

The Impact of Certain European Pillar of Social Rights' Initiatives on Bulgaria

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Abstract

The present paper analyses and summarizes the estimates regarding the potential effects from the implementation of specific measures of the European social pillar on the Bulgarian economy and society. In particular, the impact of the following three initiatives within the pillar are explored: 1/ The impact of the Minimum Wages Directive proposed by the European Commission on the Bulgarian workers' wellbeing and 2/ The impact of the Work-life Balance on the current Bulgarian legislation. The conclusion is that the pillar has the potential to bring change and improve the social status of low-wage workers in Bulgaria.

Keywords: European pillar of social rights, minimum wage, work-life balance, Bulgaria

Introduction

The European Pillar of Social Rights was launched in 2017 with the aim to deliver new and improve the existing social rights of the EU's citizens. Its goals are to ensure quality employment, adequate social protection, and universal access to community-based services in all member states. Although many of the instruments for its implementation are in the hands of the countries themselves, the social partners and civil society, the EU institutions, in particular the European Commission, can help by providing a framework and guidelines. The pillar is also an integral part of the European Semester, and in 2019 almost half of the country-specific recommendations were focused on employment, education and social issues, placing new emphasis on the pillar's three areas: equal opportunities and access to the labor market, fair working conditions and social protection and inclusion. The European Social Fund Plus (ESF+) will help member states to develop skills, employment and social action in line with the pillar's goals.

The pillar is useful for reviving EU initiatives in the social field, but on the other hand its optional nature does not provide much scope for action. Its efficiency depends on the extent to which it can influence member states' policies. In spite of its inclusion in the European Semester, its integration into the overall socio-economic environment is limited due to the restricted competences of the EU in the social policy field. This paper analyzes the potential effects from the implementation of specific measures of the pillar on the Bulgaria, in particular, the impact of the two of its initiatives - the Work-life Balance Directive and the Minimum Wages Directive.

The impact of Work-life Balance Directive on Bulgaria

One of the achievements of the social pillar so far is the adoption of the Work-life Balance Initiative, directed at reaching of a better work-life balance by working parents and carers. Directive (EU) 2019/1158 aims to improve work-life balance but also to increase women's employment in the EU, encouraging a more equal sharing of parental leave between the men and women.

The main elements of the directive are:

The introduction of **paternity leave**: fathers in the EU must be able to take at least 10 working days of paternity leave around the time of birth of their child, compensated at least at the level of sick pay.

Ensuring that two out of the four months of **parental leave** are non-transferable between parents and compensated at a level that is determined by the Member State.

The introduction of **carers' leave**: workers providing personal care or support to a relative will be entitled to five days of leave per year.

Extending the **right to request flexible working arrangements** to carers and working parents of children up to eight years old.

The directive is accompanied by policy non-legislative measures to member states, f.e. encouraging the use of European funds to improve the provision of formal care services, ensuring protection against discrimination and dismissal for parents, and removing economic disincentives for second earners, which prevent women from accessing the labour market or working full-time. Its aim is to increase women's employment, earnings and career development, to improve families' economic wellbeing and social inclusion, and to provide companies with a more motivated and productive labour force.

In 2018 the employment rate for women (aged between 20-64) in the EU was 67%, which was still 12 pp less that for men (15 pp in 2008). In Bulgaria 68% of the women were employed in 2018 in comparison to 77% of men (Eurostat, 2020b).

Table 1 evaluates the compliance of the current labour legislation in Bulgaria with the provisions of the adopted Directive (EU) 2019/1158.

Table 1. Comparison of Directive (EU) 2019/1158 legislative measures and Bulgarian legislation

	Element	Directive (EU) 2019/1158	Bulgarian legislation	Compliance of Bulgarian legislation with Directive
1	Introduction of Paternity leave after birth	Fathers/equivalent second parents will be able to take at least 10 working days of paternity leave around the time of birth, compensated at least at the level of sick pay	Paternity leave already introduced. Length: 15 calendar days Financial compensation: 90 % of average gross monthly earnings or the average insurance income in the last 24 months preceding birth	Full compliance

