

## Wages and collective bargaining in Bulgaria

### Abstract

*Bulgaria joined the European Union in January 2007, becoming the member state with the lowest level of GDP per capita. Wage levels are also far behind any of the EU25, as they are roughly half those in Latvia, the country that used to have the lowest wages in the EU. In this article, the authors provide a detailed analysis of wage developments, including amongst real wages and in the minimum wage, over the period 1995-2005, showing wage increases in the light of other economic indicators, wage structure and wage differentiation at sectoral, occupational and gender levels. The authors also show what efforts have been implemented as regards wage bargaining to keep the value of wages and to align wage developments with improvements in productivity and to ensure that economic growth is reflected in the living standards of employees. Finally, they provide an overview of the structure of collective bargaining and the trends that the institutional framework of bargaining has shown in the most recent period.*

**Keywords:** wage negotiations, real wages, minimum wage, labour productivity, structural characteristics of wages, differences in pay, currency board, collective bargaining practices

### Wage development trends – an analysis of the 1995-2005 period

Wage dynamics in this ten-year period have been related to a continuous drive to achieve their real value characteristics in the face of the outside pressures to which Bulgaria has been continuously subject. Policies on wage regulation have been restrictive and centrally implemented through a set of economic and administrative tools and mechanisms that have not proved to be effective in preventing reductions in real wages.

Developments in the wages field can be examined in the context of two periods – before and after 1997.

#### Real wages

Throughout the first period, high wage depreciation came as a consequence of the price shocks leading to hyperinflation (1997) and inadequate government compensation policies. In 1996, wages dropped by 18.8%, and in 1997 by 32.3%, compared to 1995 (see Table 1). The dramatic fall in real wages was turned around by mid-1997 with the introduction of the currency board system, the result of which was that hyperinflation was curbed. In 1998, a wage rise of 20.7% compared to the preceding year indicated a positive trend in efforts to catch up and partially compensate for the wage fall.

After 1998, government income policies were implemented in a situation of financial and economic stabilisation. The economic factors had a favourable effect on real

economic development, but certain processes were also in play that impeded income dynamics. Governments were reluctant to undertake measures to influence wages in the private sector (enterprises in private ownership) but, in the case of publicly-owned enterprises, central wage regulation was applied which took labour productivity and profit growth into account. Salary growth in the budget-funded sphere was strictly regulated as a result of implementing the requirements of the International Monetary Fund. Under these conditions, staff reductions were the only source of salary increases, i.e. wage growth was ensured at the expense of downsizing, leading to growing numbers of long-term unemployed. The result of these draconian measures was that hyperinflation was brought under control by the end of 1998. From January 1999, the Bulgarian leva was denominated and the new leva introduced (1 BGN = 1 000 BGL).

**Table 1 – Average monthly wage for the country, 1995-2005**

Year	Wage in BGN*	Wage in \$	Real increase based on:	
			Preceding year = 100	1995 = 100
1995	7 364	110		
1996	13 274	75	81.2	81.2
1997	127 909	76	83.4	67.7
1998	183 250	104	120.7	81.7
1999	201	109	106.9	87.4
2000	225	106	101.5	88.7
2001	240	110	99.3	88.1
2002	258	124	101.6	89.5
2003	273	158	103.4	92.5
2004	292	185	100.8	93.3
2005	320	203	104.4	97.4
* From 1999, denominated in new Bulgaria leva (BGN): 1000 BGL = 1 BGN				

Source: National Statistical Institute (NSI) and own calculations by ISTUR

In 2005, wages reached \$203 (€156). In national currency, a real wage increase of 4.4% took place in 2005, yet this was still 2.6% below the 1995 level (Table 1). No clear income policy existed for the medium-term, even in the context of EU accession. The accent as regards income policy fell on changes to the tax base and on the reduction of tax rates for the highest and lowest earned incomes. The scale of income tax applied has, however, failed to yield positive results since, in fact, it only compensated for increased personal social security contributions.

## The dynamics of the minimum wage

The minimum wage in Bulgaria is established by law. Different methods have been used over the years to update the level of the minimum wage – compensation relative to accrued inflation; link to the average wage for the country; indexation with faster growth compared to the average wage; etc.

There is no fixed period for updating the minimum wage. During the period of galloping inflation (at the beginning of 1997), it changed five times in a year. After the introduction of the currency board in the middle of 1997, and with the achievement of low levels of inflation, the minimum wage for the country changed two-three times a year and, since 2000, once a year.

In the 1996-1997 period, the minimum wage lagged its 1995 level by 46.7%, having lost a significant part of its purchasing capacity (see Table 2). That necessitated a trend to increase it at a faster rate relative to average wages, with the intention of restoring its key function so that it could develop as a real price of labour. The result of this was that the ratio between the minimum and the average wage for the country had risen as far as 46.9% by 2005, from 33.6% in 1995. Throughout this ten-year period, the minimum wage has grown 35.6% in real terms, while the average wage had yet to reach its 1995 level. Nonetheless, the amount of the minimum wage is still very low and its value does not cover the minimum needs of the individual.

