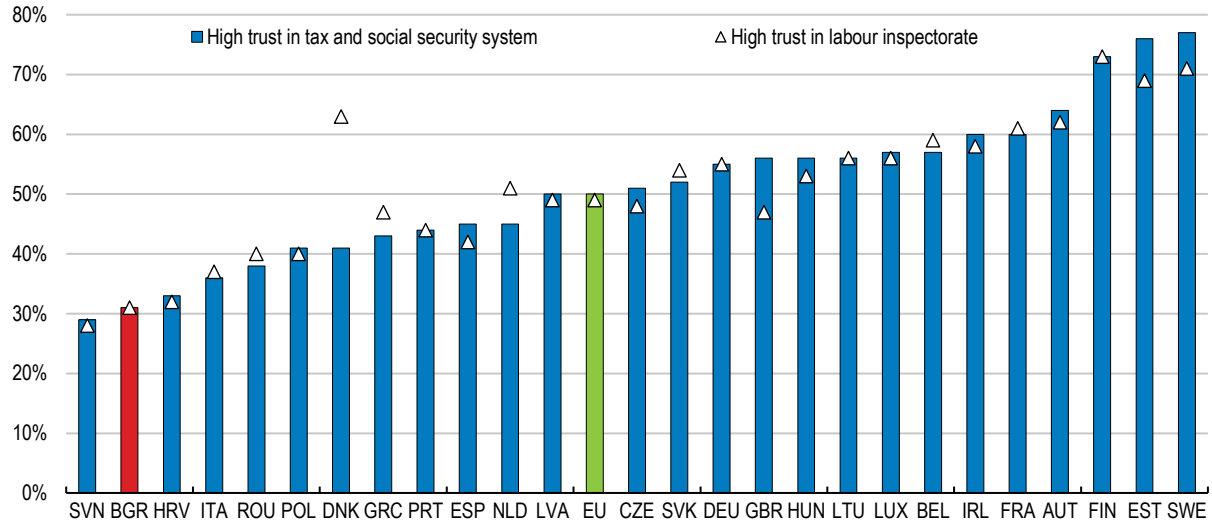
2.1. Reinforce trust in institutions to boost compliance with laws and regulations

The reasons to engage in informal labour contracts are multifaceted. The benefits for employers are straightforward as they profit from lower labour costs and more flexibility, as long as the probability and severity of potential sanctions are weak. Although employees in general do not benefit from undeclared work in the long run, they can benefit in the short run as their net salaries will be higher. With limited trust in the state and social insurance, tax morale is low and the willingness to receive the full amount of wages paid out directly is higher than financing a system whose benefits are perceived to be uncertain (OECD, 2019[31]). Such an environment also nurtures incentives for corruption, for example to avoid potential controls or fines, leading to a vicious circle of reinforced distrust towards the system. Tackling undeclared work therefore requires a comprehensive approach that takes a multitude of reasons and motivations into account. Two main approaches stand out: first, the trust of the population in the political and social system, along with its institutions needs to be strengthened and, second, the cost-benefit relation for engaging in informal contracts needs to change so that the perceived costs outweigh benefits (Horodnic and Williams, 2021[29]).

Bulgarians exhibit a low degree of trust in their institutions compared to other EU-OECD countries, as revealed in Figure 20 based on the latest Eurobarometer survey from 2019. Only 31% of respondents indicate that they tend to trust the tax and social security system. Similarly, people do not tend to trust the labour inspectorate, which is the central labour authority responsible for detecting undeclared labour. Building mutual trust within a society is a complex and long-lasting process (OECD, 2022[32]). In order to increase tax morale and overall trust in the system, one important aspect for a successful strategy in Bulgaria is to better highlight the importance of correct tax payments and full declarations of labour contracts. This could be done by giving information on the uses of taxes, such as highlighting that hospitals, road construction projects and child or elderly care facilities are paid for by using taxes and contributions from workers. In Estonia, for example, an online tool allows to decipher the detailed breakdown of uses from taxes paid by an individual taxpayer. In the United Kingdom, such a breakdown is provided automatically in the *Annual Tax Summary* upon reception of tax fillings, ensuring that everyone is immediately informed about how taxes are used (Williams, 2021[33]).

Figure 20. Trust in authorities is low in Bulgaria

Respondents with high trust in respective authorities, 2019



Source: Eurobarometer 2019.

In addition, information for workers on the negative consequences for their own financial situation from wage under-reporting can increase awareness of the downside associated with this behaviour. The NRA provides an online tool, "salary in an envelope", where the cumulated losses from under-reporting with respect to pensions, health and other benefits from the social security system can be easily computed and displayed. While this is a useful tool to highlight accumulated losses throughout the lifetime of workers, it could be improved by providing information on forgone revenues on a monthly or annual basis, a number that will be more familiar to most users. In addition, the availability of this tool needs to be promoted more actively to increase public awareness, including through media campaigns and referencing in official correspondence from tax and labour authorities.

A more cooperative approach by enforcement authorities supported by transparent administrative procedures could also help to raise tax morale (OECD, 2018[34]), (OECD, 2021[35]). A stronger focus on cooperation and advice, instead of top-down inspections, could eventually lead to a different perception of enforcement bodies, such as the labour inspectorate, as being a partner that can be trusted and that can also be contacted if need be. The Bulgarian labour inspectorate is going in the right direction as it does not only conduct inspections and investigations, but it simultaneously provides information for employers and workers related to correct labour regulations and registration. This is in line with experience from the Czech Republic and Ireland, where labour enforcement bodies are explicitly commissioned to support companies to avoid incorrect registration of workers (Williams, 2021[33]). A similar approach to strengthening mutual trust is to decrease the burden on companies from various and repeated checks and investigations by conducting joint inspections from several supervisory bodies. The Bulgarian labour inspectorate has already made steps in this direction by conducting joint inspections with the NRA. It provides a self-assessment tool that helps workers and employers assess to what extent the labour legislation applicable in Bulgaria is observed and whether labour rights are violated. Through the tool, employers can also assess whether they are applying labour legislation in a way that guarantees their employees full declaration of their employment status.

The level of taxes and social security contributions can also be intertwined with the decision to accept or avoid payments. A perceived excessive burden of charges against potentially weak benefits might incentivise the use of informal working arrangements. However, the overall tax wedge in Bulgaria is not

particularly high and clearly below the OECD average . A flat tax of 10% implies relatively low marginal income tax rates, although relatively high social security contributions might be a concern. Efforts to reduce this burden need to be linked with a broadening of the base to ensure the sustainability of the social security system. Enforcement needs to be improved.

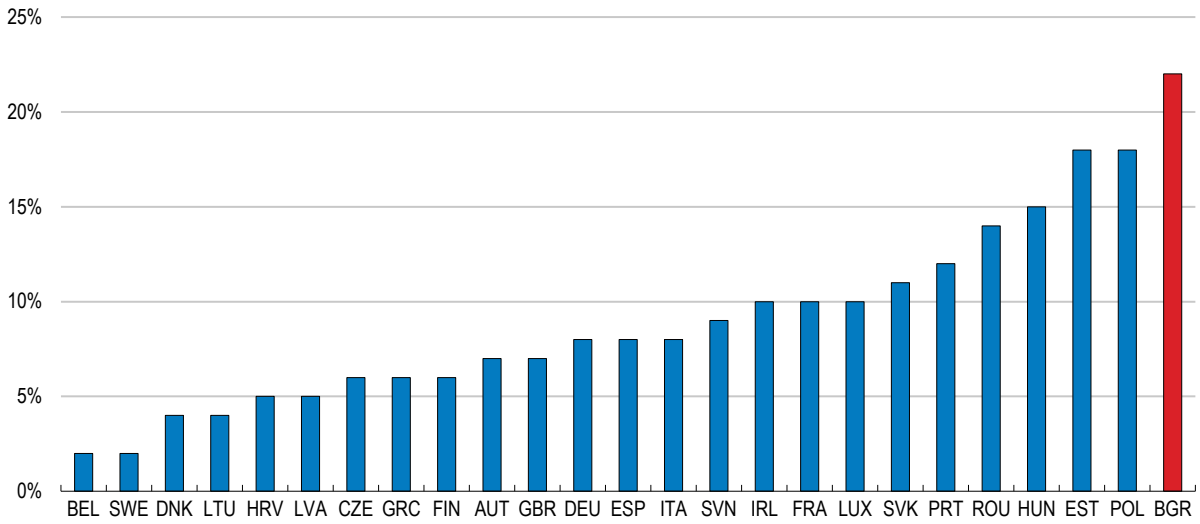
The Bulgarian authorities need to ensure that enforcement of labour contracts is credible. Information campaigns can serve as a useful tool to disseminate information on consequences and sanctions from incorrect or fraudulent labour declarations. The labour inspectorate participates in such national and international information campaigns. Such information is particularly needed in Bulgaria, as a relatively large fraction of respondents in the Eurobarometer survey did not know what consequences undeclared work could entail. Figure 21 shows that nearly a quarter of all respondents could not state the consequences compared to only 9% on average across EU-OECD countries. In addition, this should include advice on how to easily report illegal behaviour by ensuring strong protection for those who report it.

The probability of being caught is estimated to be low, in particular for those who are engaged in informal labour arrangements. Figure 22 shows that only 15% of respondents who work informally expect to be caught with a high probability, compared to twice this number for the average of EU-OECD countries. The authorities should ensure that effective checks and controls are in place and conducted in a risk-based manner in line with international best practices formulated in the OECD Regulatory Enforcement and Inspection Toolkit (OECD, 2018[34]), (OECD, 2014[36]). While on-site investigations are costly, time-consuming and more difficult to expand significantly, digital tools and a data driven approach need to be implemented to increase the quality of investigations (OECD, 2021[37]). The labour inspectorate uses data from past inspections to estimate the risk of further violations. In addition, data mining instruments can be used to detect firms that are more likely to under-report their labour contracts (Williams, 2021[33]), for example by comparing salaries paid by a firm with those from other firms in the same sector or region. More sophisticated approaches are available and have proven to be an effective instrument to increase the precision of investigations. In Belgium, the number of detections of wage under-reporting doubled following the implementation of data mining tools (De Wispelaere and Pacolet, 2017[38]). Bulgaria already follows the international good practice to reach out to companies before an inspection to allow for pre-emptive corrections of labour registrations. The outreach to companies could be better pinpointed by specifically addressing those firms that are more prone to incorrect wage declarations. Experience from Estonia suggests that the effectiveness of pre-emptive notifications can be further increased by reaching out to employees of a suspicious firm as well (Williams, 2021[33]).

The effectiveness of data-driven investigations largely relies on the quality and availability of data and the capacity of the authorities to analyse them. Bulgaria should ensure that all relevant data from tax records and the social security system are available to the labour inspectorate and that its staff is equipped with the necessary tools and means to make use of them. The full digitalisation of wage payments would improve data availability for enforcement bodies and make it more difficult to hide the build-up of substantial cash holdings used for informal wage payments.

