

Studying the Hidden Economy in Bulgaria: Review and CSD's Experience

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PRESENTATION



Contents

- CSD's activities
- Policy rationale for tackling the hidden economy
- Working out an policy actionable definition
- History of measurement of the hidden economy in Bulgaria
- The Hidden Economy Index
- Some policies and measures for action from Bulgaria's experience

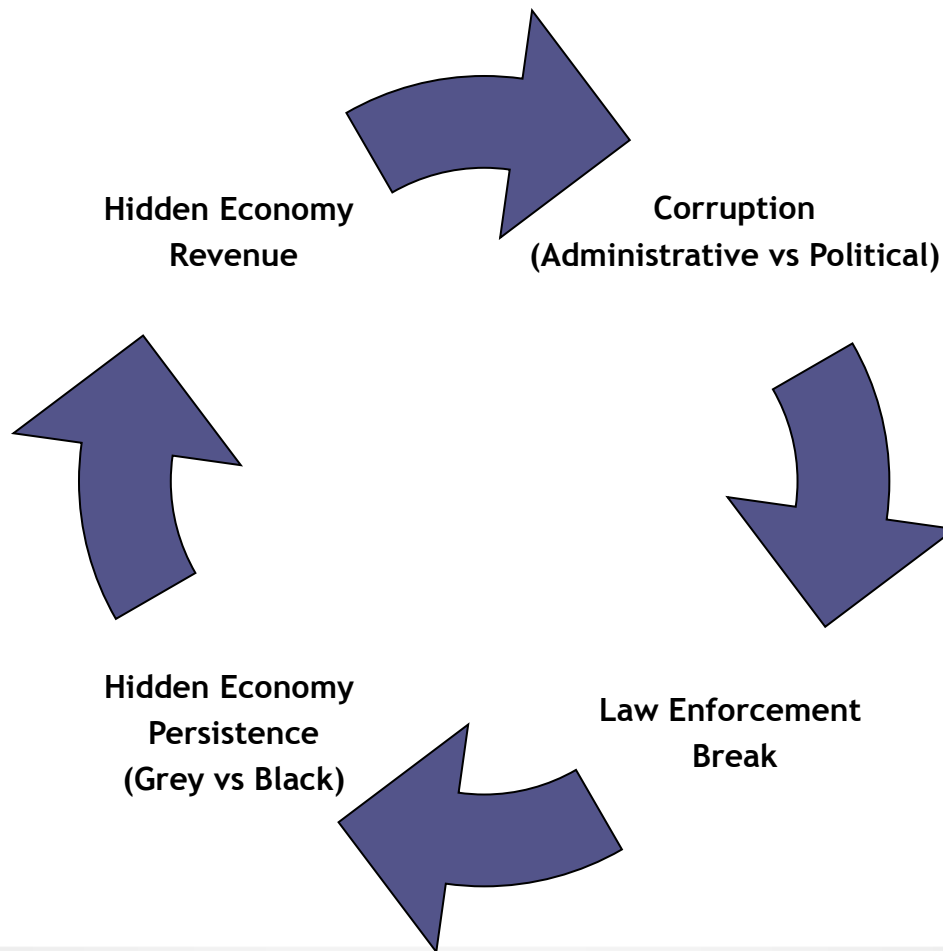
CSD Services and activities

	<h3>Research</h3>	<ul style="list-style-type: none"> • Economic • Sociological • Legal
	<h3>Public awareness</h3>	<ul style="list-style-type: none"> • Conferences • Round-tables • Media training
	<h3>Policy impact</h3>	<ul style="list-style-type: none"> • European Commission • Bulgarian government • Foreign governments

Why is it important?

- The Greek (or Euro) crisis
- Aggregate indicator of the quality of policies and institutions
- A sexy topic
- Is hidden economy better than none at all?