**Table 2 – Dynamics of the minimum wage, 1995-2005**

Year	Minimum wage in BGN*	Minimum wage in \$	Real increase based on:		As a percentage of the average wage
			Preceding year = 100	1995 = 100	
1995	2 477	37			33.6
1996	3 825	22	69.7	69.7	28.9
1997	33 909	20	76.5	53.3	26.5
1998	51 300	29	127.5	68.0	28.0
1999	64	35	121.5	82.6	31.8
2000	75	35	106.3	87.8	33.3
2001	87	40	108.0	94.8	36.3
2002	100	48	108.6	103.0	38.8
2003	110	63	107.7	110.8	40.3
2004	120	76	102.8	113.9	41.1
2005	150	95	119.0	135.6	46.9
* From 1999, denominated in new Bulgarian leva (BGN)					

Source: NSI and own calculations by ISTUR

There are no official data on the number of workers receiving the minimum wage. In Bulgarian conditions, the minimum wage problem also has another dimension: it is a widespread practice that employers officially pay and provide social security for most employees hired by them on the basis of the minimum wage but, in actual fact, pay higher levels of remuneration. According to National Social Security Institute data from the beginning of 2002, the number of people insured at the basic social security level, equal to the minimum wage, was 1.1m people, 36% of the employed.

### Labour productivity dynamics and wage developments

One characteristic feature of collective wage bargaining, and generally of income policy in the years of transition, was that compensation for inflation was seen as a main target in wage setting. With galloping inflation turning into hyperinflation in the 1997-1998 period, the possibilities for income compensation were obviously rather limited. The reasons for this can be found both at the sectoral level at which, as a rule, there are no negotiated levels of wages for the different categories of personnel; and at the enterprise level, where it was difficult to introduce a formula for increases in nominal wages corresponding at least to inflation, and to give employees some share of the increase in productivity, as a result of employer resistance. The failure to use labour productivity as an argument in pay negotiations led to a drastic gap between GDP growth and the increase in gross value added (GVA) per person employed, on the one hand, and the real growth of average wages on the other. For the 1990-2005 period, GDP per employee grew by 33.8% and GVA per employee by 7.1%, while real wages decreased by 49.1%.<sup>1</sup>

The weak link between wages and economic results is one of the reasons for the relatively limited impact of economic growth on the welfare of the population. Particularly visible are the results of the systematically-accumulating problems in industry (see Table 3). Over the ten-year period under consideration (i.e. from 1996 to 2005), the gap between the indices of these two indicators – gross added value per person employed and real wages – reached 53.2 percentage points. With the exception of two years (1997 and 1999), GVA in industry grew relatively quickly – between 4.1% and 11.1%. Considering the decline in the absolute number of employees in the period from 1997 to 2001, and the relatively low rates of increase in the next four years (between 0.9% and 4.7%), some possibilities were at hand for a sustainable high growth in labour productivity, reaching a peak level in 1998 (17.9%) and 2000 (21.0%). At the same time, real wages in industry showed rather hesitant trends and, in summary, led to a negative effect – a decline of 2.3% over the ten-year period.

- 1 The big difference between GVA and GDP per employee is due, to some extent, to GDP at market prices being calculated on the basis of gross value added at basic prices: total for the economy and adjustments (net taxes on products, non-deductible value added tax, import duties minus financial intermediation services indirectly measured). The relative share of adjustments in the GDP has been steadily increasing – from 3.5% in 1992 to 14.1% in 2005.

**Table 3 – Indices of labour productivity and real wages in Bulgarian industry, 1996-2005 (preceding year = 100)**

Year	Gross value added	Employment	GVA per employee	Real wages
1996	100.0	100.0	100.0	100.0
1997	87.3	95.7	91.2	80.8
1998	107.9	95.6	117.9	117.1
1999	93.2	91.2	102.2	104.5
2000	111.1	91.8	121.0	97.6
2001	104.1	99.4	104.7	97.0
2002	104.6	100.9	103.7	98.3
2003	106.8	104.7	102.0	102.2
2004	105.3	102.2	103.0	99.8
2005	107.3	103.3	103.9	104.1
2005/1996	128.1	85.0	150.9	97.7

Source: National Statistical Institute and own calculations

There are some differences between industry sectors that we can illustrate for the 2000-2005 period, especially as far as services are considered. GVA per employee increased by 5.9% while real wages increased by 16.9% in the services sector. In contrast, high productivity increases in the agricultural and industrial sectors have not manifested themselves in adequate real wage increases (see Table 4).