Figure 21. The awareness of specific consequences of undeclared labour is particularly low

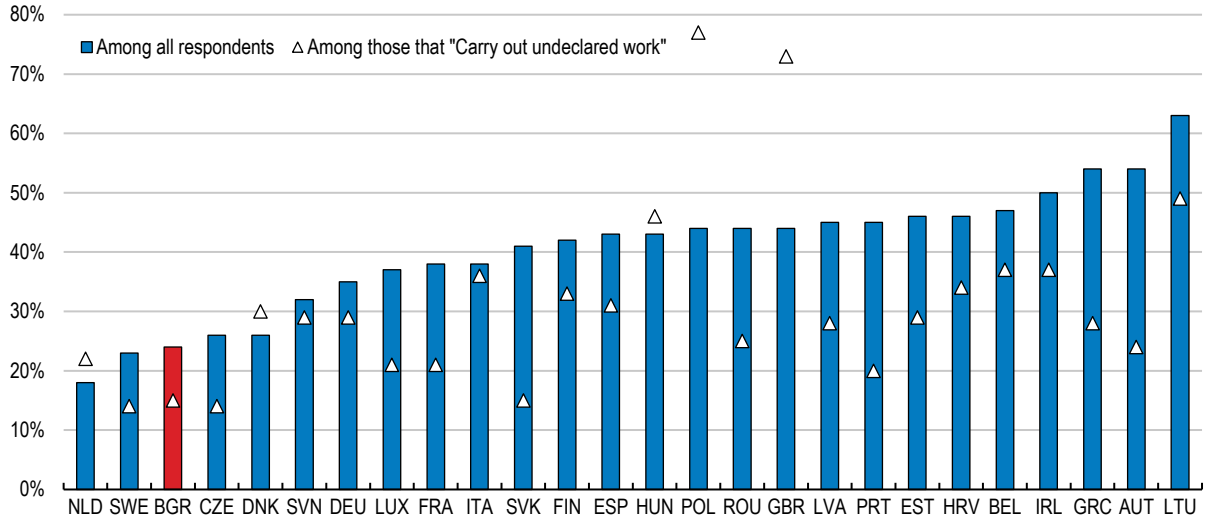
Share of respondents with answer "don't know" related to question about the consequences of informal work, 2019



Note: Share of respondents declaring that they don't know what sanction, if any, they would imagine someone would receive if authorities find out that they receive income from work which was not declared to tax or social security authorities.
Source: Eurobarometer 2019.

Figure 22. The risk of controls is seen as low

Share of respondents who estimate that the probability of controls is high, 2019



Source: Eurobarometer 2019.

Undeclared work in the construction sector strongly declined when firms were excluded from any public contracts for a period of three years after the detection of workers without a formal contract. The effectiveness of this approach suggests extending the scheme in two directions. First, an exclusion from public contracts should follow the uncovering of any type of informal work, including envelope wages. Second, similar regulations should be implemented in other sectors with a high share of public contracts such as in the transportation or health sector. More generally, a responsive regulation approach requires

a nuanced set of sanctions of differentiated gradation to allow for an adequate response towards different forms and severity of misconduct (OECD, 2018[34]).

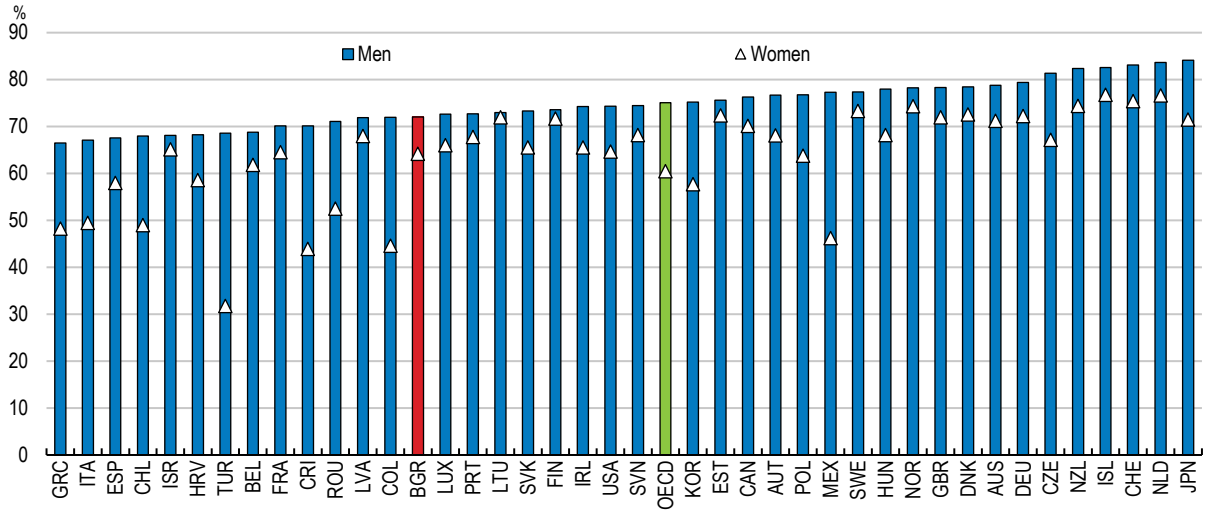
The introduction of new forms of sanctions has contributed to a strong decline in the misuse of part-time employment and self-entrepreneurship, which were a more prevalent form of informality until recently. Similar to envelop wages, declaring part-time work while working full-time instead can be used to pay lower taxes and social security contributions. Today, the labour inspectorate has the power to declare part-time contracts as regular contracts whenever they suspect that part-time work is only used as a means to avoid taxes and contributions. Self-entrepreneurship of this type means that workers set themselves up as self-employed, although they only work for one company who is effectively but not legally their employer, with the aim to circumvent taxes and contributions. Bulgaria succeeded to diminish self-entrepreneurship by prohibiting to convert to self-entrepreneurship within a company where a worker is already employed. Moreover, only a limited number of occupations are allowed to be performed as a self-entrepreneur. With the rise of the platform economy, concerns about self-entrepreneurship might return, and it will be imperative for the authorities to closely monitor ongoing developments and act swiftly to adapt current regulations to a changing environment, see also (OECD, 2022[39]).

3. Making better use of people in the labour market

With a working age population that is likely to continue to decline, the Bulgarian economy needs to make the most of the potential workforce it has to achieve a strong growth rate and continued convergence, alongside measures to improve demographics. Continued productivity catch-up, digitalisation and the green transition will reshape the economic landscape and will require major changes in the labour market and the upskilling and reskilling of workers. As in other economies, labour shortages may become a growing problem. Overall employment rates are somewhat below the OECD average for men and higher for women (Figure 23) and a number of groups have low employment and are relatively exposed to informal work.

Figure 23. Overall employment rates for men are lower and women higher than the OECD average

Employment rates for men and women among 15-64 year olds, 2021



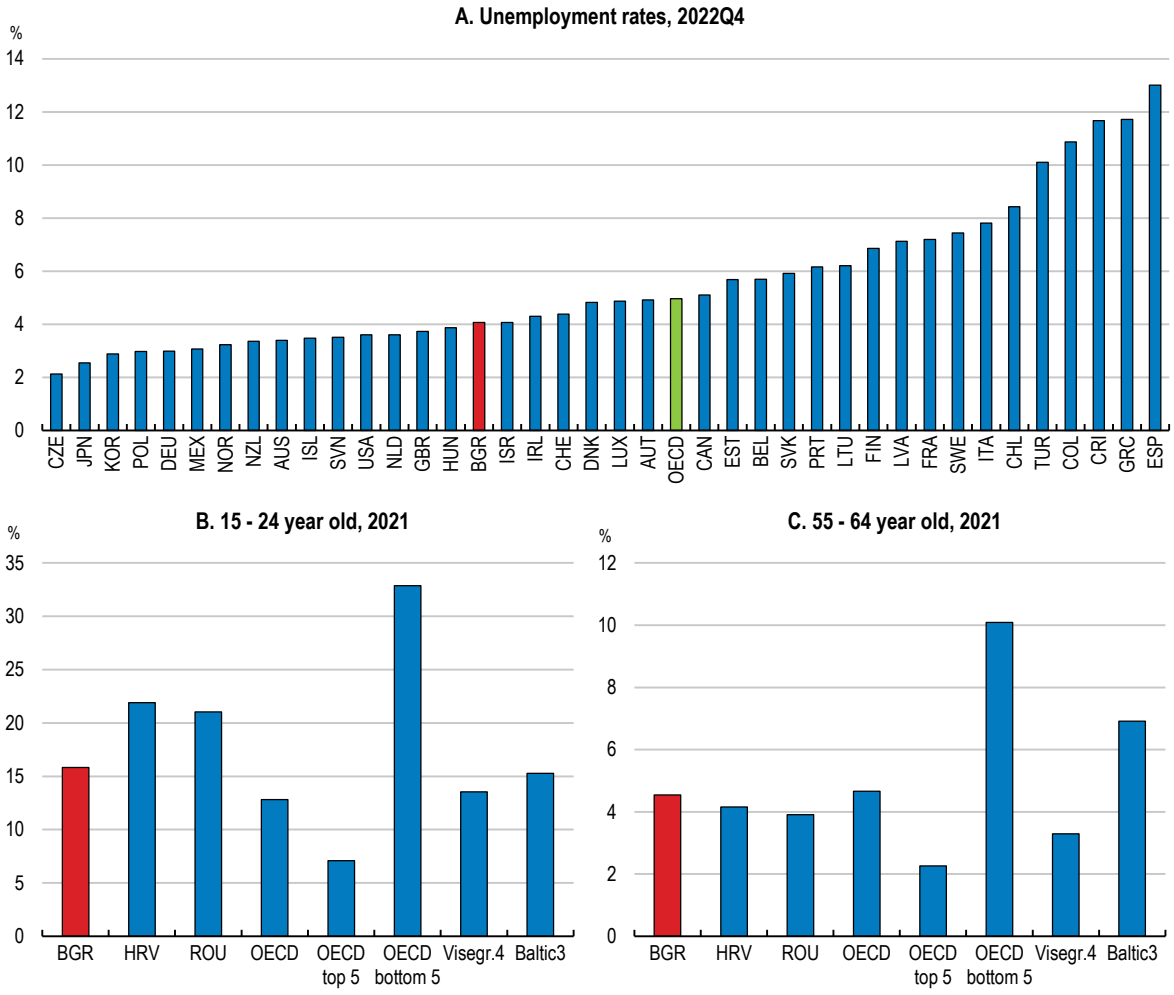
Source: OECD Labour Force Statistics database.

Bulgaria's overall unemployment rate at 5.3% in 2021 was somewhat lower than the OECD average but is substantially above the very low rates in most Visegrad4 countries with high growth potential and ageing

populations although it is more similar to Romania and Croatia. Further, the overall rate masks significantly higher rates of unemployment among the young (Figure 24).

