

Press Release

THE HIDDEN ECONOMY IN BULGARIA: 2011 – 2012

On 31 January 2013, the Center for the Study of Democracy (CSD) presented at the press center of the Bulgarian Telegraph Agency its latest report on the scope of the hidden economy in Bulgaria. The analysis is based on the *Hidden Economy Index* for the businesses, and the *Index of Unreported Economic Activity* of the population, developed by the CSD and Vitosha Research.

While still complicated, the macroeconomic environment in the country has improved in the 2011-2012 period, providing favorable conditions for a decrease in the share of the hidden economy in Bulgaria. The high unemployment and the stagnation of the economy have limited the opportunities for the inflow of unregistered employees into gray economic activities, while also potentially forcing some of them to enter the informal economy. At the same time, the crisis has squeezed public expenses and bank loans, thus rendering more strictly regulated European funds the main source of fresh funding. Therefore, the prospects for public procurement fraud have become limited, while this has also created incentives for companies to register their full economic activity.

Survey results show that, during the 2011-2012 period, the hidden economy in Bulgaria has decreased both among the population (Fig. 1) and among businesses (Fig. 2).

- In 2012, the share of the employed without a labor contract in their primary employment was 3%, or the lowest for the past 10 years; (6% in May 2013)

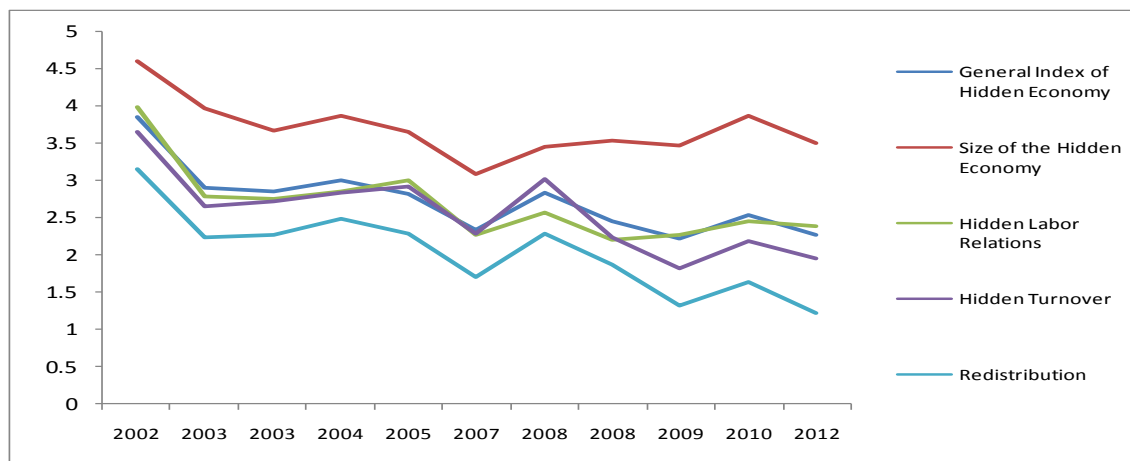
Figure 1. Share of employed with no labor contract in primary and secondary employment, 2003-2012. (%)

Type	2003	2004	2008	2009	2010	2012
Without labor contract – primary employment	6.0	5.9	5.6	5.9	3.4	3.0
Without labor contract – secondary employment	77.44	59.1	51.5	51.0	38.1	29.0

Source: Hidden Economy Survey on Population, 2012, CSD, Vitosha Research

- The hidden economy index for the businesses has also decreased in the past two years. The drop is relatively small but it is a return to the long-term decreasing trend observed before the financial crisis.

Figure 2. Hidden Economy Index for Businesses, 2002-2012.



Source: Hidden Economy Survey on Businesses, 2012, CSD, Vitosha Research

- There were two budgetary measures adopted in the 2011-2012 period with regards to **social security contributions**: an increase in pension contributions by 1.8 percentage points, and an increase of the minimum social contributions thresholds. The effect of these measures remains controversial. The results of the hidden economy survey of the population also show that the share of the employed at the minimum social security threshold, who actually receive higher remuneration than declared, has decreased from 10.3% to 9% (Figure 3). The share of the employed at the minimum social security threshold, whose remuneration actually corresponds to the declared amount, has increased from 5.9% in 2010 to 7% in 2012, indicating the ongoing stagnation on the labor market. The share of employed, who admitted receiving higher remuneration than the one stated in their contract used for social security purposes, has increased from 8.4% in 2010 to 13% in 2012. The total amount of unreported and unpaid contributions exceeded BGN 400 million.

Figure 3. Base Amount for Payment of Social Security Contributions under Primary Employment, 2003-2012. (%)

Type	2003	2004	2008	2009	2010	2012
The minimum social security threshold, though the actual remuneration is higher	12.1	13.4	13.5	12.9	10.3	9.0
The minimum social security threshold, which is what is actually paid	10.3	14.3	9.5	12.6	5.9	7.0
The amount stated in the contract, though the total remuneration is higher	6.7	8.3	15.0	15.5	8.4	13.0
The amount stated in the contract, which is what is actually paid	68.3	63.4	61.8	56.2	67.0	67.0
Other	2.6	0.6	0.3	2.8	1.5	4.0
Base	348	314	378	359	466	420

Source: Hidden Economy Survey on Population, 2012, CSD, Vitosha Research

Despite a slight decrease in the size of hidden economy, the improvement has remained limited and could be mainly explained by the measures related to stricter administrative control and sanctions, as well as the specifics of the post-crisis economic situation in the country. Nevertheless, the deep structural imbalances of the Bulgarian labor market and the persistent problems in the quality of the business environment continue to reinforce the large scale of hidden economic activities in Bulgaria.

- The under reformed regulatory agencies continue to be one of the main obstacles in the struggle against the hidden economy in the country. Doubts about the transparency of activities and the efficiency of governance of state regulatory agencies remain widespread. The preference for pervasive control and highly publicized measures prevail over the provision of high-quality public services.

Policy Recommendations

Successful measures to reduce the level of the hidden economy in Bulgaria may include:

- establishing common efficiency and productivity indicators for all regulatory agencies;
- tackling corruption through the introduction of e-services in the administration;
- speeding-up VAT refunds and reducing control checks of law-abiding companies with good track record;
- administrative reform to speed-up payments as per the European programs;
- improving the legal framework applicable to outstanding loans and private sector debt;
- improvements to the work of the administrative courts with a special focus on filing for bankruptcy in a retroactive manner;
- promoting free enterprise and competition through improving the enforcement of anti-monopoly legislation.

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