**Table 4 – Indices of labour productivity and real wages in 2005 (2000 = 100)**

	GVA per employee	Real wage
Total for the economy	109.3	110.0
Agriculture and forestry	130.0	102.6
Industry	119.1	101.4
Services	105.9	116.9

Source: National Statistical Institute and own calculations. (Data for the different sectors is available only for 2000 to 2005.)

That average wage growth is lagging substantially behind the increase in labour productivity means that employers have considerable reserves to raise the pay of labour. This can also be seen from the low relative share of the country's GDP which is taken by labour compensation (Table 5). Over the past ten years, it has invariably stayed within a margin of 34% and 37%, which is significantly lower than the share of wages in other EU member countries.

**Table 5 – Relative percentage share of the compensation of employees in GDP (ECC/ESA 1995 methodology)**

1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
36.7	33.8	38.8	37.0	34.6	34.9	34.1	34.8	35.4	34.5

*Source: National Statistical Institute (2005) Main Macroeconomic Indicators*

### Labour costs

Labour costs for the whole economy, expressed in Euros, rose by 17.5% on average in the 2001-2004 period yet they fall far short of the average levels of the EU15. The equivalent value per hour of labour in Euros is about seventeen times lower in Bulgaria than the average European level (in terms of purchasing power parity (PPP), about five times).

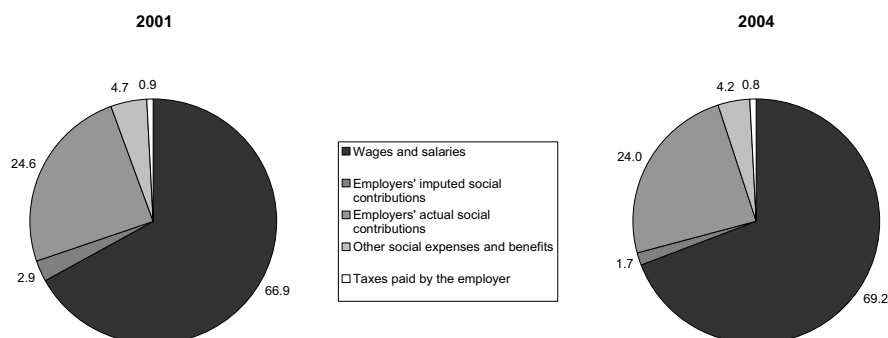
Data for 2004 show that labour costs are highest in the fields of Electricity, gas and water supply and Financial mediation (€3.36/hour) while in such areas as Hotels and restaurants and Agriculture, forestry and fishing they are €0.84 and €0.99/hour respectively, i.e. about 3-4 times lower (see Table 6). The public sector shows considerably higher labour costs (€1.96/hour) while in the private sector they are lower by about 36% (€1.25/hour). Naturally, it should be borne in mind that, according to different estimates, the private sector generates 25-35% higher incomes than those statistically recorded since these incomes remain in the grey economy.

In structural terms, wages are a key element of labour costs and their relative share increased from 66.9% in 2001 to 69.2% in 2004 (Figure 1). Costs per hour of work increased by 17.5% in that period (Table 6), while the nominal amount of average gross wages rose by 21.7% (Table 1). That is logically reflected in the labour structure itself. The relative share of all remaining components other than wages – various allowances, social and health benefits and social expenditure taxation – is falling. On the one hand, this is the outcome of the decreasing level of the tax wedge on labour and, on the other, of a step-by-step change in the ratio of social security contributions paid by employers and employees respectively (currently 65:35, compared to 80:20 in 2000-2001), as agreed between the social partners at national level when the new social security system was introduced in 2000.

**Table 6 – Labour costs per hour in 2001 and 2004 (in €)**

Economic activity groupings	Total		Public sector		Private sector	
	2001	2004	2001	2004	2001	2004
<b>Total</b>	1.26	1.48	1.62	1.96	1.02	1.25
Agriculture, hunting, forestry and fishing	0.86	0.99	1.10	1.33	0.82	0.93
Mining and quarrying	2.38	2.93	2.57	3.48	2.10	2.42
Manufacturing	1.20	1.32	1.97	2.57	1.12	1.27
Electricity, gas and water supply	2.75	3.36	2.79	3.39	2.20	3.14
Construction	1.06	1.18	1.40	1.71	0.96	1.13
Trade, repair of motor vehicles and personal and household goods	0.80	1.00	2.13	2.62	0.76	0.99
Hotels and restaurants	0.75	0.84	1.12	1.42	0.70	0.80
Transport, storage and communications	1.73	2.07	2.09	2.43	1.05	1.78
Financial intermediation	2.62	3.36	2.61	3.95	2.63	3.33
Real estate, renting and business activities	1.10	1.29	1.38	1.58	0.98	1.20
Public administration; compulsory social security	1.62	2.27	1.62	2.27	-	-
Education	1.25	1.70	1.25	1.70	1.47	2.00
Health and social work	1.09	1.60	1.13	1.71	0.69	0.90
Other community, social and personal service activities	1.03	0.97	1.04	0.88	1.01	1.13