Figure 24. Overall low unemployment masks high unemployment among younger people

Unemployment rates

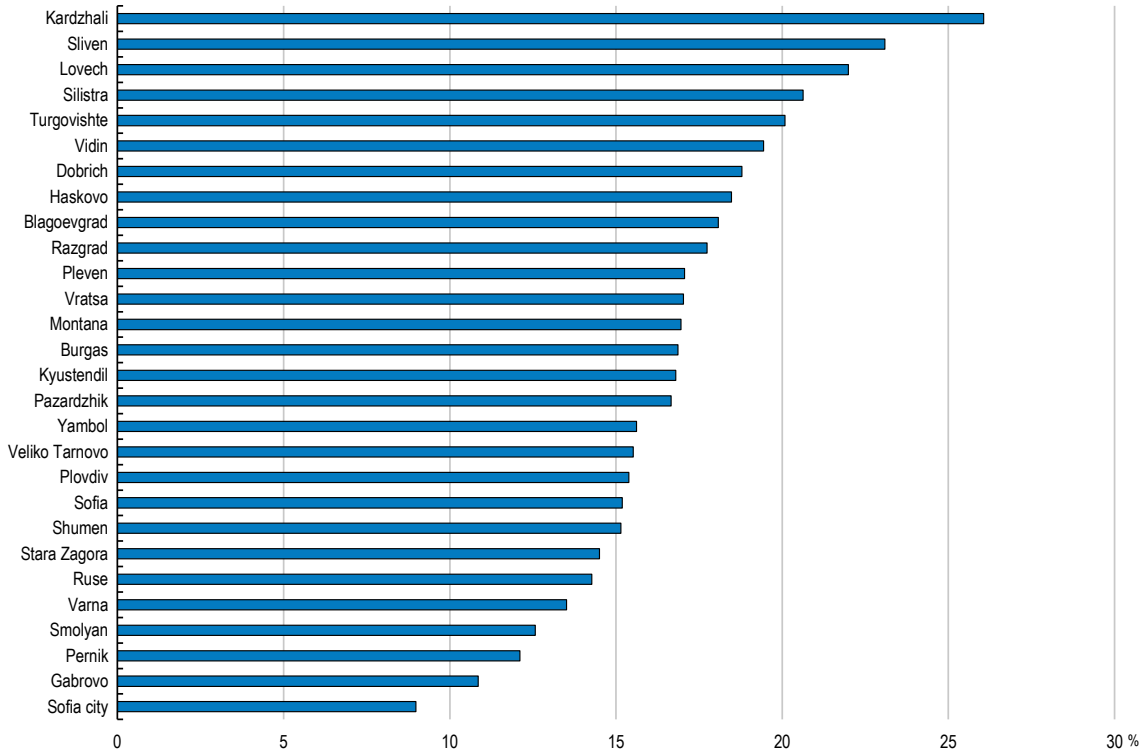


Note: Panel A: data are as of 2022 Q4 for all countries except Ireland, Poland and Slovakia for which are 2022Q3.
Source: OECD Labour Force Statistics database.

Relatively low employment rates are primarily related to inactivity, the share of people who do not have a job and are not actively looking for a job, as unemployment is low. Labour force data suggests that more than one-quarter of the working-age population aged 15-64 is inactive, although the 2021 Population Census indicates a higher rate of activity. Regional disparities in the inactivity rate are large (Figure 25). In Kardzhali and Sliven, far away from major urban centres and with high concentrations of ethnic minority groups, inactivity is high, while is it relatively low in other areas such as Sofia.

Figure 25. There are large disparities in the inactivity rate across districts

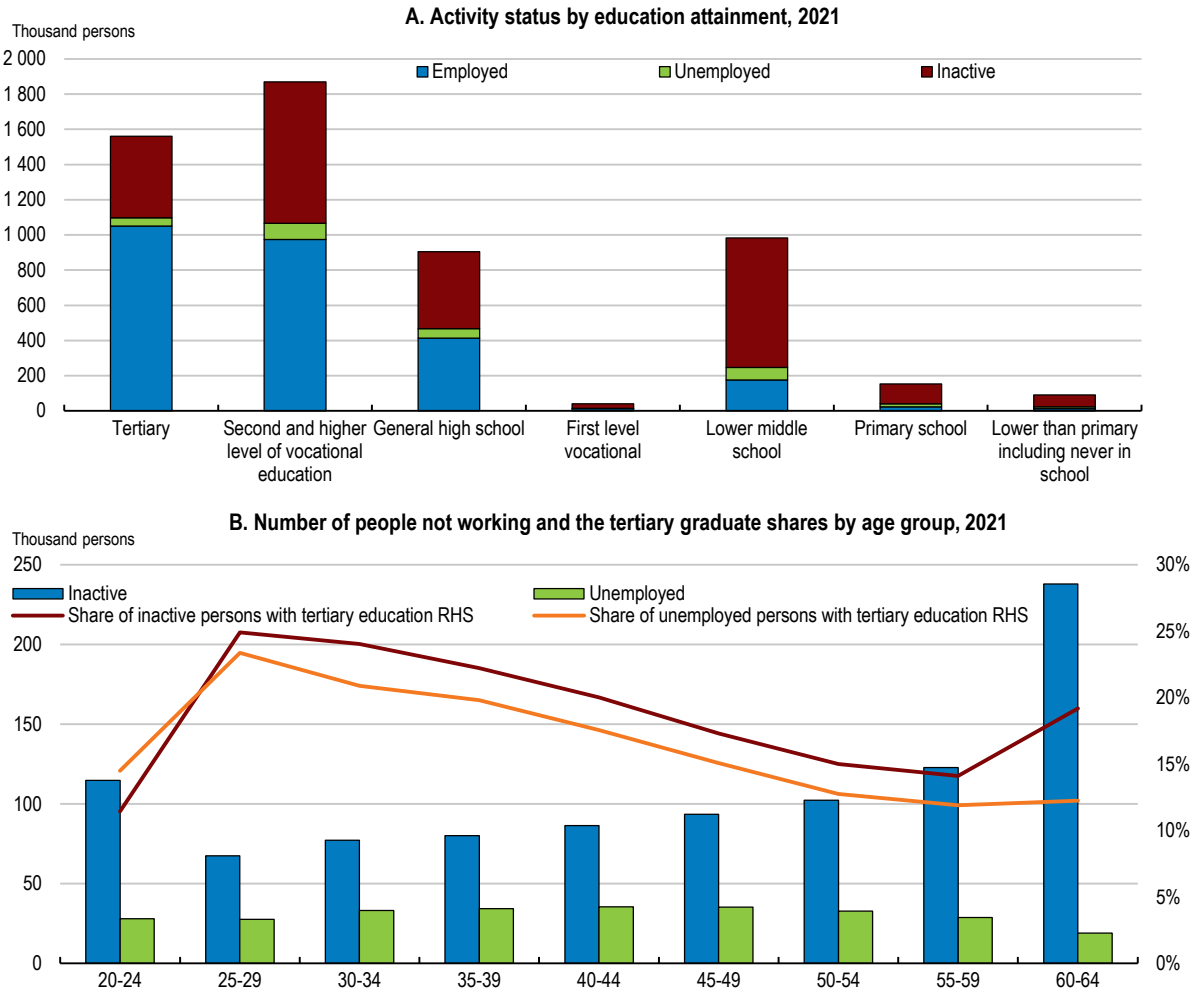
The ratio of inactive people to the working-age population by district, 2021



Note: The inactivity rate is calculated as a ratio of people who are not employed, are not actively seeking employment, are neither students nor pensioners and are not living from property-related income, to the working age population (15-64 year olds).
Source: OECD calculations based on the National Statistical Institute 2021 Population Census.

Inactivity is more common among those with lower education attainment. Three-quarters of people with at most lower secondary education are out of the workforce and many of those with only high school education are inactive. While inactivity is lower among people with tertiary education attainment, still more than one-quarter of this group is inactive (Figure 26). Overall, those with secondary or below-secondary education account for most of the inactive. Recent legislation changes in the Employment Promotion Act (amendments came into force on 3 June 2022) aim at tackling high inactivity. The creation of an electronic register of economically inactive people and a data exchange mechanism between institutions will provide an opportunity to identify economically inactive people at the individual level. In this way, better targeted measures are expected to be developed.

Figure 26. Many young and educated people could be activated



Note: The inactive are people who are not employed, are not actively seeking employment, are neither students nor pensioners and are not living from property-related income as defined in the questionnaire of the Population Census.
Source: OECD calculations based on the National Statistical Institute 2021 Population Census.

3.1. The tax and social system needs to be overhauled to bring more people into work and improve social protection

The tax and benefit system should help to ensure strong incentives for people to participate in the workforce in high-quality formal jobs, as well as providing social protection to vulnerable households. While some aspects of the social system are well-designed to support work, others reduce the incentive to work and fail to activate those in groups with weaker labour market attachment.

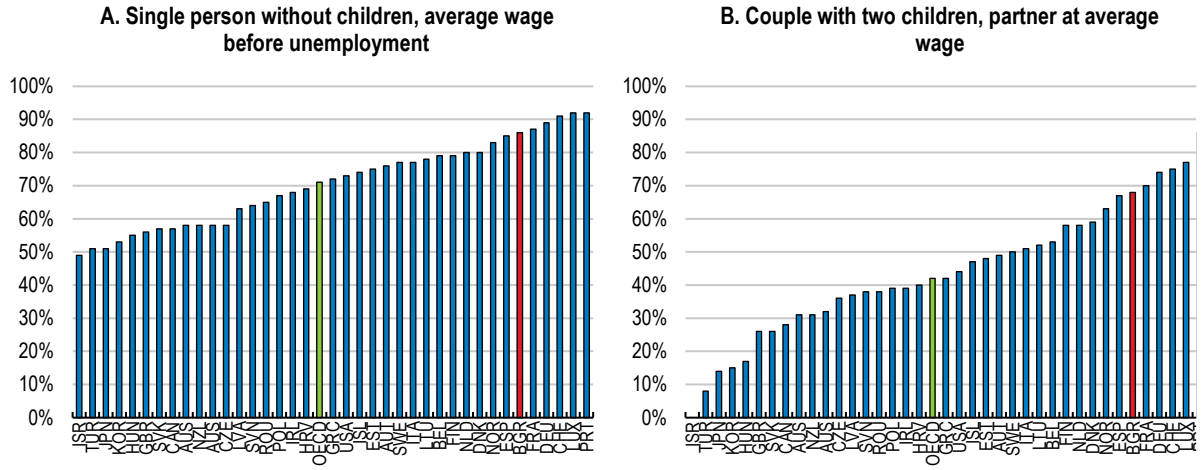
The income tax system creates favourable incentives to work, but high social security contributions may discourage formal work. Personal income tax rates are flat at 10% with a couple of tax allowances, one of which is for families with children, who since 2021 receive a tax-free allowance of BGN 6 000 per year per child (for either of the parents with the unexhausted part transferable to the other parent). This substantially reduces the effective income tax rate for a family at the minimum wage with children, introducing a certain degree of progressivity in the otherwise purely flat income tax system (Brussarski, 2021[40]). The adoption of minimum income thresholds to ensure that skilled workers are not paying social security contributions on the minimum wage, has broadened the social security contributions base (Bogdanov, 2020[41]).