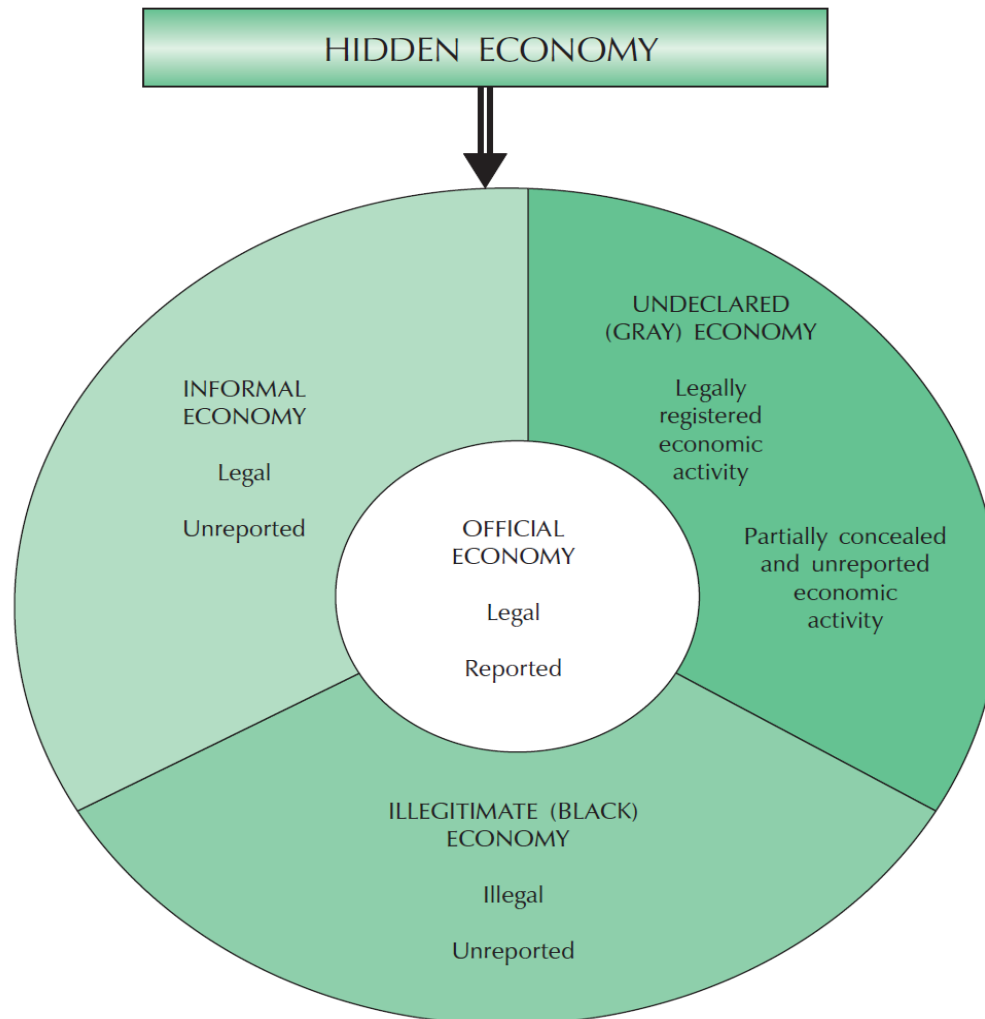
A Vicious Circle



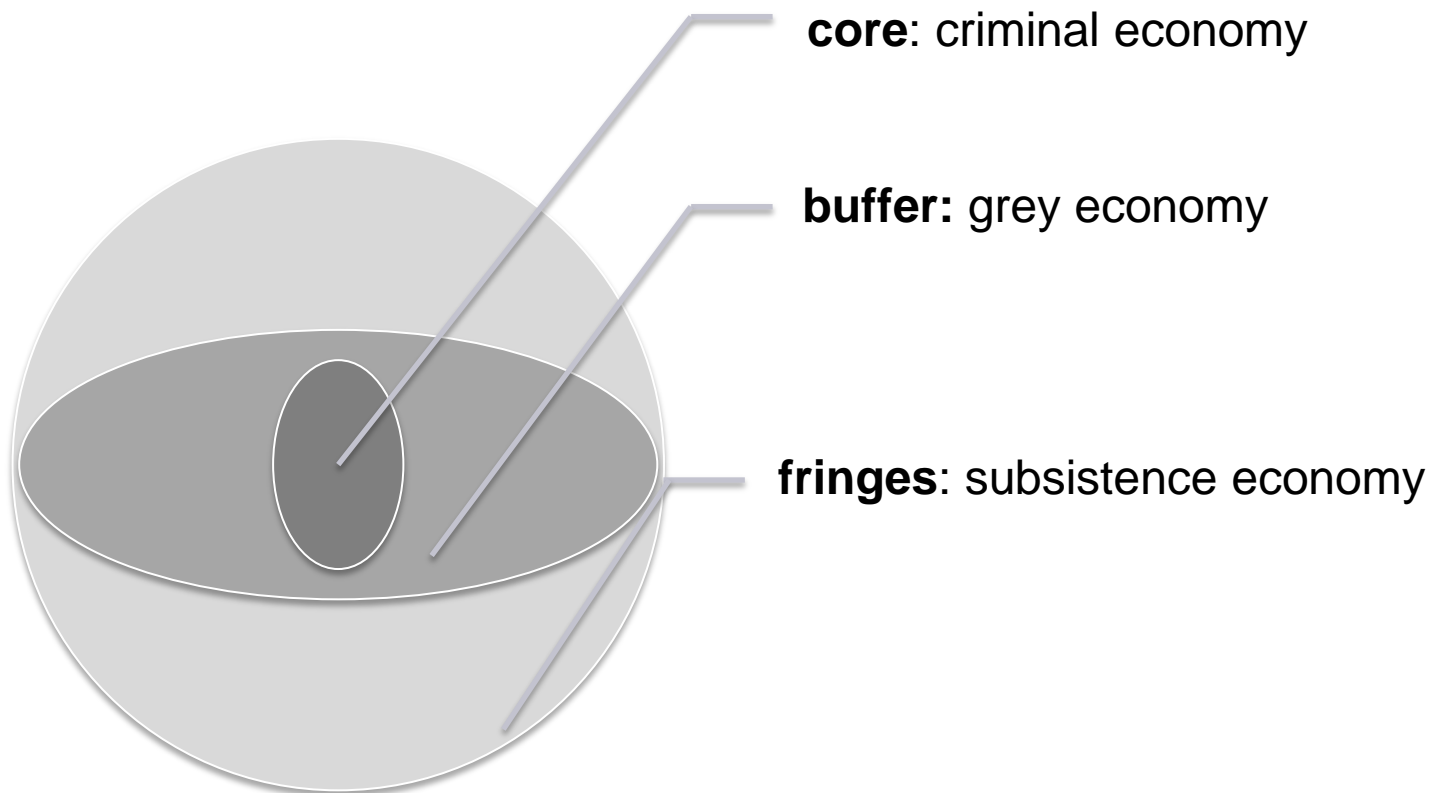
Пирамида на политиките срещу сивата икономика Grey Economy Policy Pyramid



Definition



The Hidden Economy Loops



Methods for Measurement

- Direct
- Indirect / models

Causes of Hidden Economy

- Tax and Social Security Burden
 - Not only size matters
 - Compliance costs (private and public)
- Regulation
 - Goods quality requirements
 - Price regulations and entry barriers
- Institutional Context

Effects

- **The Economy and Government Policies**
 - Positive – incomes are being spent into the official economy
 - Yet the gray sector has a negative effect on the tax system
 - Might have short term stabilizing function, but in the long-term, can have lasting negative consequences for the institutional legitimacy
 - Government policies are becoming more ineffective – underfunding of public goods
- **Institutional Efficiency – level of fair competition**
 - Inflow of dirty money into politics
 - Aids corruption and the criminalization of the economy
 - Hinders efficient resource allocation
- **Business Efficiency**
 - Lack of enforcement of contractual obligations
 - Increased regulatory burden on legitimate businesses

Dynamics of the Hidden Economy in Bulgaria

- Macroeconomic Imbalances
- The Hidden Economy Index
- Exhaustiveness of the National Accounts
- Estimate of the Ministry of Finance
- Assessments of employers' associations and trade unions