Source: National Statistical Institute [http://www.nsi.bg/Labour\\_e/Labour\\_e.htm](http://www.nsi.bg/Labour_e/Labour_e.htm)

**Figure 1 – Structure of labour costs in 2001 and 2004**

Source: National Statistical Institute: [http://www.nsi.bg/Labour\\_e/Labour\\_e.htm](http://www.nsi.bg/Labour_e/Labour_e.htm)

The weight of additional remuneration under the Labour Code has declined in recent years, but this still makes up a significant element of gross wages (14.4%). Predominantly, this is additional payments for harmful conditions of work, as well as additional categories for length of service. Typical of them is their national legal regulation. After 2005, the employer organisations, the World Bank and the IMF have exerted very strong pressure against their automatic application, with the aim of making their specific form, amount and transferability an object of negotiations exclusively at the sectoral and company levels.

## Structural characteristics of wages

### Sectoral wage differentiation

Certain conditions arose in the years of the transition to a market economy for a higher level of pay differentiation both between some individual sectors and in personnel categories in the public and private sectors.

In 1997, public sector wages were higher than the average for the country and those in the private sector. That trend was augmented in the period under review. Over the most recent three years, however, higher real wage growth can be observed in the private sector relative to wages in the public sector (Table 7).

This latest trend towards a catch-up in private sector wages can basically be attributed to the minimum social security thresholds introduced at the beginning of 2003 and the mandatory registration of employment contracts with the National Social Security Institute. Minimum social security thresholds, differentiated by economic activity, are the minimum amount of social security payments due to be paid by employers. They have been introduced so as to limit the share of wages being paid out 'under the counter', unbeknown to the tax authorities.



**Table 7 – Average monthly wages in the public and private sector, 1997-2005**

Year	Public sector (\$)	Private sector (\$)	Real growth, preceding year = 100	
			Public sector	Private sector
1997	84	61		
1998	118	84	123.7	121.9
1999	125	91	107.3	110.7
2000	124	91	104.1	104.2
2001	133	93	103.0	98.4
2002	156	105	104.9	101.0
2003	198	134	103.8	104.5
2004	233	161	100.8	102.7
2005	253	180	103.3	106.1

Source: NSI and own calculations by ISTUR

This administrative measure was aimed at a ‘lightening’ of the grey economy and the results obtained from its implementation have been positive. A considerable number of people employed in the private sector now has employment contracts and social security provision based on incomes that are at least equal to the minimum social security threshold for the relevant economic activity. Furthermore, according to NSSI data for the end of 2004, 24.4% of socially-insured and self-insured people, numbering 587 000 people, had social security coverage based on wage levels up to \$95.23 (compared to a minimum wage of \$76.19). Average minimum social security income grew by 7% in 2004 and by 10.8% in 2005.

The level of payment differentiation between individual sectors intensified in the period under analysis. The correlation between the sectors with the highest and the lowest average wages increased from 1:2.3 in 1997 to 1:3.7 in 2005. Throughout this ten-year period, the hotel and restaurants industry has retained its position at the lowest wage level while that of the sector with the highest wage level has changed. In 1997, the average wage in Electricity, gas and water supply was 73.9% higher than the average for the country but, in 2005, that position was occupied by the Financial intermediaries sector, where the average salary level was 237% higher than the national average.

### Wage differentiation by personnel category

A trend of pronounced pay differentiation can be observed between the individual categories of personnel (Table 8). Statistical data shows that the salaries of profes-

sionals in 2004 made up 65% of those of managers, while wages in elementary occupations (low-skilled workers) were barely 23.5% of them.

The data in Table 8 show the following major trends:

1. compared to 2000, the wages growth rate for management staff in 2004 (71.5%) was running significantly faster than that for low-skilled workers (11.5%). The salary growth rate for skilled workers was, at 22.3%, less than half that of applied specialists (48.3%)
2. a trend could be observed for the 2000-2004 period of a rising proportion of management salaries compared to the average wage for the country. The data in Table 8 show that management salaries in 2000 were 85.5% higher than the national average. This gradually increased through the years such that, by 2004, it was already more than 2.5 times higher than the average wage level. The trend for low-skilled workers is the reverse: in 2000, their wages accounted for 64.9% of the average wage level but, by 2004, this share had fallen to 57.4%.

### Wage differentiation by gender

Wage differences by gender have been preserved in the past ten years. In 2005, the average wage level for women employees represented 81.7% of that of men (Table 9); it is interesting to note that a similar proportion was also observed in 1995 (80.1%). However, a drastic fall then occurred, with women's wages lagging behind men's by over 30%. In 2001, a number of newly-adopted legal provisions contributed to a surmounting to some extent of the pay differences by gender, while a pronounced rise in the growth rate of women's wages could be observed, as well as a trend towards overcoming the major pay differences between men and women (Table 9).

