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Implications of the Minimum Wage Directive for minimum wage setting in Bulgaria

Abstract

This article explores the criteria for minimum wage setting as set out in Article 5 of the European Minimum Wage Directive. Bulgaria must transpose the Directive and, as a result, some processes have already been initiated. However, tripartite national debates still register a failure to agree on the criteria that will be incorporated into the mechanism for setting and updating the minimum wage level. Concentrating only on those criteria currently listed (the Directive provides for the adoption of more than four), the article delivers an overview of trends over the last ten years and provides information on how each indicator has developed, along with the growth in the statutory minimum wage. This allows for conclusions to be drawn on the adequacy of minimum wage increases compared to the trends in these criteria. In addition, suggestions regarding the expected implementation are provided. The article is in support of the ongoing national debates, characterised as they are by major tension between the social partners along with hesitant government moves towards reviewing the minimum wage framework.

***Keywords**: minimum wages, Directive on Adequate Minimum Wages, wage setting machinery,*

Introduction

The aim of this article is to look at the criteria defined under Article 5 of the European Union's Minimum Wage Directive for the setting of minimum wages, and to provide relevant data for their development over a ten-year period[1] along with trends in the statutory minimum wage itself. These criteria encompass (European Union 2022):

a. the purchasing power of statutory minimum wages, taking into account the cost of living
b. the general level of wages and their distribution
c. the growth rate of wages
d. long-term national productivity levels and developments.

By comparing trends in the minimum wage with the development of the set of indicators envisaged by the Directive, the article seeks to draw some conclusions on

1 The period is defined by the author as the Directive does not provide for any specific time framework for the analysis, it being up to each country to choose the period for the data to be analysed accounting for the availability of statistical information.

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the adequacy of the increases that have been applied to the minimum wage over this period. Some suggestions on the expected implementation of the Directive's criteria within Bulgaria's minimum wage setting procedures are also provided.

The statutory minimum wage in Bulgaria

Bulgaria is among the EU countries with a statutory minimum wage already in force. The national rate is defined by decree of the Council of Ministers and is thereafter mandatory for all economic sectors within the country. Before being adopted by the government, the rate is discussed with the social partners in the National Council for Tripartite Cooperation.

In the past, the minimum wage rate has been typically reviewed on a yearly basis, with January marking the introduction of the new rate.[2] If we consider developments over the last ten years, 2015 and 2022 can be highlighted as breaches of this rule: in 2015, the minimum wage was set on 1 January followed by a new increase on 1st July, the mid-term adjustment being envisaged in advance despite being challenged in court by employer organisations (Александров 2015); in 2022, the complicated political environment and a late government election postponed the minimum wage adjustment, the new rate being established in April and lasting to the end of the year (Министерство на финансите 2022).

With the 2023 amendments to the Labour Code, the timing of the minimum wage setting has been more precisely defined. The rate must be announced for each upcoming calendar year by 1 September of the current year; even more, these amendments introduced a provision (in Article 244) under which the national minimum wage is defined by an automatic indexation formula. This formula completely transforms the minimum wage setting procedure which used to take into account some macroeconomic indicators and the parameters of the state budget before being referring to the social partners for consultation. Consequently, the Labour Code has, since early 2023, stipulated that the minimum wage should equal 50% of the average wage (AW). The formula sets a rate for the calendar year on the basis of the average wage rates registered in the first and second quarters of the year along with the average wage rates from the third and fourth quarters of the previous year. All four quarters are summed and then divided by four. The formula for setting the minimum wage (MW) for 2024 thus looks like this:

MW 2024= (AW Q3 2022+AW Q4 2022+AW Q1 2023+ AW Q2 2023) / 4 * 0.5.

Following these amendments, the minimum wage rate was set at 933 BGN (€477) as of January 2024. These amendments were inspired by the adoption of the Minimum Wage Directive (КНСБ 2023) and introduced, for the first time, a transparent and predictable mechanism for minimum wage setting. That way the

2 However, some mid-year adjustments were made. A review of available data from 1966 indicates that the economic situation has a strong impact on the minimum wage rate and allowed for emergency adjustment throughout the year. This was observed in the 1990s in particular when hyperinflation required the rate to be adjusted quite frequently.

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minimum wage will follow the overall trends in wages and will not rely on the political will of the ruling parties.