However, social security contributions at 33% contribute to fairly high tax wedges and disincentivise people to participate in the formal labour market by using envelope wages. A more effective system that would reduce disincentives to participate in the formal labour market and raise social security coverage could be achieved through better enforcement that would allow for lowering the social security burden without compromising the sustainability of the system. Increasing the monthly tax allowance per child from the current BGN 6 000 per year to initially BGN 9 360 (the minimum wage level) and increasing it further over time would reduce the costs of declaring higher incomes and could encourage more people to report their actual wage. Raising the allowance combined with strengthened inspections could enhance incentives to report formerly unreported parts of the wage. It would also reduce the marginal tax rate for low-income people with children. An additional benefit would be simplification of the system and increased collection efficiency due to the coincidence of the child allowance and the minimum wage: in the current system, the allowance is slightly below the minimum wage, entailing relatively high administrative costs for the little tax collected.

The unemployed are supported by a well-designed unemployment benefit system, but coverage is low. The unemployment insurance net replacement rate is high, but the duration is short, and the conditions are very restrictive, so it does not reduce incentives to return to work. The 85% net replacement rate for a single person without children earning the average wage (Figure 27) is higher than in any OECD country except Portugal, Luxemburg, Switzerland, Germany and France. The net replacement rate for couples with two children earning the average wage is even higher in international comparison. Given the prevalence of envelope wages, the true replacement rate may be somewhat lower when measured in terms of the wage people actually receive in employment. However, limited duration and strict eligibility criteria result in low unemployment insurance coverage. The group of eligible people is limited as only those dismissed due to non-disciplinary reasons (e.g., redundancy) have access to full benefits (OECD, 2022[42]) and people quitting voluntarily are eligible only to the minimum four-month benefits. Duration of coverage varies between four months and 12 months depending on past contributions. The minimum four months should be increased to six so that people have a somewhat longer time to search for a job and that they do not have to wait six months once they are no longer eligible for the unemployment insurance benefits until they can claim social assistance benefits (as six months waiting or six months unemployment benefits are prerequisites for receiving social assistance benefits). When people take up a job, social benefits should be withdrawn in a staggered manner.

Figure 27. Unemployment insurance replacement rates are high

Net replacement rates for a single person with no children and couples with two children earning the minimum wage, 2022 or latest available data

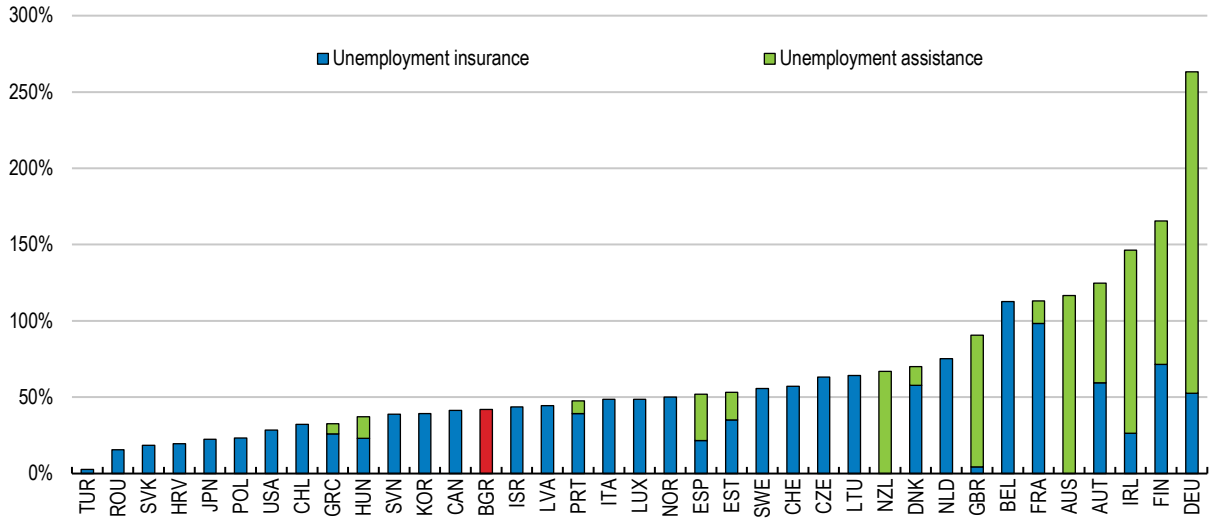


Source: OECD Benefits, Taxes and Wages database.

While there is no straightforward indicator to measure coverage, most often the ratio of the number of people on unemployment benefits over the number of unemployed people (measured by labour force surveys) is used (OECD, 2022[42]). This pseudo-coverage rate at around 40% is low in international comparison, though comparable to that in the Visegrad4 and Baltic countries (Figure 28). Bulgaria does not have an unemployment assistance scheme, unlike many OECD countries. For certain groups, who cannot possibly meet the strict criteria for unemployment insurance benefits, for example due to a lack of work experience such as young graduates, unemployment assistance benefits could be provided for up to six months to allow them to find a suitable job.

Figure 28. Less than half of the unemployed are covered by unemployment insurance

Pseudo-coverage of unemployment insurance and assistance, 2018



Note: Due to potential overlap between beneficiaries of various schemes, the total can exceed 100%.
Source: OECD Social Benefit Recipients Database.

A wider problem is how to activate those who are not currently looking for work, as well as ensuring that there is an effective system to encourage unemployed people who no longer qualify for unemployment benefits to look for work. A well-designed social welfare system can support a high level of employment in good-quality jobs, as well as providing decent support to those who temporarily lose their jobs as the labour market evolves or who suffer from longer-term deprivation. Very often deprivation and poverty prevent people from joining the labour force due to ill-health or lack of opportunities.

Bulgaria's social assistance system is complex, governed by several laws, secondary legal acts and involving several agencies. Social assistance is provided as a one-off or a regular (monthly) benefit, which is targeted and can be in cash or in kind to cover basic needs. Social assistance benefits have now been linked to the poverty line in 2023 at 25% of this level with an envisaged increase to 30% in 2024 (the poverty line for 2022 is BGN 413 and for 2023, BGN 504). This is an important step, but over time this amount should increase further to approach the poverty line to meet basic needs. In general, the current system is focused on the most vulnerable social groups and provides only a very low level of support to those who receive it (around 22 000 persons in 2021). At the same time, there are many people living below the poverty line (in 2021, 22.1% of the population according to NSI) who are not covered at all. Eligibility and benefits take into account other benefits received, limiting the scope of social assistance and the amount of income support: for example, unemployed people with school-age children are not necessarily eligible if they receive the social pension for disabled people as that would take them above the eligibility threshold even though their income would remain below the poverty line (Box 2).

Box 2. How much financial assistance can vulnerable people receive?

The maximum size of benefits a hypothetical family of four with multiple disadvantages can cumulate

This box lists the financial assistance benefits that a family of four with unemployed parents not eligible for unemployment insurance, one of them with 90% incapacity and two children, a first and an eighth grader can potentially cumulate, should they exploit all they are eligible to. As the family receives disability benefits, it is not eligible to the basic social assistance allowance, which is based on the differentiated minimum income, as the disability benefit lifts them above that. The monthly average income will be BGN 988.9, i.e., BGN 247.2 BGN per family member on average.

Table 1. A disadvantaged family will remain below the poverty line even after benefits

Type of support	Monthly, BGN	Annual, BGN
Target heating benefit for the winter season 2022/2023	52.0	623.6
One-time family financial help	31.3	375.0
One-off benefit for pupils enrolled in 1st grade and monthly equivalent, Family Allowances Act	25.0	300.0
One-off benefit for students enrolled in 8th grade and monthly equivalent, Family Allowances Act	25.0	300.0
DMI parent 1 (defined as 73% of the GMI)	54.8	
DMI parent 2 (defined as 73% of the GMI)	54.8	
Child support for both children according to the Law on Social Assistance (defined as 100% of GMI for each child)	150.0	
Family allowance for family with two children, Family Allowances Act	110.0	
Additional social support for the parent with disabilities (90%)	48.8	
Social pension for parent with disabilities (income)	325.0	
Financial support for disabilities according to the Law on Persons with Disabilities (excluded from income by Law)	235.4	
Supplement for personal assistant	185.3	
Total family DMIs	308.3	
Total family income	435.0	
Difference DMIs – Total income	-126.8	
Total income > the sum of DMIs	not eligible	
Total monthly social benefits for the family	988.9	
Average per family member	247.2	

The conditions for receiving the benefits in this box are the following. Monthly basic social assistance benefits and targeted heating benefits are the two major social assistance programmes in Bulgaria. Access to monthly basic social assistance benefits is conditional on several criteria: it is not sufficient to be without a job and fall under the minimum differentiated income threshold. In addition, a six-month registration period with the Employment Agency is mandatory. The funds for heating assistance are voted and provided by the state budget each year. The monthly amount is the BGN equivalent of 500 kWh of electricity (of which 300 kWh are daytime and 200 kWh are night-time electricity) applied for households as of October 31 of the ongoing calendar year. By acquiring the right to monthly social assistance, a family also meets the conditions for targeted assistance for heating, which for the 2022-23 heating season is BGN 623.55. For the 2021-22 heating season, 261 000 heating benefits were approved amounting to BGN 135.9 million.

Most social benefits have a small coverage and strict criteria, therefore reaching only a small share of poor families. The family income is defined as all gross receipts from labour, business activities, agricultural production, sale and/or exchange of real estate and other property, shares, equity and other participations, rent, dividends, prizes from sports competitions, etc. Pensions, stipends, other benefits

and allowances, monthly allowances for children under the Family Allowances Act are also considered as income. Targeted heating allowance and personal assistance for disabled people with reduced working capacity of more than 90% are not considered as income when determining the size of social benefits.

Unemployed persons who meet the conditions for social support are included in employment programmes. Those who refuse to participate in employment programmes are deprived of monthly benefits for a period of one year. The implementation of these programmes is carried out jointly by municipal administrations, state, municipal and private enterprises and other legal entities, the territorial divisions of the Employment Agency and the Social Assistance Agency. At the local level, municipalities provide services such as home social care and social personal assistance, family-type accommodation centres including for disabled adults, etc. A monthly targeted rent allowance for municipal housing is available to single old people over 70 years and to single parents raising a child alone when their income from the previous month is up to 250% of their differentiated minimum income. In addition, monthly targeted rent allowance is provided to orphans up to the age of 25, who have graduated from social educational and professional centres and meet income criteria. Persons with permanently reduced work capacity of 71% or more or with certain types and degrees of disabilities, children up to the age of 16 with a permanent disability and military invalids as well as their companions or social assistants are entitled to free travel twice a year – round trip, by rail in the country.

A poor family of two unemployed parents not entitled to unemployment insurance benefits with two children (below the age of 16 years) and if one of the parents is with a reduced work capacity of at least 90%, could receive the following types of social assistance under certain conditions as shown in the table above.