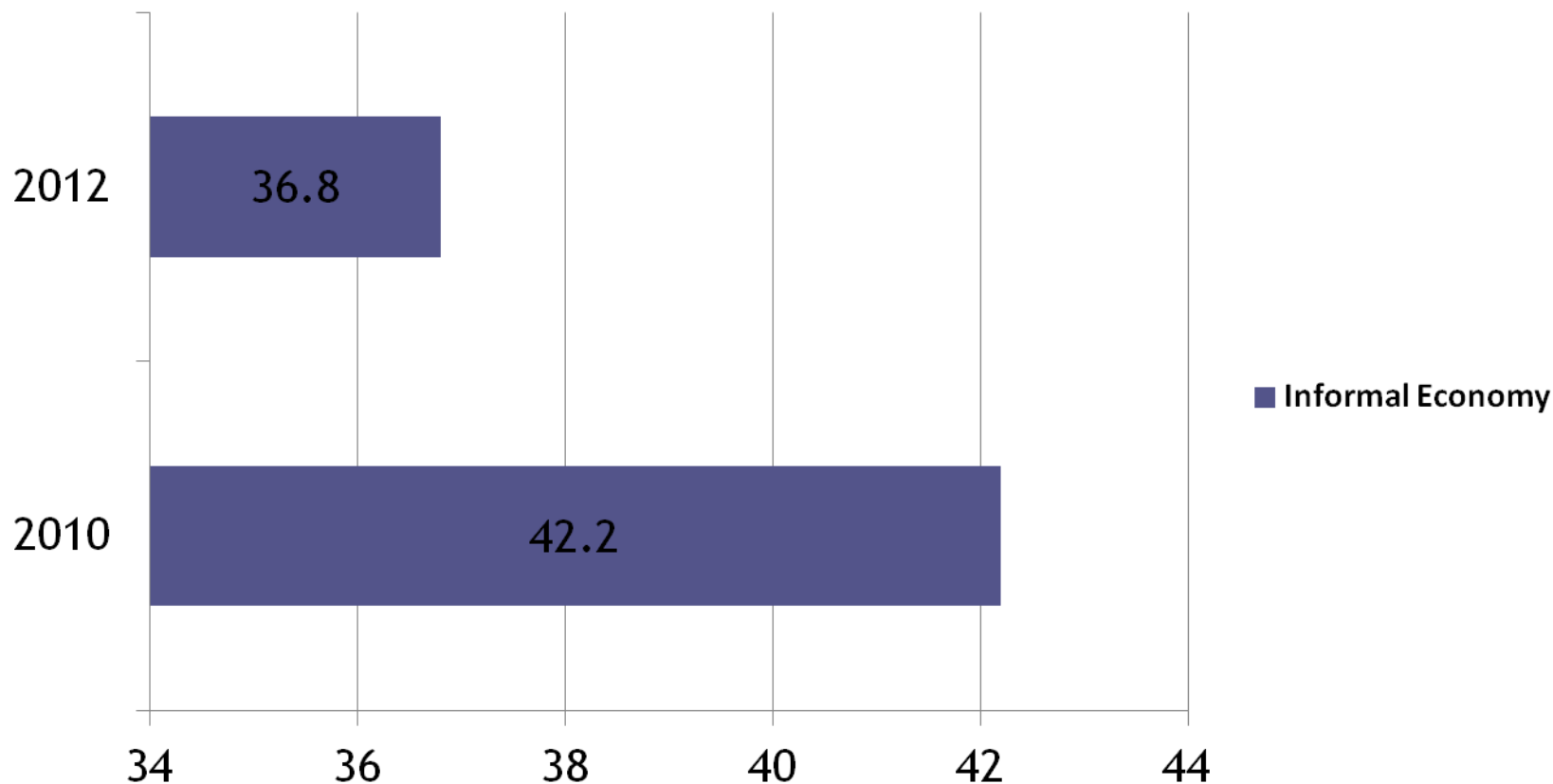
Policy Implications Influenced by the Size of the Hidden Economy

- According to the Ministry of Finance (2011), the share of the hidden economy, since 2000, is about 20% of GDP. NSI has revised GDP with 3% - 4%, in relation to the estimation of the hidden economy in the past decade; external estimates of the hidden economy vary between 18% - 32%
- Even with a smaller share of hidden economy (about 10% - 15% of GDP), many macroeconomic ratios, driving national policies, will undergo significant changes:
 1. Ceilings of 40% of GDP for public spending (according to the new, stricter, fiscal rules) - if the product, produced by the informal economy, is taken into account, the percentage was 33.2% of GDP in 2008 and 34.5 % in 2010.
 2. The competitiveness pact / “Euro Plus”.