2	Transferability of paternity leave	Strengthening of the existing right to 4 months of parental leave , by making 2 out of the 4 months non-transferable from a parent to another, and compensated at a level set by Member States Parents will also have the right to request to take the leave in a flexible way (part-time or in a piecemeal way)	The first 135 days of leave are available only to the mother. With her consent, when the child becomes 6 months and until the 410th calendar day, the leave can be transferred to the father. Financial compensation: 90 % of average gross monthly earnings/ the average insurance income that the father received in the last 24 months preceding the birth. The father can use it from the day when the new-born child is discharged from the hospital (there is no preposition as to whether it can be postponed to a later stage). No non-transferable periods between the parents	Partial compliance. The requirements for length and financial compensation are met The requirement for non-transferability is not met
3	Introduction of carers' leave for workers providing personal care/ support to a relative/ person living in the same household	Working carers will be able to take 5 days per year	Up to 60 calendar days per year paid at 80 % of average gross monthly earnings	Full compliance
4	Extension of the existing right to request flexible working arrangements (reduced working hours, flexible working hours and flexibility in place of work)	to all working parents of children up to at least 8 years old, and all carers.	On returning to work after leave, the worker may request a temporary change in the duration or the distribution of the working hours Employed mothers of children under 6 years of age have the right to work from home	Partial compliance. The Bulgarian legislation concerns mainly parents, and only for children till 6 years of age

Source: Directive (EU) 2019/1158; Blum, S., Koslowski, A., Macht, A., Moss, P., (eds) (2018); Labour Code of Bulgaria, 2020; Social Security Code of Bulgaria, 2020

The Bulgarian legislation covers fully or partially the directive requirements, as follows:

Regarding paternity leave, Bulgaria covers the requirement for 10 days' well-paid leave, as it is 15 days and it is paid at 90 % of average gross monthly earnings or the average insurance income in the last 24 months preceding birth of the child. Bulgarian legislation applies also for self-employed men. The financial compensation cannot be lower than the minimum salary, however, there is a ceiling on payment equalling a monthly maximum insurance income.

Regarding the paternity leave after birth, the first 135 days of leave are available only to the mother since they aim to ensure mothers' care in the first months of the child's life¹.

With the consent of the mother, when the child becomes six months and until the 410th calendar day (full maternity leave), the leave can be transferred to the father if he has been

¹ The maternity leave in Bulgaria is 410 calendar days, from which 45 calendar days must be taken before the expected date of birth. The first 135 days are obligatory for mothers (45 calendar days before the expected date of birth, 42 days after birth and 48 calendar days until the 135th day)

insured at the National Insurance Institute for at least 12 months. The financial compensation is 90 % of average gross monthly earnings or the average insurance income that the father received in the last 24 months preceding the birth of the child. The father has the right to use Paternity leave if the two parents are married or live in a shared household. There is a ceiling on payment equaling a monthly maximum insurance income and the financial compensation cannot be lower than the minimum salary.

Regarding leave to care for a sick family member, including a child or to attend to a healthy child who has to stay at home due to quarantine in a childcare institution, the leave can be up to 60 calendar days per year and it is paid at 80 % of average gross monthly earnings.

The Bulgarian legislation also provides for a leave to care for two or more children under 18 years (only available to employed mothers subject to collective labour agreement). Mothers with two children are entitled to 2 days of leave per year, and mothers with three or more children to 4 days per year. Paid annual leave compensation is at 100%.

Regarding flexible work, on returning to work after taking leave, the employed person may request a temporary change in the duration or the distribution of working hours to facilitate reconciliation between work and family duties. The law obliges the employer to consider such a request and agree to it providing it is possible for the organisation.

Employed mothers of children under 6 years of age have a legal right to work from home on request with the same or another employer. When the child turns 6, the mother working from home should be restored to the same position she previously held or, if that position is no longer available, to an appropriate alternative, with her consent. Mothers of children under 6 years may work from home for another employer in which case they should be granted unpaid leave from their former employer and the right to return to the same or an appropriate alternative position after the entitlement to work from home expires (but no later than the child's sixth birthday). The right may be used by the father if the mother is not in a position to benefit from it (Blum, S., Koslowski, A., Macht, A., Moss, P., (Eds), 2018).

Factors and expected effects of the Minimum Wage Directive implementation

In October 2020 the European Commission proposed a directive, which aims at ensuring that the workers in the Union are protected by "adequate minimum wages allowing for a decent living" (European Commission, 2020a). The directive is expected to have positive social and economic effects as increased wealth of workers, reduced pay gap and social inequality, increased market demand, bigger motivation at work and others. It addresses numerous social problems, including:

A very high share of low-wage earners (who earn two-thirds or less of the average gross hourly income in a given country) in the EU - 15,2% in 2018, i.e one in six employees in the EU is underpaid (Eurostat, 2020a);

The relatively high share of people in risk of poverty and social exclusion (persons have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income after social transfers) in the EU - 112.8 million people in the EU in 2017, i.e. 22.4 % of EU population (Eurostat, 2020c);

Lack of progress in terms of convergence of minimum wages in the EU - a 7 times difference (312 euros in Bulgaria compared to 2142 euros in Luxembourg¹) (Eurostat, 2020d).