Despite having this mechanism, Bulgaria remains the country with the lowest minimum wage in the EU, with the rate of €477 registered by Eurostat falling well below EU leader Luxemburg (€2571). Looking ten years back, the situation has not changed at all: then, Bulgaria also had the lowest minimum wage rate in the EU (€174) (Eurostat 2024). Comparative descriptive analysis finds that the country has to make a lot of efforts to approach the average indicators measuring labour compensation in the EU, as convergence in the real minimum wage is at a very low level (both in nominal terms and in those of purchasing power parity) (Kostov and Moraliyska 2022).

Table 1 presents data for the minimum wage in Bulgarian national currency (1 BGN = €0.51) and the annual nominal increases. Up to 2023, the nominal rates increase within a range between 7% and 14%; however, under the automatic indexation mechanism setting the rate at 50% of the average wage, the 2024 minimum wage is almost 20% higher compared to that of the previous year. If the mechanism is applied once again on 1 September 2024, unions believe the minimum wage in 2025 will be at least 1080 BGN (compared to BGN 933 in 2024). This will allow for a nominal annual increase of about 16%, well above the development of the rate seen up to 2023 (КНСБ 2024a).

Table 1 – Minimum wage in Bulgaria (in BGN) and annual nominal increase (%)

Year	Minimum wage (BGN)	Annual nominal increase in minimum wage (%)
2014	340	9.7
2015*	370	8.8
2016	420	13.5
2017	460	9.5
2018	510	10.9
2019	560	9.8
2020	610	8.9
2021	650	6.6
2022*	695	6.9
2023	780	12.2
2024	933	19.6

Source: National Statistical Institute

Note: * Average value for the year. From 1 January to 30 June 2015, the minimum wage was 360 BGN; from 1 July to 31 December, it was 380 BGN. From 1 January to 30 March 2022, the minimum wage was 650 BGN; from 1 April to 31 December, it was 710 BGN.

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Views of the social partners

Since its adoption, the automatic indexation formula has been criticised by both unions and employers. It must be noted that the Bulgarian social partners have been unable to reach agreement on the mechanism for determining the minimum wage since 2005. The 2023 amendment to the Labour Code renewed these debates and brought some new expectations to the government procedure.

The Confederation of Independent Trade Unions in Bulgaria (CITUB) points out that the social partners are excluded from the setting of the minimum wage when the formula is applied. If the formula is to be maintained, the social partners should be granted a role in upgrading the rate through negotiations reflecting developments in the criteria set out within the Directive's Article 5 (КНСБ 2023). The Confederation of Labour 'Podkrepa' (CL 'Podkrepa') also insists on the development of the currently applied formula by incorporating within it the forecast inflation rate and the developments in wage rates in the year the minimum wage is set (Телеграф 2024). Data from the National Statistical Institute (NSI) supports that claim, showing that, at the end of the year, the ratio between the minimum wage and the average wage falls below 50%. For the last two years, the ratio hits the lowest recorded rates since 2014.

Table 2 – Monthly minimum wage as a proportion of the average gross monthly wages and salaries of full-time employees employed under a labour contract

2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*
40.6	41.4	43.6	43.8	43.9	43.6	43.3	41.1	38.7	38.8

Source: National Statistical Institute

Notes: Average gross monthly wages and salaries are for the total economy (NACE Rev. 2, economic activities A to S).

* Data are preliminary and refer to full and part-time employees.

Both CITUB and CL 'Podkrepa' are also signed up to the use of the living wage as a means of testing the adequacy of the minimum wage.[3] They insist on further increases to the minimum wage (on top of the provided by the indexation mechanism) in order to equalise the minimum wage rate with the living wage. CITUB has also gone a step further by sending an official letter to the prime minister and the minister of labour and social policy demanding the introduction of a national living wage, calculated by the NSI following the 2024 definition and methodological concepts of the International Labour Organization.

3 The concept of a 'living wage' (LW) (with both gross and net values) refers to the idea of a liveable income which covers the basic expenditure of a respective family/household type. A LW is currently calculated in Bulgaria only by CITUB and has never been accepted by employer organisations within the minimum wage setting debates. The most recent data from CITUB shows that, in the second quarter of 2024, the minimum wage (933 BGN) represent 49.8% of the living wage rate for a single worker (1872 BGN) (КНСБ 2024).