DMI for a family, or person cohabiting with another person, and for each of the cohabiting spouses is defined as 73% of the GMI, which in this example is BGN 54.8 for each parent. Monthly child support according to the Law on Social Assistance is defined as 100% of the GMI (BGN 75).

The family can receive one-time financial help for the year in case of emergency need for health, education, communal, and other vital needs. This benefit is defined as maximum 5 times the GMI (or BGN 375). According to the Law on Persons with Disabilities, the disabled parent from this example would be eligible to receive a monthly financial support for disabilities defined as 57% of the poverty line (or BGN 235.4). The person with a permanent disability will have the right to receive an assistance aid in the amount of 75% of the social pension for old age – BGN 185.3. This supplement could not be received when using a personal assistant dispatched under a programme.

The size of the support the family can receive is calculated based on its income from the previous month. The support is calculated as the difference between the sum of all differentiated minimum incomes and the family income from the previous month. In this example, the incomes of the family are the social invalidity pension and the monthly allowance for children. It is more than the sum of the differentiated minimum incomes, which, according to the applicable rules means that this family could not receive the basic social support according to the Law on Social Assistance.

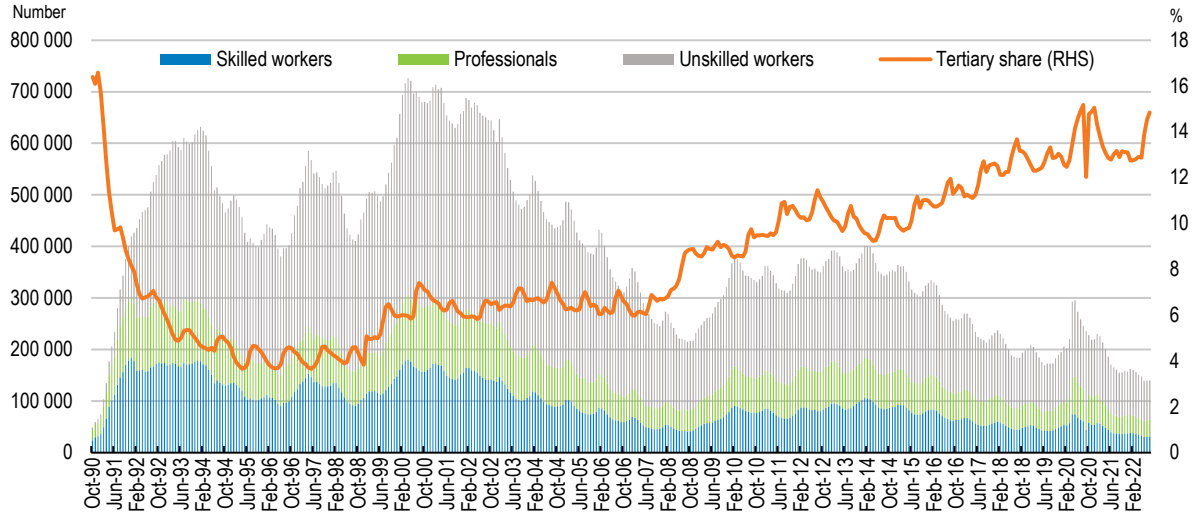
Note: This box reflects the situation before the recent legal changes linking social assistance benefits to the poverty line.
Source: Ministry of Labour and Social Policy.

A more fundamental overhaul of the social security system would see social assistance payments increased over time to a level where they effectively avoided poverty, while at the same time providing incentives and support for people to return to work through activation policies. This would imply moving increasing social assistance benefits closer to the poverty line. Progress in this direction is an important part of the social component of the Bulgarian Recovery and Resilience Plan. The disability benefit scheme could be included within this wider framework with activation requirements – taking into account individual's needs – aligned to the wider system.

A key part of this approach would be to strengthen the role and resources of the Employment Agency: far from all unemployed persons, as defined by the labour force surveys, actually register with the Employment Agency. The number of registered at 140 000-150 000 has been on a declining trend in recent decades, despite the spike around the COVID pandemic (Figure 29). This is partly related to ageing, shrinking of the population and strong economic performance, but also reflects limited incentives to register. While registration with the agency is relatively simple, many people do not bother making this first step due to lack of effort or information, excessive privacy concerns, or occasional jobs or informal employment, although the Employment Agency tries to identify and reach out to such people and encourage them, as well as their inactive family members and others in their communities, to register. However, increasing the number of people registering would put the agency's already scarce resources under strain. Upfront investment in digitalisation of the Agency's services is needed and is being supported by the Recovery and Resilience Plan to improve its efficiency and expand its capacity. Jobseekers could then be profiled and matched with jobs through the online interface with only the most complex cases needing face-to-face interaction. With a substantially expanded clientele and given the upfront investment needs in digital infrastructure, more resources, both human and material, should be allocated to the Employment Agency. The increase in the share of tertiary graduates among the registered unemployed may be related to the overall increasing education attainment, lack of focus on marketable skills in higher education and greater difficulty to find a job with a college degree. Among those registered, a large share are elderly workers or persons without qualification while the share of tertiary graduates is increasing (Box 3).

Figure 29. The number of registered unemployed is trending down but the tertiary graduate share is increasing

The number of people registered at the Employment Agency by skill type



Note: Classification follows that of the Employment Agency.
Source: OECD tabulations from Employment Agency data.

Box 3. Who are the (registered) unemployed?

The profile of registered people at the Employment Agency

People registered with the Employment Agency are a diverse group with the major shared feature of seeking a job (OECD, 2022[42]). Given that incentives to register are limited to searching employment, receiving training and benefitting from social assistance (which is very low) and unemployment benefits (if eligible), far from all who are out of work register. In addition to discouraged workers, those employed informally or those seasonally working abroad are often missing from the registry, as are those who cannot take up a job due to caretaking obligations or health reasons. The registered person needs to be available for regular in-person meetings with the Agency.

Aggregated data from the registry shed light on the age, gender, skill and other characteristics of the pool of registered people. Women made up roughly 56% of those registered and the long-term unemployed accounted for a quarter of those registered in the first half of 2022. New inflows over the previous month comprised a sixth of the stock of registered unemployed and outflows, including due to taking up a job as well as discontinuing registration for other reasons, were of a similar magnitude.

By age group, 27-28% were aged above 55 (compared to their share of 16% among the self-declared unemployed), another 27% were aged 45-54 (slightly above their share in the population). The share of younger generations is much lower, around 11% for under 30s (compared to around 23% of the population).

Among the long-term unemployed (i.e., those registered over a year with the Employment Agency), around half are over 50 years old, more than 60% have primary or lower education attainment and more than 70% are unskilled.

Source: Employment Agency data and National Statistical Institute 2021 Population Census.

Strengthening activation and the social system would help to reduce risks of poverty. The multidimensional poverty headcount ratio (the percentage of people who are multidimensionally poor) at 32.1% of the total population was higher in 2020 than in any OECD country for which data are available, except Mexico and Türkiye. Lack of employment appears to be a major risk factor leading to poverty, which in turn may result in social exclusion. The at-risk-of-poverty rate at 50% is the highest for the unemployed among groups by activity status (National Statistical Institute). In contrast, employed people face a risk of poverty of 10%. A single person earning the minimum wage would need 35 hours of full-time work to escape poverty, more than in many OECD countries, but less than in most Visegrad4 or Baltic countries.

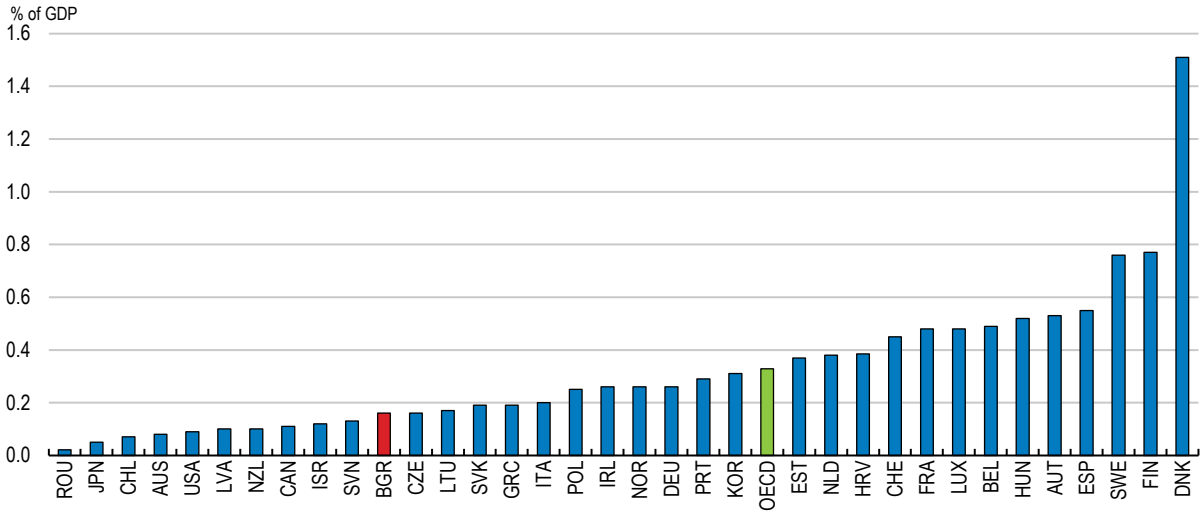
One way to encourage labour market engagement would be to provide health insurance coverage to all who register with the Employment Agency. Between a tenth and a sixth of the population is currently uninsured. In the current labour market conditions with increasing shortages of manpower, people would likely find jobs quickly. This would improve health outcomes and labour market engagement.

3.2. Targeted policies are needed to bring more people into the labour market

With the labour force declining and unemployment low, it is important to activate groups of people who have a low rate of participation in the labour force (OECD, 2022[42]). Currently, only modest resources are devoted to active labour market policies (0.16% of GDP in 2021, Figure 30). From the little money spent on activation from the state budget, the highest net effects are observed for women, young people, the long-term unemployed, people with low education attainment and people living in rural areas (Atanassov and Trifonova, 2020[43]). There remains room to improve the evaluation of active labour market policies, including through both more frequent and more rigorous counterfactual impact evaluation and through the use of administrative data as is done in many OECD countries.