Direct Methods

- Center for the Study of Democracy, Vitosha Research
- Bulgarian Industrial Capital Association (BICA)
- Confederation of Independent Trade Unions in Bulgaria
- Bulgarian Industrial Association

Employers' estimates of the informal economy share in Bulgaria



Scope of Informal Economy in 2009-2012

Tendencies	Employers' Estimates 2009 - 2010	Employers' Estimates 2011 - 2012
Informal economy share has increased	37.7	24,8
Informal economy share has shrunk	16,2	30,0
There is no change	34,4	33,6
Can not decide	11,6	11,6

Source: BICA, First Monitoring Report on Informal Economy and Progress in Prevention

Recent tendencies in employers' perceptions

- The employers' average score on shadow economy share is realistic, compared to other surveys
- Although its level remains large, informal economy in Bulgaria began to shrink
- Appearance of a positive tendency in the ratio of formal - informal economy

Indirect Methods

- Ministry of Finance
- National Statistical Institute
- National Revenue Agency
- Institute for Market Economics

Control Agencies: annual reports

National Revenue Agency;
Employment Agency; National Labor
Inspectorate

Regional Inspectorate for Protection
and Control of Public Health;
Bulgarian Food Safety Agency

Regional Inspectorate for
Environment and Water

Directorate for National Construction
Supervision

Observation on indicators for
Activities of Shadow Economy

Tax payments control

Indicators:	Unit	31/12/12	31/12/11	Alteration
Control Checks	number	13 418	13 232	1.4 %
- incl. control checks for social security contributions	number	2020	1670	21 %
Additional Revenues Found	thousand BGN	3 072 662	3 097 222	-0.8 %
- incl. taxes & fees	thousand BGN	57 431	71 185	-19.3 %
Number of control checks with findings above 10 000 BGN	number	8 195	8 177	0.2 %
Relative share of findings above 10 000 BGN	%	63.5 %	61.8 %	1.7 %
Average rate of additional revenues found per one check	thousand BGN	229	234	- 2.1 %

Source: NRA, Annual Report 2012

The Hidden Economy Index

Business



- Assessment of the size
- Hidden employment
- Hidden turnover
- Hidden redistribution