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Neither have the employer organisations accepted the minimum wage automatic indexation formula declared in 2023. They insist that this mechanism must be 'transparent' and based on the 'negotiations' principle, as stipulated by the Directive (АОБР 2024). Even before automatic indexation was adopted, one of the nationally representative employer organisations – the Bulgarian Industrial Association (BIA) – was insistent that the mechanism for determining the minimum wage rate had to take into account both economic and social criteria so that Bulgaria would satisfy ILO Convention 131 on minimum wage setting (БСК 2022). The indexation mechanism is also rejected by the Bulgarian Industrial Capital Association (BICA). BICA points to indexation not allowing for social dialogue and negotiations on the minimum wage rate between employers, unions and the state. Moreover, indexation is based on the gross average wage rather than the basic average wage (with no additional payments counted on top of the contract wage) and thus allows for a higher statutory minimum (АИКБ 2023). Both BIA and BICA also point to indexation not taking into account the median wage and that the formula could be upgraded by including this as well.

Debates between unions and employers on transposing the Directive were hosted by the Ministry of Labour and Social Policy, a multi-agency working group being established at the beginning of 2023 (МТСП 2023a). Due to the political crisis in Bulgaria and the extraordinary parliamentary elections in 2023, the working group stopped working for about six months. At the order of the newly appointed minister, the group was reformed and held its first meeting at the end of November 2023, the representatives of the state facilitating discussions with the social partners on reaching a transparent mechanism for setting and updating the minimum wage. The group split its activities into two subgroups (one related to the minimum wage setting mechanism, the other to collective bargaining), also allowing the participation of other stakeholders like the National Statistical Institute, the National Social Security Institute, the Ministry of Finance and so on (МТСП 2023b). However, the group functioned for just a few months before again being dismissed; the minister was removed on 12 April 2024 and the acting minister managed to arrange just a few meetings before the group ceased to function.

Article 5 and reflections on the criteria as they apply in Bulgaria

The highly complicated policy environment in Bulgaria has certainly hindered the transposition process of the Minimum Wage Directive, the turnover of chairs and government experts within the working group preventing any progress towards establishing the list of additional guiding criteria to minimum wage setting as envisaged under Article 5 of the Directive.

The remainder of this article thus focuses on trends in the four criteria already set down in Article 5, comparing these to the statutory minimum wage.

The purchasing power of statutory minimum wages, taking into account the cost of living

When trying to estimate the purchasing power of the statutory minimum wage, economists typically link it to developments in inflation. Inflation can lead to redis-

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tributions of purchasing power (Greenlaw and Shapiro 2018) and thus it is essential to distinguish how minimum wage increases are affected by inflation. Bearing in mind the rates of inflation which have been registered since 2014, real increases in the minimum wage appear much modest than the nominal ones in certain years within this overview. Between 2017 and 2023, the minimum wage increased by less than 8% in real terms on an annual basis (see Table 3). The Covid-19 pandemic negatively affected the rate of development because of accelerating inflation rates. Thus in 2022 the purchasing power of the minimum wage was severely affected, with a negative annual increase being observed. With inflation rates down in 2024, the real increase in the minimum wage is 14.3%, a rate that is close to that registered in 2016 and quite a way above the rates that followed the outbreak of the pandemic.

In 2023, the minimum wage in Bulgaria was 129.4% higher than that registered in 2014. When comparing the 2024 rate with 2014, the difference goes even further, hitting an increase of 174.4% for the period. Taking rates of inflation into account, then the real minimum wage was 61.3% higher in 2023 compared to 2014. In June 2024, the real minimum wage was 88.7% higher than in 2014.[4]

Table 3 – Minimum wage rate in Bulgaria (in BGN) and annual nominal and real growth rate (%)

Year	Minimum wage (in BGN)	Annual nominal minimum wage growth (%)	Inflation rate	Annual real minimum wage growth (%)
2014	340	9.7	-1.4	11.3
2015*	370	8.8	-0.1	8.9
2016	420	13.5	-0.8	14.4
2017	460	9.5	2.1	7.2
2018	510	10.9	2.8	7.9
2019	560	9.8	3.1	6.5
2020	610	8.9	1.7	7.1
2021	650	6.6	3.3	3.2
2022*	695	6.9	15.3	-7.3
2023	780	12.2	9.5	2.5
June 2024**	933	19.6	4.6	14.3

Source: National Statistical Institute

Notes: Inflation rate for 2014-23 is taken from data for annual average of CPI; prior year = 100. No annual inflation rate for 2024 is available yet, so the figure is taken for the most recent month for which data is available (June) for the annual average of CPI; comparable prior year figure = 100.