Figure 30. Spending on active labour market measures is low

Spending on active labour market measures for the 15-64 year olds, 2019

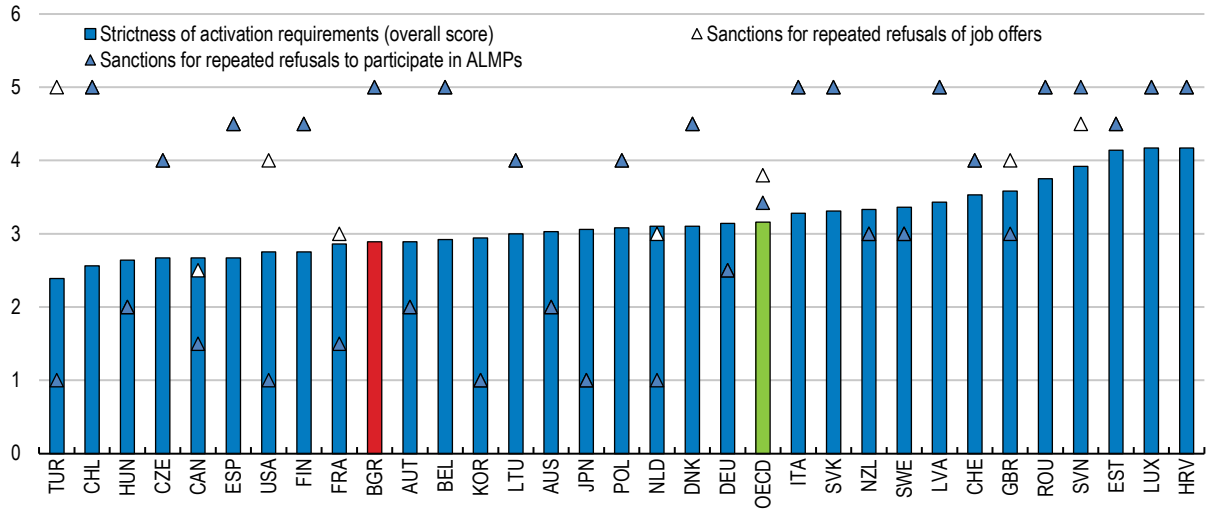


Note: Active labour market measures without employment maintenance incentives (i.e. measures 20-70 except 42 according to the OECD classification of labour market programmes).
Source: OECD Labour Market Statistics database and Eurostat.

The stringency of requirements to engage with activation measures is below the OECD average, close to the levels of France and Austria (Figure 31). Relatively tough sanctions are applied for repeated refusals of job offers and for failure to participate in active labour market programmes. This in practice often means cutting off access to employment services for some period.

Figure 31. Activation requirements are not strict except for harsh sanctions on repeated refusals of job offers or to participate in ALMPs

Ordinal scale ranging from 1 (least strict) to 5 (most strict), 2020

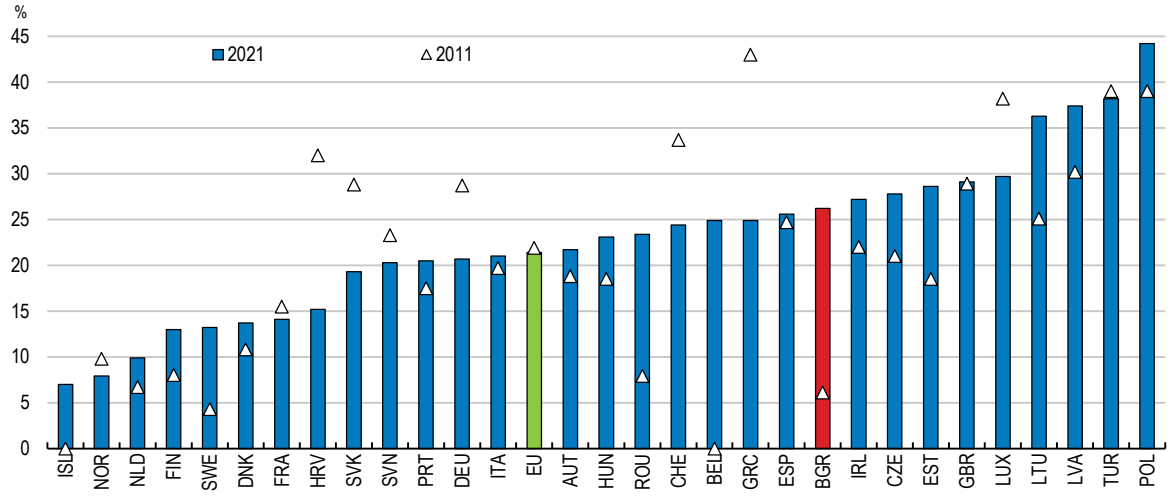


Note: Selected measures. The value for the indicator of sanctions for repeated refusals of job offers and to participate in ALMPs are the same for Bulgaria.
Source: OECD Labour Market Statistics database.

An unusually large number of people, predominantly women, stay out of the labour market due to caregiving duties related to children and old or disabled family members (Figure 32). There is a further group of people who may be stuck by care obligations with low-paying jobs or jobs below their qualifications and could potentially move where jobs with higher pay or better matching their qualifications are, should they be freed from providing support for disabled or elderly relatives part-time. Recent initiatives aim at tackling this issue: kindergartens and nurseries are now free of charge. The measure called “Care at Home” by professionals as part of the Ministry of Labour and Social Policy’s Human Resources Development Programme (2021-27) will provide integrated services (including in-kind support and dispatching assistants) to 32 000 elderly and disabled people according to their individual needs starting in 2023. Municipalities were called to apply for funding of such services, alone or jointly with other municipalities, by 2023. This measure, costing BGN 175 million, could potentially free thousands of former caretakers for work or better utilise formerly underutilised labour. The measure is a continuation of the similar support scheme provided in 2018-22, during which over 44 000 persons received home-based services. This is a welcome approach and should gradually be scaled up: the rollout of home-based caretaking should accelerate, and professionals should be trained. The National Strategy for Active Ageing 2019-30 advocates independent living, which should be supplemented by occasional assistance, based on needs, at the elderly person’s home. When independence is no longer an option and 24-hour care is needed, a sufficient number of places in homes for the elderly needs to be provided, including for those living on modest pension incomes.

Figure 32. A relatively high share of the inactive are caregivers

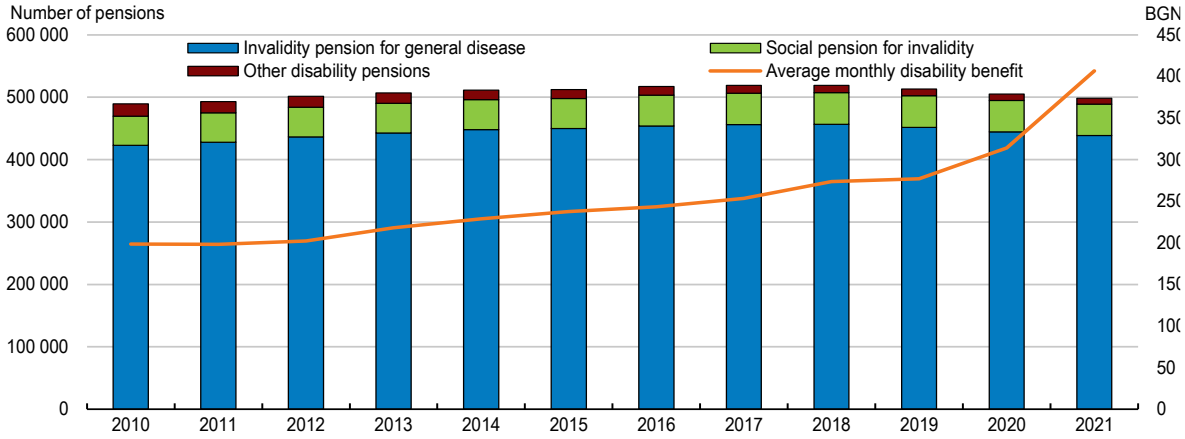
Caregivers as percentage of population outside the labour force and wanting to work, 20-64 year olds



Note: 2020 value for United Kingdom and 2019 value for Türkiye.
Source: Eurostat.

Another large group of inactive persons are disability insurance recipients, whose number exceeded 438 000 in 2021 (Figure 33). Disability recipients account for nearly 14% of the working age population, higher than in countries with very high rates of disability receipts, such as Estonia, Hungary and Slovenia, and much higher than in other countries. People with at least 50% reduced work capacity are eligible for disability insurance benefits, which are a function of their past earnings and contributions and the extent of incapacity. In addition, there is a social disability pension, which is a non-contributory benefit, with nearly 50 000 recipients, alongside a range of smaller schemes. Recipients of disability benefits tend to be older workers with less education. It is likely that the disability payment may be acting as an alternative to social assistance given the much higher rates of payment and a significant share of the recipients are likely to be capable to work. The incidence of disability is higher in older cohorts of the population, as in other countries. However, the share of the low-educated (people with at most lower-secondary education) disabled persons peaks in the 60-64 age group. This suggests that some people with low levels of education may use the disability schemes to retire early.

Figure 33. Many people live on disability benefits



Note: The "other" category comprises all disability benefit types not included in the other two categories.
Source: Ministry of Labour and Social Affairs of Bulgaria.

Disability benefit recipients are neither required to look for work nor to register with the Employment Agency. While some people may be unable to work in any way, many people are likely to have work capacity that could be used to boost their own incomes and may provide benefits in terms of engagement in society. While those with a disability are incentivised to take up a job via a tax allowance of up to BGN 7 920 per year, very few of the disability pension beneficiaries are employed. Disabled persons of working age should be required to register with the Employment Agency. In many cases, the degree of incapacity is not reassessed after starting to receive benefits. Medical reassessment should be carried out on a regular basis, for instance every year or two depending on the nature of incapacity, by specialists randomly assigned from other districts. Support should be provided to help people return to work and benefits should be phased out in a gradual manner over time as they begin working. Mobility and participation in society is also hindered by the lack of disability-friendly facilities and high out-of-pocket costs for medical services and devices. In-kind benefits related to particular types of disability (e.g. hearing aids, wheelchairs) are available for free or at highly subsidised prices. Following protests by thousands of disabled and revamping the old Socialist-era internment-focused approach, a new Persons with Disabilities Act was passed, which came into force in January 2019. This includes providing conditions for equal access to employment in a regular, specialised and sheltered work environment. In fact, the Act obliges employers with above 50 employees to hire a permanently disabled person and for those above 100 employees so that the permanently disabled make up 2% of their workforce. Companies not meeting these quotas are obliged to pay a fine. Unlike in most OECD countries, there are no specific vocational rehabilitation programmes tailored to the skills needs of people with disabilities and organised by the public employment services (OECD, 2022[42]). Such specific programmes should be developed.

Bulgaria has the potential to bring more older workers into the workforce by raising the statutory retirement age, increase employment rates of older workers below the retirement age and encouraging people to work beyond the official retirement age. The official retirement age is currently being increased by one and two months annually to reach 65 by 2029 and 2037 for men and women, respectively. However, effective retirement and exit from the labour force often occur earlier. The 2021 Population Census reveals that only 45% of the 60-64 age group are employed with 51% inactive and only 4% actively searching for a job. In the 65-70 age group, 16% are employed and only 1% is actively searching for a job. The National Strategy for Active Ageing 2019-30 explicitly envisages not only active participation in social life by the elderly, but also employment. In many OECD countries, with Japan as a frontrunner, people continue working well beyond the statutory retirement age. Working beyond the statutory pension age would be encouraged by maintaining the tax-free status of pension benefits and taxing only wage income. Currently people can receive both a pension (not taxed) and wage (taxed) income at the same time, and there are additional incentives to retire later. Moreover, the labour legislation does not contain provisions that oblige the employer to terminate the employment relationship upon acquiring the right to a pension. As life expectancy increases, incentives could be considered to encourage people to work longer. However, many older people have health problems or are otherwise not fit for work. In addition, given relatively low life expectancies, people may be reluctant to increase working life beyond the retirement age.