Rising income inequality due to growing labor market polarization - employment in middle-paid occupations is decreasing while employment in low- and high-paid occupations is increasing;

Need for a mechanism for regular updating of the minimum wage levels in the EU;

Need to support workers after the Covid 19 pandemic, etc. (Moralyska, 2021).

The main challenge connected with the Directive's implementation is related to the minimum wage definition. It needs to ensure a decent standard of living. One option to define the "decent standard of living", respective the "minimum wage" setting formula, is to apply the Living wages approach, which includes the calculation of an approximate wage for different types of households, needed to cover a certain basket of goods and services that guarantees an acceptable standard of living.

Another option is to adopt a reference value (Kaitz index), representing the ratio between the nominal minimum wage and the average or median wage. In the EU it is assumed that the minimum wage of 60 percent of the median wage is one that allows a full-time worker to avoid living in poverty. Most members of the European Trade Union Confederation support the goal of minimum wage at the amount of at least 60% of the median wage as well (ETUC, 2020).

The ILO states that the economic effects considered in the Living wages approach depend on the proportion of wage-earners affected by a certain minimum wage, and can be evaluated through indicators such as ratio of minimum wages/ to median wages (ILO, 2020). Similarly, the Directive proposal invites member states to use reference benchmarks in their assessment of gross wages adequacy Indicators commonly used at international level, such as 60% of the gross median wage and 50% of the gross average wage (European Commission, 2020c).

Applying a double threshold (60% of the median and 50% of the average wage) is recommended by professionals, who estimate it could lead to an increase - sometimes significantly - in the minimum wage in almost all EU countries with a statutory minimum (Müller, T., Schulten, T., 2020).

The most ambitious indicator would be applying both - double threshold (50% of the average and 60% of the median wage) and a country-specific basket of goods and services. The basket would be defined jointly by the trade unions and employers' organizations that will assess whether it provides a decent standard of living.

Bulgaria's performance regarding reference minimum wage thresholds

In 2019 Portugal was the only EU member state that covered the double threshold having a minimum wage above 60% of the median and 50% of the average wage. Bulgaria was among the few countries with minimum wage covering almost 60% of the median wage (European Commission, 2020d). Thus, Bulgaria is excluded in the estimates by indicator "Minimum wage as a percentage of the median wage" and is included only in the estimates regarding the

¹ Monthly rates (in euros) of wages as gross income (before income tax and social security contributions)

potential effects from the introduction of minimum wage as a percentage (40%, 45% and 50%) of the average wage.

The minimum wage in Bulgaria in 2020 was 41,6% of the average wage. The ratio between the average and minimum wage in the country in the last five years has been between 41% and 42% (Table 1).

Table 1. Ratio Minimum wage/Average wage in Bulgaria in the period 2016 - 2020

Indicator	2016	2017	2018	2019	2020
Average gross monthly salary	1006	1120	1215	1349	1468
Minimum monthly salary	420	460	510	560	610
Minimum wage as share of average wage, %	41,7%	41,1%	42,0%	41,5%	41,6%

Source: National Statistical Institute, 2020; Council of Ministers of Bulgaria, 2020a; Council of Ministers of Bulgaria, 2020b; Council of Ministers of Bulgaria, 2020c; Council of Ministers of Bulgaria, 2020d; Council of Ministers of Bulgaria, 2020e; Council of Ministers of Bulgaria, 2020f.

Expected effects of the Minimum Wage Directive on Bulgaria

The European Commission’s Impact assessment predicts numerous positive effects from the implementation of the Directive. It includes estimates for indicative values of minimum wages for two different ratios: 1) gross minimum wage as a percentage of the gross average wage; 2) gross minimum wage as a percentage of the gross median wage¹.

To estimate the magnitude of increasing minimum wage levels on social and economic outcomes, the European commission has executed a microsimulation on the basis of the Euromod model. The results show that on EU level (provided that member states increase minimum wages to 60% of the median wage or 50% of the average wage): 1/ approximately 25 million workers’ wages would increase; 2/ The increases of statutory minimum wages could exceed 20% in some member states; 3/ Wage inequality and in-work poverty would decrease by 10% and the gender pay gap would decrease by 5%; 5/ The impetus for work would enhance.