4 The inflation rate applied is for the period June 2014 to June 2024 and equals 45.4%.

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* Average value for the year. From 1 January to 30 June 2015, the minimum wage was 360 BGN; from 1 July to 31 December, it was 380 BGN. From 1 January to 30 March 2022, the minimum wage was 650 BGN; from 1 April to 31 December, it was 710 BGN.

** Annual average CPI in June 2024; comparable prior year figure = 100.

If purchasing power is to be encompassed within the minimum wage setting procedure, then it is essential to examine inflation rates. As can be observed, inflation lowers the purchasing power of the minimum wage where it rises quicker than the growth in the minimum wage. If purchasing power is damaged, the type of mechanism that will be applied within government procedures for minimum wage setting becomes an essential concern.

The Directive also insists on encompassing rises in the cost of living when measuring the purchasing power of the minimum wage. It must be noted that the only national level organisation measuring the cost of living is CITUB, which has calculated a figure on a quarterly basis for the period dating back to the 1990s. As of 2021, CITUB modified its methodology in order to produce a value for the living wage. Thus, the cost of living has been monetarily presented as the wage rate which allows for a decent living standard for the family type under consideration.

If we make a comparison with the statutory minimum wage, then a stark variation can be observed. In June 2024 the minimum wage rate (933 BGN) represents only 49.8% of the gross living wage (1872 BGN) (КНСБ 2024).[5] In June 2021, the ratio of the two values was 47.2%, indicating that little progress had been made

5 The LW rate is that for a one-member, single worker household. CITUB publishes quarterly data for two types of household: the single-worker household; and a three-member household (two working adults and a dependent child). It is calculated both as a gross and a net wage rate for a full-time worker. The LW calculation takes into account the prices of a basic consumer basket in a given time period. Based on the methodological approach developed by Richard Anker and Martha Anker (see 'The Anker methodology: estimating living wages and living incomes around the world', accessed 13 August 2024 at: https://www.ankerresearchinstitute.org/anker-methodology), CITUB has pulled together a model of a national consumer basket. Within this model, the quantities and structure of consumption are fixed so that the structure of personal consumption accounts for the expenditure norms related to the representative commodities (these norms are fixed to NSI data on actual average consumption). The LW basket includes a total of 479 representative commodities for food and non-food goods and services (excluding alcohol and tobacco consumption). The monetary value of the observed consumer basket demonstrates the necessary net income to support one employed person. This net income varies in time following the price dynamics between two observation periods. It is a function of fixed consumption weights, on the one hand, and consumer prices on the other. The required net income is transformed into a living wage according to the number of workers in the household. In line with the assumption that the living wage must be sufficient for a worker and his/her family, CITUB developed an LW rate for a three-member household (the typical household model in Bulgaria, accounting for almost 40% of couples' household types according to the NSI). By applying the equivalent Eurostat scale (a modified scale suggesting a 1 - 0.5 - 0.3 relation), the consumption of one equivalent unit may be transformed into a different configuration model (from a single-member household to a household of two workers with a dependent child), producing the LW rate for a household of three people.

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over that two-year period (КНСБ 2021). If we compare the development of the minimum wage and the living wage since June 2021, however, it becomes obvious that the increase in the minimum wage actually outpaces the increase in the living wage:[6] compared to June 2021, the minimum wage had increased by 43.5% by 2024 whereas the living wage had increased by 35.8%.

The general level of wages and their distribution

All the other criteria required by the Directive bring much more uncertainty about what should be looked at during the transposition period. A brief overview of the National Statistical Institute database reveals a variety of wage and productivity indicators that can be considered during minimum wage setting procedures. To simplify things, this article concentrates only on trends in average wage rates over the past ten years. Then, in order to analyse the distribution of the average wage, the analysis presents a comparison of the minimum wage to average wages on a sector-by-sector basis. This approach reflects one of the main issues of concern for the employer organisations about increases in the national minimum wage (АИКБ 2023; Кворум 2023). The median wage rate and the patterns of its development are excluded as data for this indicator is available in Bulgaria only on a four-year basis.

Table 4 – Average gross monthly wages and salaries (in BGN) of employees employed under a labour contract (2014-24)

2014	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023***	**Q1 2024****
822	878	948	1037	1146	1267	1391	1561	1770	2012	2198

Source: National Statistical Institute

Notes: * Preliminary data.