Even so, the differences by gender remain too high at present. The main reasons for this are the traditional presence of women at the lower level of the official hierarchy, the current continuing occupational and sectoral segregation of women and the accepted stereotypes which permit discriminatory practices in the field of remuneration.

Wage differentiation between men and women is highest in Textiles and apparel manufacturing – one of the most highly feminised sectors where, according to the latest official data, the average wages of women represent merely 67.2% of those of men (NSI, December 2005).

Differentiation between the wages of men and women is also observed in highly-skilled labour sectors, such as education, health and other activities financed from central or local budgets. In Education and in Health and social activities, the amount of wages received by women accounts for 80.6% of that received by men.

Table 8 – Average monthly wage by occupation as a percentage of the average wage of the country, 2000-2004

Occupation	Average wage by occupation as a % of the average wage of the country						Indices for preceding year = 100				2004 as a % of 2000
	2000	2001	2002	2003	2004		2001	2002	2003	2004	
Total	100.0	100.0	100.0	100.0	100.0		107.3	107.1	106.7	102.7	126.0
Senior officials and managers	185.8	195.0	211.5	234.2	252.9		112.6	116.2	118.1	110.9	171.5
Professionals	125.8	13.1	143.0	152.2	162.0		111.8	116.9	113.5	109.3	162.1
Technicians and associated professionals	112.1	115.7	117.7	124.6	132.0		110.8	109.0	112.9	108.8	148.3
Clerks	79.9	79.9	78.2	80.7	84.0		107.2	104.9	110.1	106.9	132.4
Service workers and shop and market sales workers	59.3	59.0	58.9	60.4	63.1		106.7	107.1	109.3	107.3	134.0
Skilled agricultural and fishing workers	69.0	64.2	57.4	58.5	62.0		99.8	95.7	108.8	108.9	113.2
Craft and related trade workers	95.7	91.5	90.6	90.8	92.9		102.7	106.1	106.9	105.1	122.3
Plant and machine operators and assemblers	104.6	101.2	96.0	93.9	96.8		103.9	101.6	104.2	106.0	116.6
Elementary occupations	64.9	63.0	59.2	55.0	57.4		104.2	100.7	99.1	107.1	111.5

Source: NSI and own calculation by ISTUR

**Table 9 – Female wages as a % of male wages and real growth, 1996-2005**

Year	Relative share of female wages compared to male wages	Real growth in wages, preceding year = 100	
		Men	Women
1996	69.1		
1997	70.7	82.6	84.5
1998	72.8	119.4	122.9
1999	77.1	104.2	110.2
2000	75.8	102.2	100.5
2001	76.6	99.3	100.3
2002	78.3	100.4	102.7
2003	78.2	102.1	102.1
2004	79.4	99.8	101.4
2005	81.7	100.3	103.1

*Source: NSI and own calculations by ISTUR*

### Development of the wage structure

No substantial changes concerning the gross wage structure have been observed in the past five years (see Table 10). The relative share of nominal wages for time worked is highest, reaching 69% in 2004. Additional payments exceeding the norms, bonuses and *premia* increased their weight to 8.2%, to a level approximately equivalent to compensation for paid leave (8.4% in 2004).

**Table 10 – Structure of the elements of wage resources, 2000-2004 (%)**

	2000	2001	2002	2003	2004
Wage resources (total), of which:	100.0	100.0	100.0	100.0	100.0
Nominal wages for time worked	67.73	69.14	68.96	69.03	69.02
Remuneration over base wage (overtime pay and bonuses according to wage payment system), of which:	6.95	6.77	6.71	7.56	8.22
<i>Annual or single payments (single-minded, extra payments, etc)</i>	4.00	2.59	3.49	3.69	3.87
Paid leave	9.28	9.60	9.12	8.69	8.39
Extra and other remuneration according to the Labour Code, other company acts, normative acts, collective or individual labour contract, of which:	16.04	15.49	15.21	14.72	14.37
<i>Remuneration for overtime, including according to Art. 262 of the Labour Code</i>	1.01	0.96	0.88	0.88	0.85

Source: National Statistical Institute

## Development of collective bargaining on wages

### Factors influencing collective bargaining on remuneration

The framework for collective bargaining on pay in the period under review has been restricted by the impact of several key factors.

The course of the reforms, and the general micro-economic development that can be defined as a crisis before 1997, posed a very unfavourable starting position which was, in turn, aggravated by the constraints imposed by a neo-liberal policy aimed at the stagnation of incomes in the subsequent period.

Both the agreements with the international financial institutions (the IMF and the World Bank), with the restrictive incomes policies ensuing from these agreements, and the introduction of a currency board that has pre-determined the basic framework for wage bargaining, have seriously restricted the freedom of collective bargaining between the social partners and, thus, have lowered the chances of negotiating more favourable bargaining outcomes.