Population

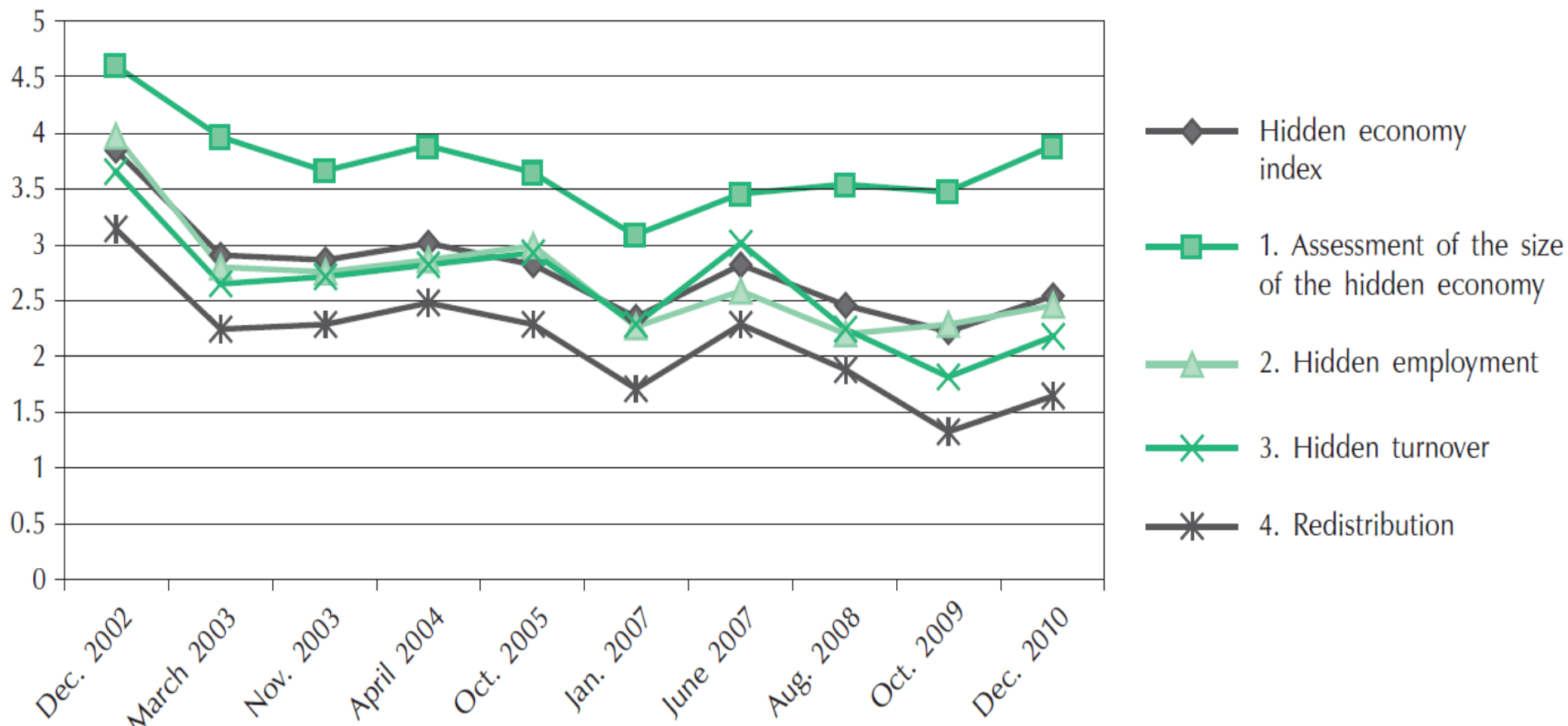


- Assessment of the size
- Hidden employment
- Hidden turnover

Meaning and Impact

- Part of the Corruption Monitoring System = Measures Dynamics + Pinpoints Problems Areas + Attracts Public & Policy attention
- The Index has two levels, which make it a more precise tool
- Indices assume values from 0 (low informal economy) to 10 (high informal economy)

Dynamics of The Hidden Economy Index, 2002 - 2010 (Business)



Source: Vitosha Research, Center for the Study of Democracy

Undeclared Employment in Bulgaria: Trends

Managers' Assessment of the Share of Employed Workers without a Signed Contract

	December 2002	November 2004	April 2005	January 2007	September 2009	December 2010
Up to 10 %	18.9	34.2	38.6	37.4	22.8	29.6
10 % to 25 %	21.4	23.0	16.8	12.9	11.2	9.9
25 % to 50 %	23.5	9.9	11.5	6.8	17.4	13.6
50 % to 75 %	10.1	3.1	2.8	4.1	1.7	1.6
Over 75 %	4.9	0.9	1.2	0.3	0.0	1.2
No such employees	21.2	28.9	29.0	38.4	46.9	44.0
Base	387	322	321	294	241	243

For the last eight years, the share of people working under a formal contract more than doubled (i.e. from 21.2 % to 44 %) Source: Vitosha Research, Center for the Study of Democracy

Underdeclared Employment

Managers' Assessment of the Share of Employed Workers with Underdeclared Payments

	December 2002	November 2004	April 2005	January 2007	September 2009	December 2010
Up to 10 %	14.4	23.6	25.6	26.6	22.9	22.8
10 % to 25 %	12.6	24.6	18.7	11.7	14.2	10.1
25 % to 50 %	27.3	16.5	18.4	15.5	19.3	24.1
50 % to 75 %	15.2	8.1	7.8	6.6	3.6	4.4
Over 75 %	12.3	6.8	7.5	4.8	7.3	8.3
No such employees	18.2	20.4	21.9	34.8	32.7	30.3
Base	374	309	347	290	248	228