** Preliminary data for the first quarter of 2024.

In 2014, the minimum wage represented more than 50% of the average wage in four economic sectors: agriculture, forestry and fishing (51.1%); administrative and support service activities (57.4%); other service activities (60.6%); and accommodation and food service activities (67.8%). In 2023, the minimum wage represents more than 50% of the average wage in five economic sectors: construction (50.5%); water supply, sewerage, waste management and remediation activities (52.8%); agriculture, forestry and fishing (54.1%); other service activities (61.2%); and accommodation and food service activities (63.8%). Though it is on the basis only of preliminary data, in the first quarter of 2024 the ratio was above 50% in no fewer than eight economic sectors.

This overview of the wage distribution highlights several sectors in which growth in the minimum wage is higher than that of the average wage. Potentially, therefore, these are the sectors in which some resistance to minimum wage policy might be observable.

6 In June 2021, the minimum wage was 650 BGN while the gross living wage was 1378 BGN.

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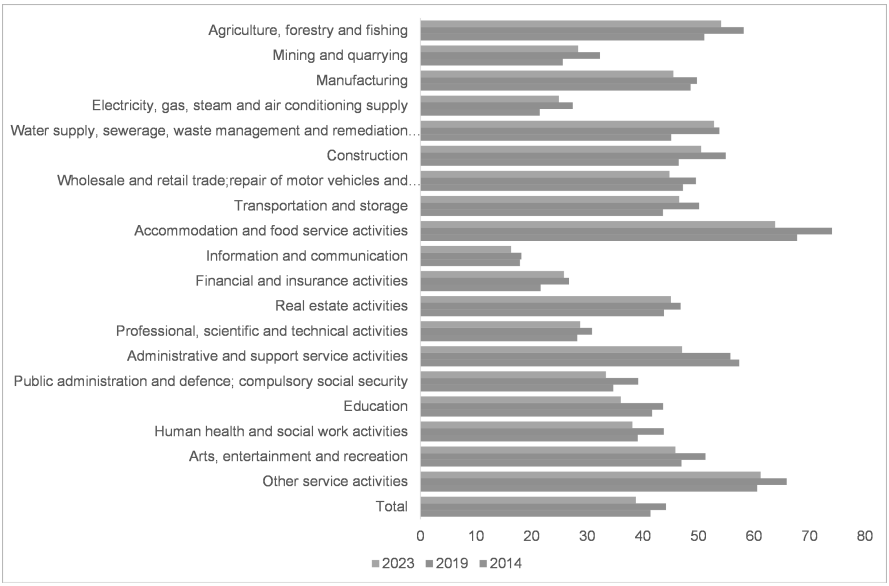
Figure 1 – Minimum wage as a percentage of the average gross monthly wages and salaries of employees employed under a labour contract, by economic activity (2014-23)



Source: National Statistical Institute

Notes: Data for each of the years covered by the Figure are available but, for clarity, only selected years are shown – i.e. the start, the middle and the end of the period.

The growth rate of wages

Developments in average wages have been a key argument within the minimum wage debates between the social partners in Bulgaria. This is proved by an analysis covering the publicly announced opinions of the social partners during the EU level negotiations on the adoption of the Minimum Wage Directive (Макелова 2022).[7] Rates of development in average wages are compared to those of the minimum wage, with specific opinions being expressed with regard to that: unions insisted on fixing the minimum wage at 50% of the average, whereas employers did not support that kind of indexation.

The data shows that, in the period 2014-18, the growth in the minimum wage outpaces that of the average wage (see Table 5). However, in the period 2019-23, the nominal annual growth rates in the average wage are well above those of the minimum. The indexation of the minimum wage to the average wage in 2024 changed the trend once again.

7 The analysis follows the period from October 2020 up to June 2022.

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Table 5 – Annual nominal rate of change in average and minimum wages (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023*	Q1 2024**
Av.	6.0	6.8	8.0	9.4	10.5	10.6	9.7	12.3	13.4	13.7	16.8
Min.	9.7	8.8	13.5	9.5	10.9	9.8	8.9	6.6	6.9	12.2	19.6

Source: National Statistical Institute

Notes: * Calculation based on preliminary data for 2023.

** Calculation based on preliminary data for the first quarter of 2024. The rate of change is calculated by comparing the first quarter of 2024 with the first quarter of 2023.