3.3. Strengthening of basic skills and workplace-based vocational training can increase the chances to find a job

With the workforce declining, upskilling the population is crucial to foster growth and further improve living standards. Providing the right skills is a key tool to break the vicious cycle of poor education, poor labour market outcomes and welfare dependence and poverty. The formal education system in Bulgaria has undergone major changes in the past decades, with increasing enrolment rates and rising educational attainment, although quality did not improve in parallel.

Basic skills, such as literacy or numeracy, are still lacking, and few adults are enrolled in training. This will need to change as the coming decades will see a revamp of the industrial landscape, implying a need for large-scale re-skilling. The lack of basic numeracy and literacy skills prevents people from participating in

labour markets as few opportunities are available for such people. PISA scores reveal that basic reading and math skills lag behind other countries. The OECD Skills Needs indicators (of the Skills for Jobs database) confirm that skills deficiency is the greatest in reading comprehension and writing. The lack of basic skills is more difficult to tackle as those are the prerequisites to enrol in courses to acquire marketable skills. To shorten the period of acquiring skills for such people, who may be early school leavers or with only primary or lower secondary education, training in basic literacy and numeracy skills and vocational skills is done simultaneously. Furthermore, people without formal education can have their competences validated either in one or more specific subjects or in all general education subjects for each year of basic education.

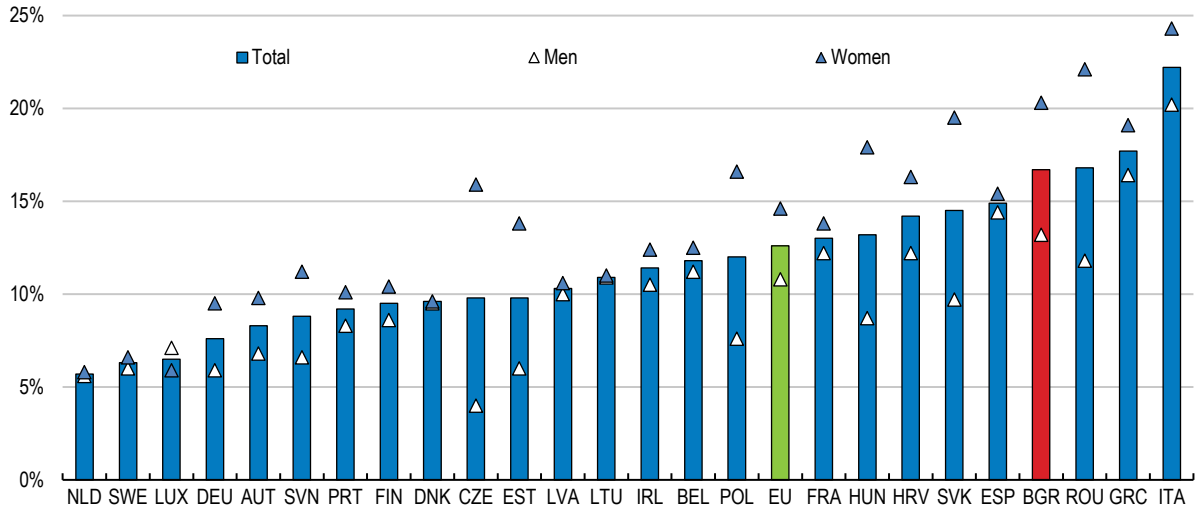
Very often persistent unemployment is related to the lack of marketable skills. The OECD Skills for Jobs indicators reveal that the large number of manual workers with poor labour market prospects could relatively easily acquire skills that are in high demand in the labour market through targeted training. Bulgaria has a vocational education system with both secondary and post-secondary-level training, but the system does not sufficiently equip students with marketable skills as it is not necessarily workplace-based unless it is a dual programme. Better collaboration between schools and the business sector is needed to anchor workplace-based training in vocational education (OECD, 2023[19]). Some vocational schools are in remote areas, beyond commuting distance from businesses. While future schools should consider workplace-based training opportunities when choosing a location, current remotely located schools could also be moved geographically closer to the respective businesses that offer such opportunities. Alternatively, where reasonable public transportation is not available, transportation could be organised for students to enable them to commute to workplaces. Joint design of curricula would incentivise businesses to offer workplace-based training for vocational students.

The composition of the registered unemployed reveals a growing share are tertiary graduates. Tertiary education is free and has expanded with a soaring number of graduates, but quality has not kept pace. The lack of practice-oriented training at universities is partly behind the difficulty of taking up a job upon graduating from a university, which needs to be tackled by adjusting curricula with the participation of the business sector and incorporating training as part of the programme. Moreover, university education remains theory-oriented with little provision of practical skills, let alone internship opportunities. The Recovery and Resilience Plan supports updating curricula, prioritising science, technology, engineering and math (STEM) profiles, enabling distance and hybrid learning, creating proper incentives and the standardisation of higher education and investment in the education sector, including in STEM centres.

A particularly vulnerable group is young people, among whom a high share is not in employment, education or training (NEET) (Figure 34). While the NEET group is of a significant size and investing in their training can potentially bring substantial benefits, the Employment Agency can reach only a fraction of them (OECD, 2022[42]) due to their lack of registration. Currently the Employment Agency addresses skill mismatches for educated people *inter alia* by offering subsidised employment opportunities, in particular for young people to start their career and gain practical experience. In the first eight months of 2022, over 2 500 young people (15-29) participated in training with only one-tenth being in the NEET category. Over BGN 753 million (0.5% of 2021 GDP) will be allocated to support young people and their inclusion in various forms of employment, internships and training under the Human Resources Development Programme 2021-2027. More than 100 000 other people will have the opportunity to validate informally acquired digital skills, which will increase their competitiveness in the labour market. The Employment Agency and its countrywide offices provide information, career guidance and referral services free of charge. There are career days, open days, student job fairs, employer days and other events aimed at supporting young people.

Figure 34. Many young people are not in employment, education or training

Youth NEET rates by gender 15-29, 2019



Note: The EU is a weighted average of the 27 member countries shown.
Source: OECD (2022) Reaching Out and Activating Inactive and Unemployed Persons in Bulgaria.

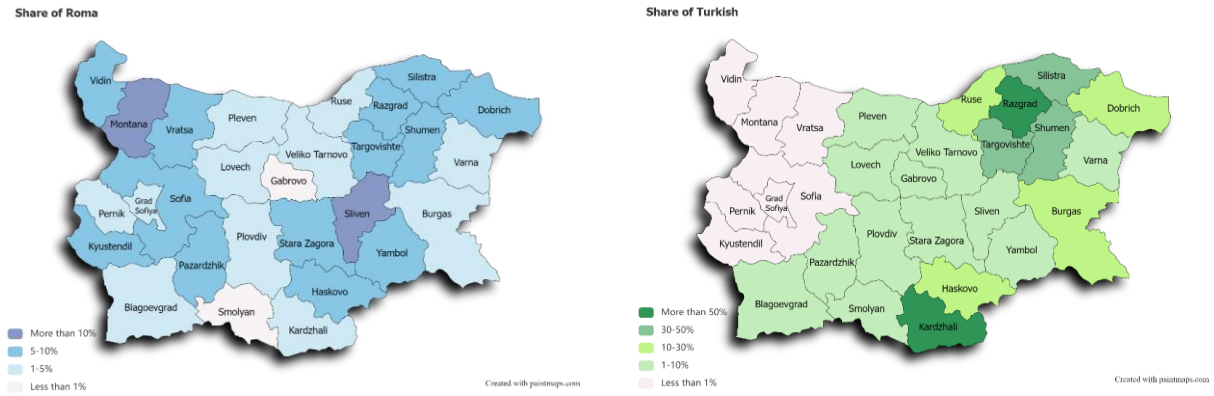
Given the high rate of return to practical training, both the employer and the employee should have incentives to invest in it, which could economise government spending. The Employment Agency offers free training courses, many with the possibility to earn a qualification and people can participate in multiple courses without a commitment to take up a relevant job offer. Training courses offered by the Employment Agency should focus on training specialists with good labour market prospects. Participants in free qualification-earning training courses offered by the Employment Agency should be obliged to accept a job offer that matches their qualifications unless they find a job themselves. Skill needs surveys in Bulgaria reveal that the greatest deficit in specialists is in tourism, construction and textiles and clothing in the short run, while the greatest increase in demand in the longer term will arise in health, education and social services. While such information is available online, better dissemination at the school level of not only future skills demand but also of the necessary qualifications and remuneration for each profession would help children and teenagers to plan their future career.

The Employment Agency also offers subsidised employment in addition to free training and the rate of subsidisation can reach 100% for vulnerable groups such as new graduates. The rate of subsidisation of employment should not be 100% and should not be without commitment on the part of the employer to hire at least some of the workforce they availed at low cost or for free.

4. The living standards of minorities lag behind

A few ethnic minority groups live in Bulgaria. The Turkish with 8.4% of the population and the Roma with 4.4% form the largest minorities according to self-declaration in the 2021 Census. Other minorities jointly make up slightly over 1% of the population. Ethnic minorities mostly live in more remote and poorer regions, which hinders their material development and contributes to deprivation. The Turkish population constitutes the majority in two districts, Kardzhali near the Greek border with a share of 65% of the population, followed by Razgrad in the Northeast with around 50% (Figure 35). Significant Roma populations are located in Sliven in the Southeast with a share of 15% of the total population and in Montana in the Northwest with around 12%.

Figure 35. Ethnic minorities live in remote districts in the east and northwest

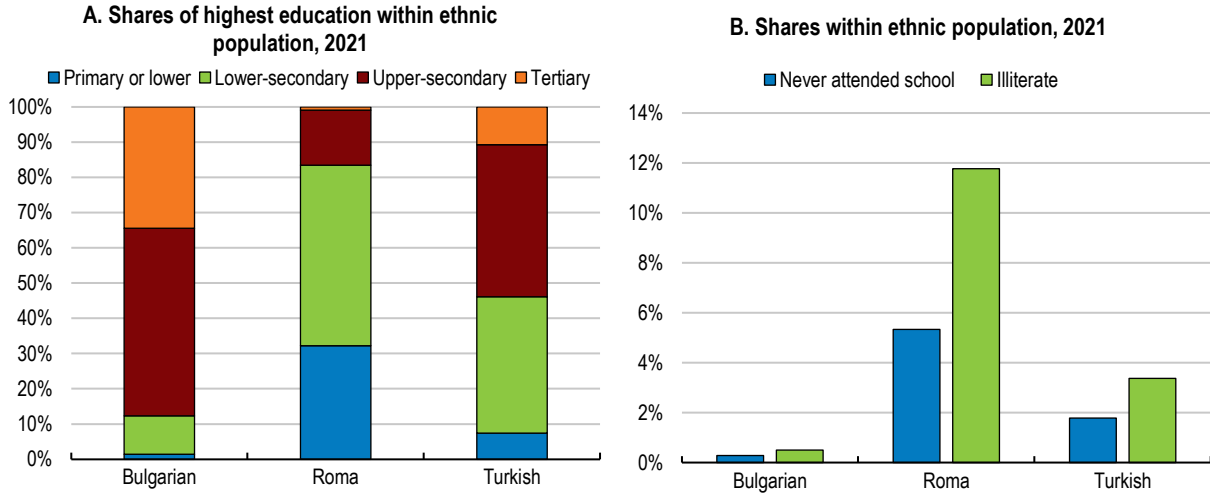


Source: National Statistical Institute 2021 Population Census.