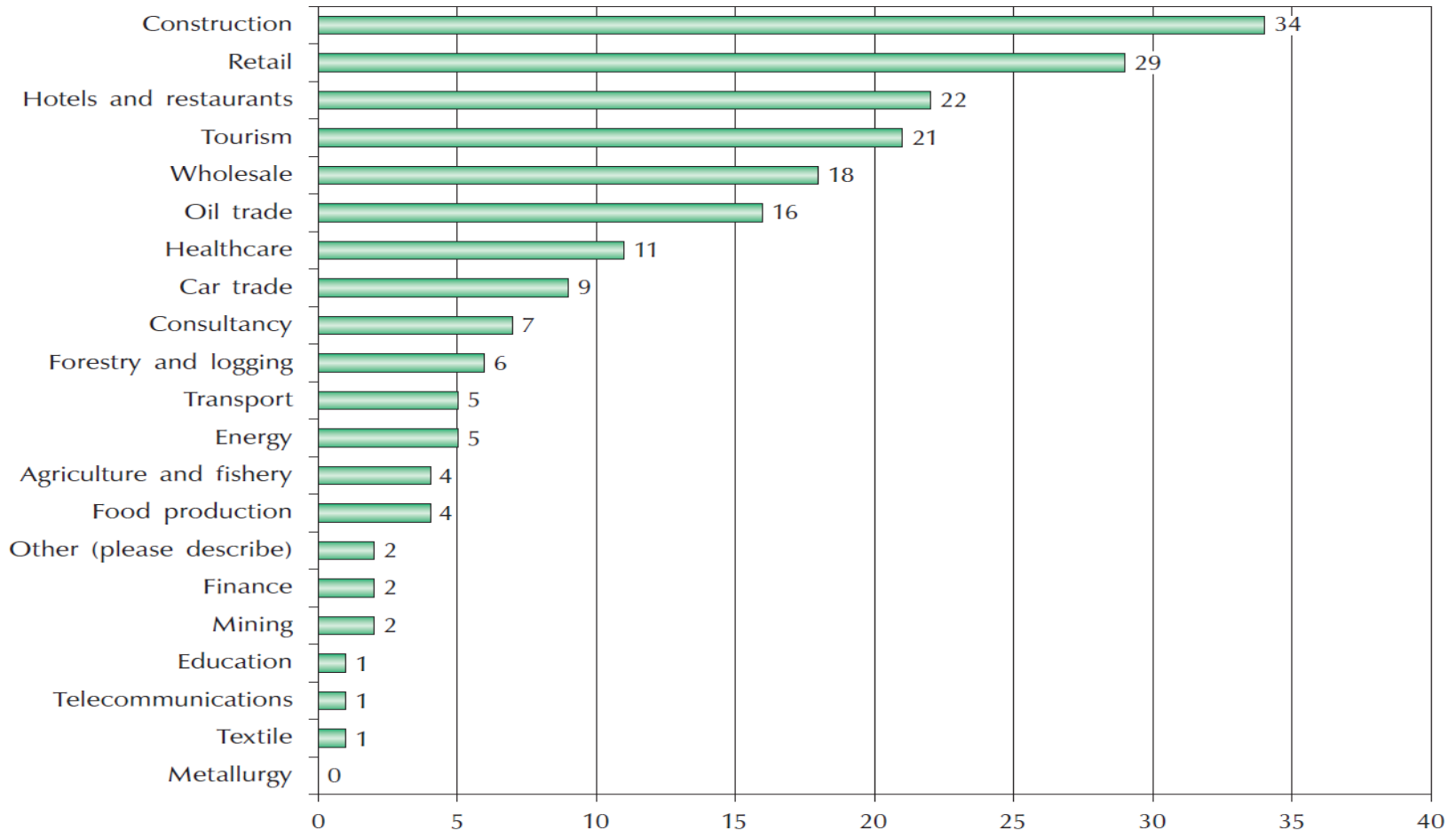
Note: the survey question was “In your opinion, what share of the employed in your branch work under contracts with “hidden clauses”, i.e. receive payments larger than the ones stated in the contract?”

VAT Fraud and Tax Evasion (Business)



Source: Vitosha Research, Center for the Study of Democracy

Sectors with the Largest Shares of Hidden Economic activity, as Reported by the Bulgarian Businesses, 2010