The high proportion of state ownership in the economy also determined an extended role for the state in social dialogue and collective bargaining, which lasted almost until the end of the nineties, while the state regulation of wage fund formation in companies with predominant state or municipal interest has also had a major influence on the bargaining climate.

The uneven financial-economic situation of enterprises within a particular sector or industry has made the negotiation of a general framework and real general parameters for payment in sectoral or industry-level collective agreements rather difficult,

and has also given an impetus to trends in the decentralisation of collective bargaining. The bad economic situation of a number of enterprises undermines the negotiation of any serious wage increases, since this very often appears as an obstacle to the implementation of provisions already reached in collective agreements. In a number of enterprises, wage payments have been delayed for months and even years, ultimately rendering pointless any wage increases reached in collective agreements.

The low density of trade union and employer organisations, with the resulting impact on their bargaining power, also creates a fundamental obstacle to the establishment of effective collective bargaining practices.

### Main characteristics of collective bargaining on remuneration

The main levels at which collective bargaining takes place are enterprise, sector, industry and municipality, where the appropriate tripartite and bilateral bodies of social partnership and collective bargaining are set up. There is a clear hierarchy in the levels of bargaining; according to the Labour Code, the parameters agreed at lower levels cannot be less favourable than those negotiated at higher levels and the minimum standards of the Labour Code (the 'favourability principle'). Normally, sectoral/industry agreements allow additional bargaining and the definition of the parameters of individual indicators at the enterprise level, depending on the financial-economic status of the enterprise concerned. Some sectoral or industry-level collective agreements have clauses by virtue of which lower, or minimum, wages may be paid for a defined period of time in case of the economic difficulties of the enterprise ('hardship' or 'inability to pay' clauses).

It is not widespread in Bulgaria to conclude collective agreements on wages at sectoral or industry-level,<sup>2</sup> or in the form of framework agreements. Collective agreements at sectoral level have a complex nature and, in most cases, they settle issues of workers' labour and social security relationships.

Tripartite consultations at national level influence collective bargaining at other levels, especially in the public sector. There is a statutory national minimum wage approved by the government following negotiations with the social partners at the National Council for Tripartite Co-operation (NCTC).<sup>3</sup> Sectoral or industry-level collective agreements establish minimum standards for remuneration, while the general approach is to agree the level of minimum wages for the sector, depending on the minimum wage for the country and increased by a certain coefficient (envisaging its automatic increase following a rise in the national minimum wage). Initial wages for individual occupations are also established in a number of sectors or industries. Some collective agreements contain clauses which bind wages with rises in productivity and/or inflation growth, but that is not a widespread practice. Collective agreements also have provisions for higher additional payments in respect of working conditions, night work, overtime, length of service, etc.

The main issues in the public sector related to wage growth in the budget-funded sphere<sup>4</sup> are agreed every year at national level in the NCTC. The increase thus agreed

- 2 Collective agreements on the formation of labour remuneration have been concluded only in the Water supply, sewage and water treatment sector as an inseparable part of the BCA.
- 3 Established in 1993.

is incorporated in collective agreements at the lower levels: sectors and organisations from the budget-funded sector, and differentiated increases for different occupational groups or categories of personnel, may be established at these levels within the framework agreed at the national level.

Collective bargaining in public sector enterprises with dominant state or municipal participation is strongly influenced by central wage regulation, which is essentially restrictive in nature and which limits the possibilities of collective bargaining at enterprise level.

The development of collective bargaining is more difficult in the private sector which, by now, encompasses about 65-70% of all employees. This is for several reasons, the most important of which are:

- in a large number of enterprises, no trade union organisations have been established<sup>5</sup> due to the pressure of employers which often prohibit trade union membership or which refuse to conduct negotiations on the conclusion of a collective agreement
- many employers are not members of any employer organisation and, therefore, do not observe agreements at sectoral or industry level
- a predominance of small- and medium-sized enterprises
- a high rate of the informal economy (about 30%).

An exception to this general trend concerns a part of the sub-divisions of some large multinational companies where there are trade union organisations and where the wages negotiated significantly exceed the average wage for the country. In most cases, however, these employers do not participate in sectoral collective bargaining and, consequently, do not play the possible role of trendsetter for other enterprises in the relevant sector as far as the increase of incomes is concerned.

In recent years, the coverage of collective bargaining has been declining for different reasons – a reduction in trade union density, especially in private enterprises; aggressive anti-union employer behaviour and reluctance to engage in collective bargaining; a reluctance on the part of the government to implement in practice provisions of the Labour Code concerning the extension of sectoral and industry collective agreements; etc. According to expert estimates, collective bargaining coverage now stands at about 30-35%.