Socio-demographic characteristics differ considerably between the ethnic Bulgarian population and ethnic minorities and are often most pronounced between the Roma and ethnic Bulgarians, whereas the Turkish minority is somewhat in-between. The Roma are younger by far than both other population groups with a share of 27% under the age of 15, against only 12% and 14% among ethnic Bulgarians and Turks, reflecting that the number of children for each Roma woman is twice as high as that of ethnic Bulgarians with 2.6 children per woman compared to 1.4. Conversely, the share of elderly age groups is marginal within the Roma population with only 7% above the age of 64, compared to a quarter of the ethnic Bulgarian population, reflecting significantly lower life expectancy among the Roma.

The labour market potential of the younger Roma cohort is severely limited by their relatively poor educational outcomes. Only 1% of the Roma working age population has a tertiary degree (11% of Turkish) and only 16% an upper-secondary degree, including specialised vocational education (43% of Turkish), compared to 34% and 53% for the ethnic Bulgarian working age population (Figure 36). Roma have most often a lower-secondary education (51%) or only primary or lower education (32%). Consequently, up to 12% of Roma (3% of Turkish) older than 8 years are illiterate and 5% (2% of Turkish) have never attended school, whereas these shares are negligible among ethnic Bulgarians with 0.5% and 0.3%, respectively.

Figure 36. Ethnic minorities have lower educational attainment and are more likely to be illiterate

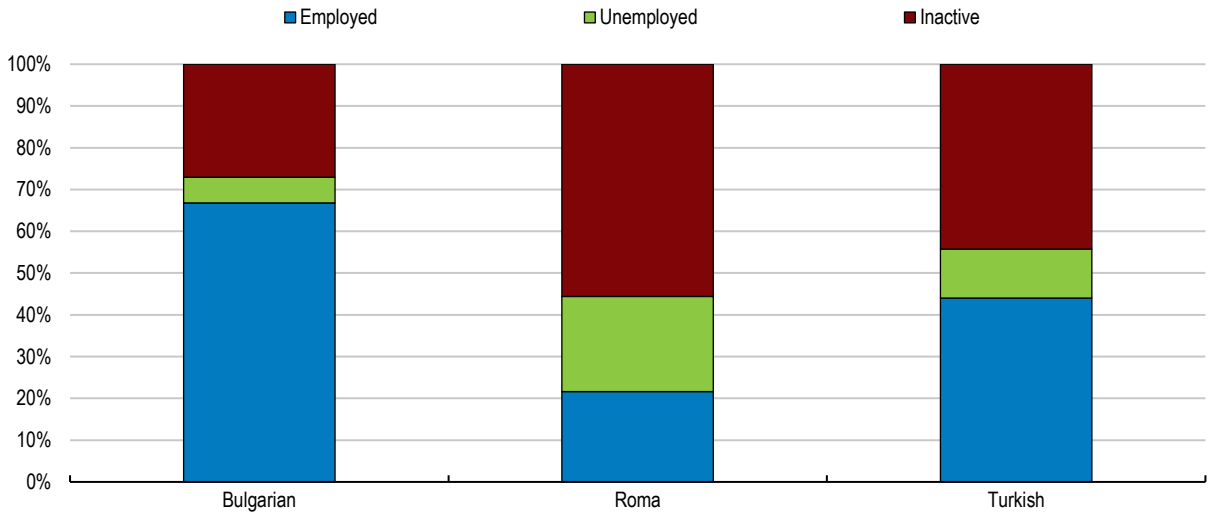


Note: Panel A refers to the working age population, Panel B to population 8 years and older.
Source: National Statistical Institute 2021 Population Census.

The lower education levels of ethnic minorities are a strong impediment for labour market participation, even in the tight Bulgarian labour market. The majority of the Roma working age population is inactive (56%), and also the Turkish (44%) are far more often inactive than ethnic Bulgarians with 27% (Figure 37). This is also reflected in the share of unemployed among the respective working age population, which is twice as high for the Turkish (12%) and around four times higher among the Roma (23%) compared to ethnic Bulgarians (6%). The likelihood of being inactive is higher for women in both groups, whereas men are more prone to unemployment. Workers from ethnic minorities are more often employed in sectors with a weaker demand for skills, such as construction and agriculture, and they are also strongly represented among low-skilled occupations. Over half of Roma workers have manual jobs classified as elementary occupation, with a quarter of the Turkish and only 10% of ethnic Bulgarians.

Figure 37. Employment lags behind for the Roma and Turkish minorities

Share within ethnic population according to economic activity, working age population, 2021

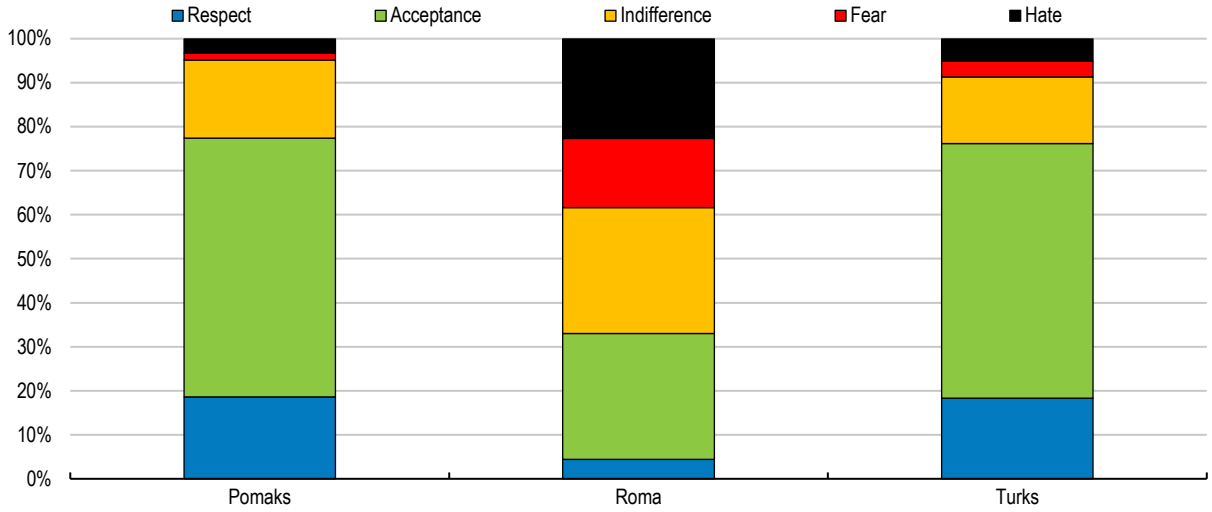


Source: National Statistical Institute 2021 Population Census.

The often-deprived situation of minorities requires continued and reinforced policy actions to improve living conditions across all groups of the population. The vicious cycle of low education, low labour market attachment and poverty needs to be broken in a context of a rather unfavourable attitude of the population towards the minorities, leading to further exclusion and segregation. Especially the acceptance of the Roma population within the Bulgarian society is rather low (Figure 38).

Figure 38. The Roma are the least accepted by society

Share of respondents among population with stated attitude towards minority groups, 2020



Source: European Union Agency for Fundamental Rights.

Labour market activation, education and housing are some of the key areas to foster the integration of Roma into the Bulgarian society, which is often supported by Roma mediators and associations (OECD, 2023[19]), (OECD, 2019[44]). They play an important role to increase outreach within their communities and to explain and support access to public services. In this context, they are officially mandated to support and motivate the registration of inactive Roma with the Employment Agency to enable the provision of training and healthcare along with social services. The Employment Agency does not offer specific programmes for the Roma to tackle inactivity, but provides a battery of different programmes to support and encourage labour market participation in general and for other vulnerable groups such as low-skilled or disabled workers. However, according to official data from the Employment Agency, Roma are only marginally represented among the participants in these programmes, suggesting difficulties in terms of outreach and activation. The Agency should ensure that their programmes meet the needs of their target groups, including specific needs of ethnic minorities. Roma mediators can play a role in strengthening outreach to their communities to raise awareness of the services and concomitant benefits offered by the Agency. Given the unfavourable attitudes towards Roma in the population, targeted support should also address employers to promote hirings of Roma workers.

To improve educational outcomes of Roma and prevent early school-leaving, schools in Roma areas need to provide good quality teaching and should ideally be integrated into a wider set of initiatives that offer extra-curricular activities to students, including potential participation of their families (Milenkova and Hristova, 2017[45]). The former is dependent on the quality and availability of teachers, so incentives for teachers need to be introduced to encourage at least temporary postings, for example in form of rotation schemes where teachers commute a few days per week to schools with a high share of Roma, or in the form of monetary incentives. It also requires initial teacher education and continuous professional development to equip teachers with skills to work effectively with Roma students (OECD, 2023[19]). Investment in youth centres would also help to target the labour market integration and skill development of young people with a focus on the youth from vulnerable groups, including Roma. Adequate transportation for Roma students should be provided to facilitate access to better-quality schools outside their narrow neighbourhood. Potential language barriers need to be addressed, given that more than 80% of Roma report a Roma language as their mother tongue. In addition, extra-curricular activities can help to keep students busy after school and they can be used to raise interest among Roma students by offering activities that are more closely related to their way of life. Experience from Hungary shows that activities

in this context related to gardening, cooking or dancing spark most interest among Roma students, while the presence of students after school can also be used for medical checks and sexual education (Bardarov and Tsvetkov, 2019[46]). A pilot project - in close cooperation with Roma mediators – in the Bulgarian town Straldzha in Yambol district made participation in extra-curricular activities related to sports or arts conditional on regular attendance at school, which led to an increase of attendance of Roma students by around 40% within one year (Bardarov and Tsvetkov, 2019[46]).

Housing and associated property rights are further important impediments to the integration of Roma. Many Roma live in dwellings that are not officially registered, with consequences for sanitary conditions and the risk of evictions. Although state-funded projects were initiated to sell rural land at 20% of the market price to the Roma, large urban settlements persist where official registration is complicated by unclear land tenure, partly reflecting administrative costs or insufficient willingness from the side of Roma owners for fears that dwellings need to be demolished or heavily renovated to comply with official housing regulations. In addition, a considerable share of Roma is not registered with the population registry themselves, preventing the legalisation of land or house ownership (Stanchev, 2021[47]). These challenges can only be tackled in a holistic approach to Roma integration that encourages official registration of people and dwellings, supported by targeted assistance with the administrative proceedings.

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