The following analysis is on the expected results of minimum wage increase in Bulgaria.

In 2019 the minimum wage in Bulgaria was almost 60% of the median (European Commission, 2020d), so it covers the highest goal regarding the median wage and needs no improvement (Table 2).

Table 2. Change in the minimum wage in Bulgaria, necessary to achieve reference levels in relation to the gross median wage (nominal monthly values, in euros)

Minimum wage in 2019	50% of median wage		55% of median wage		60% of median wage	
	Level	Gap	Level	Gap	Level	Gap

¹ The two indicators have different implications for different countries - the reference values based on the average wage are more stringent for countries with lower or intermediate wage levels (incl. Bulgaria), while reference values based on the median wage are more stringent for intermediate-to-higher wage countries (European Commission, 2020d).

286	239	-48	262	-24	286	0
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Source: European Commission, 2020d

This is why, the analysis in on the expected impact in case of minimum wages increases is calculated as share of different reference levels of the average wage only.

Table 3 shows how the minimum wage in Bulgaria in 2019 needs to change in order to reach the average wage set at different reference level – 40%, 45% or 50%.

Table 3. Change in the minimum wage in Bulgaria, necessary to achieve reference levels in relation to the gross average wage (nominal monthly values, in euros)

Minimum wage in 2019 (euro)	40% of average wage		45% of average wage		50% of average wage	
	Level	Gap	Level	Gap	Level	Gap
286	266	-21	299	13	332	46

Source: European Commission, 2020d

In 2019 the minimum wage was 41,6% of the average (Table 1), so it covered the first level. If the goal is set at 45% of the average wage, then the minimum wage should be increased by 13 euro to reach it. If the goal is set at 50% of the average wage, then the minimum wage should be increased by 46 euro to reach it.

Regarding the potential effects of the Directive on employment in Bulgaria¹, the impact assessment shows that its implementation (in case of minimum wage equal to 50% of the average) would lead to an increase in the wage of almost 1 of 4 Bulgarians (23% of workers). The expected increase in the wages of these workers is also significant – approximately 21%.

An increase of 2% in the wage expenses (including the public and private sector) in Bulgaria is expected in case of minimum wage equal to 50% of the average wage.

Table 5. Expected effects on workers, wages and total wage bill in Bulgaria

	Indicator	Scenarios of minimum wages as a proportion of the average wage	
		Min. wage = 45% of Average wage	Min. wage = 50% of Average wage
1	Share of workers affected by increases of the minimum wage (%)	Approx. 15%	Approx. 23%
2	Average increase in the wages of those affected by increases in the minimum wage (%)	Approx. 18%	Approx. 21%
3	Change in the total wage bill as a result of changes in the minimum wages (%)	Approx. 1%	Approx. 2%

Notes: European Commission calculations based on Euromod microsimulation model. The baseline scenario reflects minimum wages in 2019.

Source: European Commission, 2020d

¹ In 2017 the share of workers with wages at or around the statutory minimum wage (between 80% and 105% of the statutory minimum wage) in Bulgaria is approximately 10%.

The potential effects in case of reaching the target goal of minimum wage equal to 50% of the average implies a substantial reduction in wage inequality (18,5%) in in-work poverty (9%). It would also lead to a small gender pay gap, which will shrink by 2,6% (Table 6).

Table 6. Expected effects on wage inequality, in-work poverty and gender pay gap in Bulgaria

	Indicator	Scenarios of minimum wages as a proportion of the average wage	
		Min. wage=45% of average wage	Min. wage=50% of average wage
1	Reduction in wage inequality in simulated hypothetical minimum wage scenarios, D5/D1 indicator* (%)	Approx. 17%	Approx. 18,5%
2	Reduction in in-work poverty in simulated hypothetical minimum wage scenarios (%)	Approx. 17%	Approx. 9 %
3	Reduction in the gender pay gap** in simulated hypothetical minimum wage scenarios (%)	Approx. 1,7%	Approx. 2,6%

Notes: European Commission calculations based on Euromod microsimulation model. The baseline scenario reflects minimum wages in 2019.

* The D5/D1 indicator is calculated as the gross wage earned by the median earner (D5) divided by the gross wage of the worker who earns more than 10% of all workers (D1).

**The gender pay gap is the difference between average gross hourly wages of male and female employees as % of male wages, unadjusted for individual characteristics.