The slower institutionalisation of employer organisations, especially of their sectoral or industry-level structures, their fragmentation (there are already six employer organisations recognised as nationally representative), the possibility of being a member of two or more organisations simultaneously and the absence of real partners in some sectors and industries has an unfavourable effect on collective bargaining.

### Collective bargaining practices on wages

Considering the close links between collective bargaining on wages, socio-economic conditions in the country and the degree of development of industrial relations, it is

- 4 Includes health, education, culture, social activities, state governance and other activities financed by the state budget.
- 5 According to the Labour Code, only a trade union organisation can conclude a collective agreement with an employer.

possible relatively to define three major sub-stages in the period being examined between 1995 and 2005.

*Bargaining practices in the period of recession (from 1995 up to the middle of 1997)*

At national level, minimum wage and wage increase bargaining in the budget-funded sector was confined to public expenditure and the wage growth restriction policy imposed by the IMF and pursued since the beginning of 1991. Negotiations in the NCTC were directed towards negotiating compensation for inflation, while the government usually adopted unilateral solutions.

Sectoral bargaining was carried out under conditions of prevailing state and municipal ownership – over 90%. Sectoral Councils for Tripartite Co-operation were set up in the budget-funded sector and in industry to negotiate sectoral and industry-level collective agreements. Besides the social partners, the relevant ministries were also parties to the collective agreements. In a number of cases, the ministries themselves played the role of employers, particularly in the budget-funded sector and regarding state enterprises in the economy. In many sectors, where there were no employer structures to be real partners of trade unions, enterprise-level negotiations were predominant.

Collective agreements at all levels were concluded for indefinite periods of time and they were amended through additional agreements regarding the specific parameters, mainly in the field of remuneration.

Even so, there were some results of sustained trade union pressure in several related areas.

Minimum wages were negotiated in industry-level and sectoral collective agreements based on the minimum wage for the country and adjusted by a coefficient that varied between the different sectors and branches from 1.05 in machine engineering to 1.5 in heating supply companies. Branch-specific minimum wage growth was also negotiated, with the aim of conforming at least to the pace of growth of the minimum wage for the country. Initial wages were differentiated depending on the degree of education.

In 1996, the restrictive policy of the government, the slump in incomes as a result of hyperinflation<sup>6</sup> and the devaluation of the leva which took place at the end of 1996 and at the beginning of 1997 led to massive national protests and strikes, and the government was removed. At certain points at the beginning of 1997, monthly wages dropped to \$13 for organisations in the budget-funded sphere and to \$28 in state-owned enterprises.

This explains the specific features affecting negotiations on wages at the end of that period. Trade unions directed their efforts towards initiating negotiations for annexes to the effective collective agreement concerning monthly compensation for high inflation and catching up with the lagging behind in incomes. The result was that, in a period of one year (July 1996 – July 1997), the minimum wage was increased about eight-fold, while the rise in the average monthly wage in the country was nearly seventeen-fold over the period under review as a whole. Even though they seem rather high, agreed wage increases should be considered in the context of the

6 Average annual inflation for 1997 reached 1 082.2%



collapse in incomes, high inflation and low pay levels since the onset of the transition in the country.

*Introduction of a currency board: bargaining for the restoration of real wage levels (from mid-1997 up to 2000)*

With the achievement of macroeconomic stability due to the introduction of the currency board in the country (in July 1997), initially favourable conditions for collective bargaining were created. In 1998, more efficient collective bargaining developments were observed at sectoral, industry and enterprise levels. At industry/sectoral level, nine new collective agreements were concluded and fifteen annexes stipulating wage increases were added to agreements already in place; at enterprise level, 3 071 collective agreements and 1 480 annexes were concluded. The minimum wages agreed in the different sectors and branches were increased by a coefficient within the range of 1.15 to 2.0 compared to the minimum wage in the country, while initial wage differentiation depending on the level of education was also preserved. Bargaining on inflation compensation mechanisms was discontinued.

Dialogue was quite intensive at first, but earnings negotiations were soon curtailed due to the financial and budgetary restrictions dictated by the IMF and the rationale of the currency board. The attained wage levels were frozen on the basis of arguments concerning the pending privatisation and restructuring of the economy and the need to preserve the competitiveness of enterprises based primarily on low labour costs.

In a situation of the stagnation and restriction of incomes at the national level, a trend in negotiations was observed at the enterprise level – not for wage growth so much as for more funds for additional payments and for social life and cultural initiatives funds.

In a situation of more intensive privatisation in 1998-2000, collective bargaining was focused on job protection, alternative employment programmes, early retirement programmes and compensation for workers who were laid-off. All in all, the number of collective agreements concluded at all levels dropped considerably as a result of the new economic environment. Despite all that, by the end of 2000, in enterprises where trade union organisations existed (numbering 6 727), there were 5 563 effective collective agreements, 989 being signed in private enterprises. Fourteen sectoral and 48 branch collective agreements were also in force.