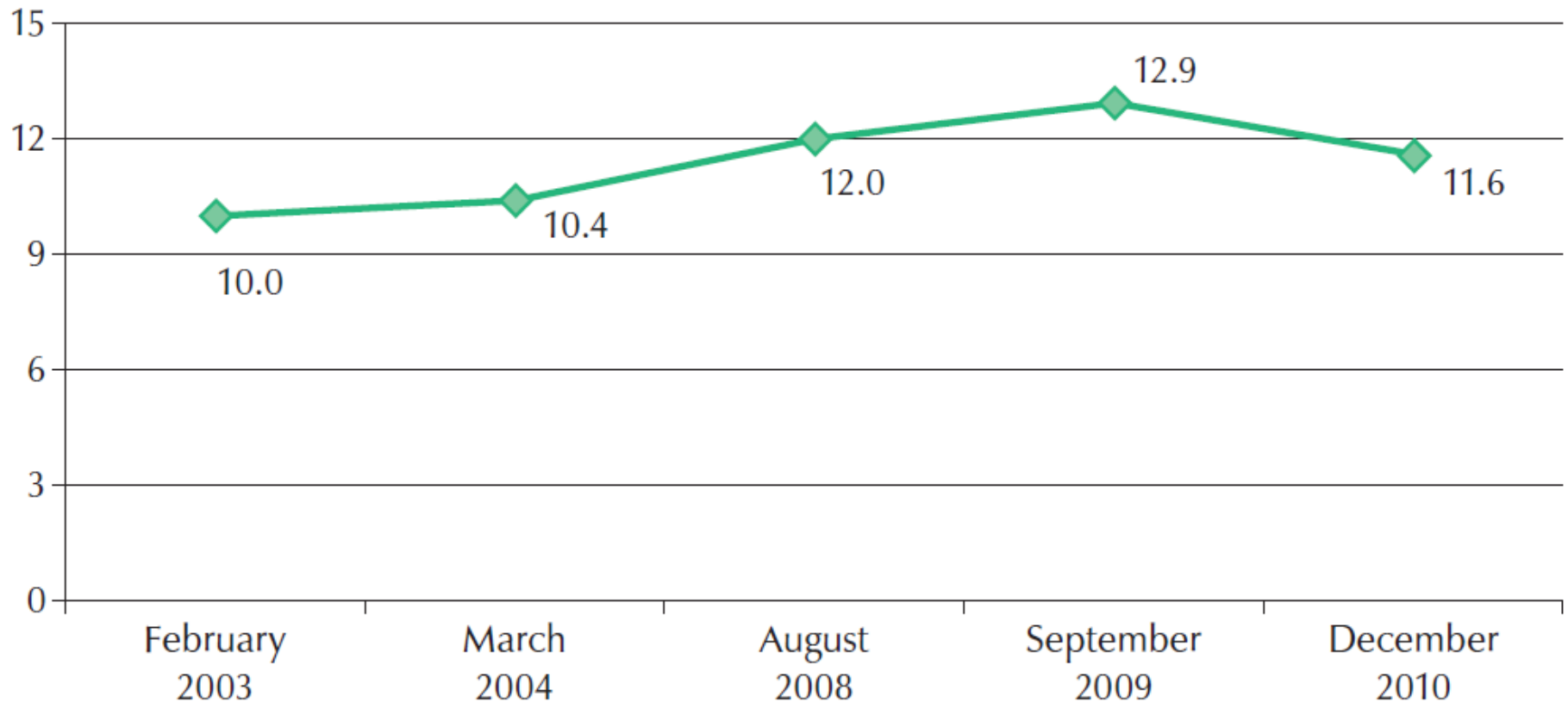
Source: Vitosha Research, Center for the Study of Democracy

The Basis of which Social Security Payments are Calculated, for Primary Employment (%)

	February 2003	March 2004	August 2008	September 2009	December 2010
On the minimal social security threshold, though the total amount of my salary is larger	12.1	13.4	13.5	12.9	10.3
On the minimal social security threshold, which is the real salary I get	10.3	14.3	9.5	12.6	5.9
On the sum set in my contract, though the total amount of my salary is larger	6.7	8.3	15.0	15.5	8.4
On the sum set in my contract, which is the real salary I get	68.3	63.4	61.8	56.2	67.0
Other	2.6	0.6	0.3	2.8	1.5
Base	348	314	378	395	466

Source: Vitosha Research, Center for the Study of Democracy

In the last month, were you paid a higher amount of money than the declared in your contract with your primary employer? (Population)



Share of Workers Reporting no Signed Contract with their Primary or Secondary employer (Population)

	February 2003	March 2004	August 2008	September 2009	December 2010
Without a contract – primary employment	6.0	5.9	5.6	5.9	3.4
Without a contract – secondary employment	77.4	59.1	51.5	51.0	38.1

Bulgaria: Policies and Measures to Limit Undeclared Work

- Introducing compulsory registration of individual labor contracts
- Obligatory social security thresholds in all sectors and branches
- Introducing a “flat” tax on incomes and corporative profits
- Organizing public campaigns on limiting the hidden economy
- Enhancing administrative control and increasing sanctions

- More recently: introducing risk analysis

Thank you for your attention

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