Source: European Commission, 2020d

Additional positive effects on Bulgaria

At present Bulgaria lacks a quantitative mechanism (based on a set of criteria as poverty line developments, inflation or general wage increases) for setting and updating of the the minimal wage in the country. Bulgaria received Country-Specific Recommendations within the European Semester (in the period 2014-2019) that required a transparent minimum wage setting mechanism based on objective criteria. The implementation of the Directive is likely to accelerate the process of setting of such a mechanism, as well as guidelines for minimum wage updating.

In addition to that Bulgaria is also among the member states, where the requirement to consult social partners does not specify the institutionalised setting but instead the approach is left to government. This process often leads to non-binding recommendations, with an unknown influence on the final decision-making. This process is likely to improve with the Directive, which requires strenghtening the role of the social partners.

Another expected positive effect is that the minimum wage increase is likely to improve work incentives. Simulations show that in all member states work incentives would improve when minimum wages are increased. Similarly, the final amount of the minimum wage depends on the particular tax system in the respective country. In EU member states where in-work benefits are withdrawn and the personal income tax system is progressive (income tax rates increase with increasing wage incomes), the net gain of a minimum wage increase is lower.

Bulgaria is among the countries where the net gain is rather high – over 70% - which is due to the lower progressivity of the personal income tax system in the country.

A positive impact is also expected on labor productivity, as most companies would react to minimum wage increases by cutting non-labour costs, increasing product prices, and improving productivity (Bodnár, K., L. Fadejeva, S. Iordache, L. Malk, D. Paskaleva, J. Pesliakaitė, N. Todorović Jemec, P. Tóth & R. Wszyński., 2018).

Some insignificant positive fiscal effects of increased minimum wages are estimated on EU level as well, due to increases in tax revenues and reductions of benefit expenditure. These could reach up to 0.1% of GDP or up to 0.4% of GDP in case minimum wages are increased to 60% of the median wage or 50% of the average wage (European Commission, 2020d).

Expected negative effects

As a whole, the Impact Assessment of the directive predicts limited negative effects in the EU. The effects are estimated on Eu level and are expected in the form of increased labour costs for the business (especially for SMEs), respectively a smaller profit, and a small inflation (a 10% increase in the minimum wage leads to 0.4% to 0.6% increase in consumer prices). Approximately $\frac{3}{4}$ of the economic cost of the higher minimum wages is expected to be borne by consumers, and the rest by firms. However, the negative impact on the business is likely to be compensated by the increased consumption¹ and demand by the low-wage workers.

In the most ambitious case of increase of minimum wages to 60% of the median wage or 50% of the average wage, the negative impact on employment in the EU is expected to be up to 0.5% of total employment (up to 0.2% if the increase is according to the lower reference values), and as a whole the benefits of the minimum wage increases to concerned workers are predicted to significantly outweigh the negative employment impact on them (European Commission, 2020d).

Table 7. Expected negative effects on employment in Bulgaria

	Indicator	Scenarios of minimum wages as a proportion of the average wage	
		Min wage = 45% of average wage	Min wage = 50% of average wage
1	Estimation of possible negative employment effects (%)	0,4%	0,8%

Source: European Commission, 2020d

The expected negative employment effect in Bulgaria in the case of 50% of the average wage would reach up to 0,8% of the the total employment (Table 7).

Conclusion

The European Pillar of Social Rights is a social policy framework with the potential to guide EU action in the social field over the next decade, so as to promote social convergence between

¹ The positive impact on aggregate consumption is varying among different income quantiles, being bigger for the lowest quintile and gradually decreasing across the income distribution (European Commission, 2020d)

the Union's member states. Although no tangible results of it have yet been identified, some initiatives that were proposed and adopted are likely to evoke numerous effects when implemented by the member states.

It can be concluded that the implementation of the Directive (EU) 2019/1158 will require some little amendments to the Bulgarian labour legislation in order for full compliance to be achieved. However, this could mean that the effects from it would not be significant, as its advantages have already been applied. The most influential of the new amendments would be the 2 months of non-transferable leave between the two parents, which is still not a legal requirement in Bulgaria.

As it concerns the implementation of the proposal of the Minimum Wage Directive in the country, it has the potential to bring a big change in the social situation in Bulgaria and to significantly improve the social and economic status of a big part of the Bulgarian workers, who are low-income earners. The maximum positive impact, however, would be possible in case the most ambitious scenario is applied (increase of the minimum wage up to the highest reference values – 50% of the average and 60% of the median wage).

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