*Collective bargaining on pay under the conditions of improved labour legislation and negotiations on EU accession (from March 2001)*

The most recent phase in the development of collective bargaining started after the coming into force of the amendments to the Labour Law, on 1 April 2001. Rather than being concluded for an indefinite period of time, collective agreements began to be signed for one or two years at the most. Some seventy sectoral and industry-level collective agreements, as well as accords and other joint agreements, were concluded in national companies and agencies, as were about 5 000 collective agreements at enterprise level. Between 2004 and 2005, 46 industry-level and sectoral collective agreements were renewed or initiated, six among them being signed for the first time.

It has already been pointed out above that, after 2003, the introduction of minimum social security thresholds substantially influenced sectoral or industry-level collective bargaining.<sup>7</sup> The social partners adopted the practice of negotiating mini-

mum social security thresholds for key categories of personnel in the relevant sector and in a number of sectors they became an indivisible part of the sectoral/industry-level collective agreement. In 2003, trade union and employer organisations negotiated 33 minimum social security thresholds, while fifteen were administratively imposed; in 2005, thresholds were negotiated for fifty economic activities (out of seventy) and 45 in 2006.

An analysis of the sectoral and industry-level collective agreements concluded in the 2001-2005 period points to several major trends in terms of pay bargaining:

- the practice continues of defining sectoral/industry-specific minimum wages through a coefficient based on the minimum wage for the country within a range of 1.0-1.5, also taking different skills levels into account
- the drive in most collective agreements is to negotiate standards which exceed those relating to additional remuneration established in the law – mainly for length of service, working conditions, night work etc; earnings other than wages are also agreed upon, for instance social allowances
- bargaining for real wages, including the structural elements of remuneration, is virtually non-existent. An insignificant number of collective agreements incorporate agreements on wage increases in line with the rise in labour productivity, but there are next to no agreements on wage increases concurrent with inflation
- some decentralisation trends can be observed in most sectoral or industry-level collective agreements
- there have been some attempts to use collective agreements to achieve ‘a voluntary’ yielding of rights in the case of economic difficulties – for example, clauses which provide possibilities for the postponement of wages, or for the payment of lower wages.

## **Conclusion**

The overall balance of wage developments can be seen as alarming, since real wages have not able to maintain their value in the ten-year period between 1995 and 2005 (a decrease of 2.6%) in the face of average productivity growth of 50%.

Sectoral and industry-level collective agreements were, unfortunately, not able to provide sufficient real mechanisms for wage increases. They are a very important means for the improvement of some legal standards, but they do not ensure actual income growth in line with inflation and labour productivity. Collective bargaining has been subject to serious restrictions for a long period, during which wage setting has been influenced by the neo-liberal policies imposed by the World Bank and the IMF. The institution of the currency board system also restricted autonomous bargaining and social dialogue. The emergence of autonomous bargaining was, however, actively promoted in the course of Bulgaria’s accession to the EU.

The development of collective bargaining in Bulgaria has confirmed its efficiency as a fundamental instrument of industrial democracy which has proved its legitimacy as a driver of social practices in countries with a market economy. The improvement of the autonomous social dialogue was included in the recommendations of all the reports on Bulgaria’s progress during the process of accession. That is, evidently, a

7 ETUI *Collective bargaining in Europe 2002*, pp. 79-81.

process which requires the efforts of the state and, even more so, of the social partners which must have the capacity they need for their integration in the European system of sectoral social dialogue and co-ordination of collective negotiations.

Obviously, one of the main challenges towards the effective EU membership of Bulgaria concerns the lack of wage convergence with the EU25. Under the pressure of the IMF and the World Bank, and with the intentional propagation of the threat of a repetition of the shock of hyperinflation and the collapse of the economy similar to that of 1996-1997, the last three governments from all political wings (right, centre and left-centre) have made a fetish of macroeconomic stability, strong fiscal discipline and a restrictive state budget. All this has been at the expense of a delay in the increase of real wages and the inadequate financing of such important public sectors as education and health care. These restrictive measures have had an impact on the collective bargaining power of trade unions and their possibilities to negotiate decent wage increases in both the public and the private sector.

Bulgaria is on the way to providing a surprise to Europe with a simultaneous paradox – with a budget surplus of 2-3% (2006) and a relative share of state debt in GDP of less than 30%, Bulgaria could be found to be better prepared for accession to the Eurozone than the ten new member states. At the same time, average gross annual earnings in industry and services (€1 978) in 2005 were 2.1 times lower than those in Latvia and 21.3 times lower compared to Luxemburg (respectively 1.5 and 7.3 times lower in terms of PPS). Meanwhile, additional restraint in the process of the convergence of wages with the EU25 will be the restricted access of the Bulgarian labour force to the internal labour markets of the old member states.

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