Long-term national productivity levels and developments

As with the third criterion set down in the directive, this fourth one has various indicators that can be observed in order to trace the rate of productivity and its development. National statistical data measure the results of productive activity, on the basis of gross domestic product (GDP) and the gross value added (GVA) created by all the productive sectors of the national economy.[8] Although GDP is a key indicator in the system of national economic accounts, GVA is an indicator that is applicable to the calculation of labour productivity at national level.

Again, to simplify things, this section presents data on GVA per employee since 2014, with both the level and the trends indicated in Table 6. As can be observed, GVA increases on an annual basis in almost all the years under observation (2020 being the only exception). If accounting for the figure per employee at current BGN prices, there has been a constant increase since 2014. In 2023, GVA per employee is 43 546 BGN, compared to 19 544 BGN in 2014 (or an increase of 122.8%). As indicated above, over the same time period the nominal minimum wage in Bulgaria is 129.4% higher than the rate registered in 2014.

Conclusions

Though consulted within the National Council for Tripartite Cooperation, employer organisations and trade unions do not participate either in the setting of the minimum wage indexation formula or its application in practice. Because of that, they are insisting that certain changes must be made to the wage setting procedures allowing them to negotiate the rate and to reflect the Directive's envisaged criteria in full. The non-predictable political environment and the lack of sustainable government engagement in the transposition of the Minimum Wage Directive has, however, hindered any progress being made with regard to such changes.

The growth of the minimum wage does not follow the growth of some of the indicators described in the article. Overall, the minimum wage has increased more

8 The National Statistical Institute presents various datasets on GDP and GVA with two major distinctions made: data per employee and per hour worked. The datasets can be generated at current prices, at previous year prices and at 2015 prices.

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Table 6 – Productivity level and developments since 2014: gross value added (GVA) per employee (in BGN), indexed to prior year

Year	GVA per employee (current prices, BGN)	GVA per employee (volume index; prior year= 100)
2014	19,543.8	100.5
2015	20,720.2	102.4
2016	21,850.0	101.4
2017	23,021.0	101.3
2018	24,827.5	103.3
2019	27,113.4	103.7
2020	28,033.6	98.5
2021	32,783.0	108.2
2022	40,592.3	105.7
2023	43,545.8	100.5

Source: National Statistical Institute

Notes: GVA of imputed rent is not included in the estimate of labour productivity. 2023 data is preliminary. Note that, in 2020, falling production led to the GVA index (right-hand column) dropping; however, higher current prices were sufficient to compensate for that, leading to the GVA rate per employee (left-hand column) continuing to rise.

than the rate of inflation in almost all the years under observation. However, the period after the outbreak of Covid-19 put significant pressure on minimum wage earners whose purchasing power was significantly affected. At the same time, the average wage continued to rise to higher rates, indicating that the crisis did not proportionally affect all wage earners in the country. In about a quarter of the industry sectors studied, the minimum wage represents more than 50% of the average wage. This observation has been valid since 2014 and some persistence can be traced regarding certain sectors. In terms of GVA, the increase in the minimum wage tracks quite closely the increase in the rate of gross value added since 2014, thus reflecting overall performance of the economy. Compared to developments in the living wage, the minimum wage rate has increased slightly more in recent year, but still does not provide for a decent living as it covers only about 50% of the required rate of the living wage.

Because of the various available datasets on indicators under the Minimum Wage Directive's criteria, it is of utmost importance that the government and the social partners find a way ahead and successfully finish the transposition process by November 2024. The Directive's first criterion should be backed with a mechanism ensuring no damage to the purchasing power of the minimum wage if high inflation rates are observed. It is not yet clear how the cost of living will be reflected in the minimum wage setting process as Bulgaria neither has an official definition of the

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cost of living nor, therefore, any policy in place to ensure wages are sufficient to cover the cost of living. Covid-19 had a negative impact on the minimum wage and the government needs to ensure that future increases in the minimum wage reflect overall wage dynamics. The current indexation mechanism allows for that if it is not abolished, as demanded by the employer organisations. Though the Directive's criteria can serve as guiding principles in minimum wage setting procedures, there are still many questions that need to be answered in order to apply them. The criteria can include various indicators and agreement on their number and observation period should be reached. In this way, the long-lasting debates between the social partners will come to an end and will produce a result that benefits Bulgarian minimum wage workers.

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