The Hidden Economy in Bulgaria

(GENERAL POPULATION)

Vitosha Research

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SURVEY METHODOLOGY

Sample

National representative survey of the population covering 959 respondents aged 18 and over.

Survey Method

The survey employed the method of the face-to-face interview.

Fieldwork

Fieldwork was conducted in the period 18 – 29 November 2004.

THE HIDDEN ECONOMY INDEXES

- The hidden economy indexes are the basic output of the *Monitoring of the Size and Dynamics of the Hidden Economy* that Vitosha Research Agency started conducting in 2002. The index values are regularly updated based on data from empirical sociological surveys.

- The hidden economy indexes assume values from 0 to 10.

- The closer the value of the indexes is to 10, the more negative are the assessments of the size and manifestations of the hidden economy in this country.

- Index values closer to 0 indicate low level of hidden economy.

- The hidden economy indexes are grouped under the following categories:

  [2]. *Unreported economic activity:*

  - Employment;
  - Suppressed turnovers.

  [22]. *Natural economy and home production:*

  - Activity rate;
  - Incomes;
  - Consumption.

- The hidden economy index values are presented in the Appendix.

MAIN FINDINGS

The study of the sector of the country's economy that remains hidden from official statistics and the tax services becomes all the more relevant not only in domestic economic terms but also in the context of Bulgaria's accession to the European Union. Knowing and understanding the reasons and factors generating and sustaining the hidden economy underlies the development of appropriate and effective government policy.

The Monitoring of the Hidden Economy that has been conducted for two years already makes it possible to outline the following more notable tendencies in this area:

- In the period surveyed (November 2002 – November 2004), there have not occurred any major changes in the share of the hidden economy of the overall economy of the country. ***Although some of its characteristics have been undergoing more dynamic change, the level of the hidden economy in this country generally remains relatively high***.

- As a result of the adoption of a number of measures to improve labor market regulation, in 2003, there was substantial curbing of the hidden economy in its aspects with a bearing on labor relations. However, with the waning of the initial reactions to the steps taken by the government, there has been a certain reversion to the practice of not registering employment relations. ***An increase can be observed as regards both the practice of not concluding a contract at all for supplementary employment and the proportion of those with an underreported social security base amount***.

- Certain changes have also occurred within the general occupational structure – there has been an increase in the proportion of the working-age population in *primary or supplementary paid employment* and a parallel drop in the number of those engaged in *home production activities* or unpaid *voluntary work*. Overall, ***in the past two years, the proportion of those engaged in activities that are legal but not registered officially has been declining steadily.***

- Unlike the reversion to higher levels as regards the conclusion of contracts of employment and the payment of social security and health insurance contributions, turnover suppression has been declining steadily. One of the most notable and constant tendencies in the past two years has been the ***lasting drop in the incidence of non-issuing of tax receipts for purchases made and services used***.

- Even the services sector, almost entirely "gray" until recently, displays some improvement as regards the issuing of tax receipts. Although these practices are still at least twice as widespread in services as in retail, positive change is emerging and service delivery is increasingly brought in line with the law.

- ***Regarding the scrupulous payment of monthly utility bills, there has not been any change – the prevailing inclination and practice is still to pay on time,*** even if this puts a strain on the family budget for more than two-thirds of the households.

- ***Savings levels remained unchanged, as well – more than two-thirds of the population had not had any savings at all***. The lack of any change in this respect indicates that the population's real incomes are still only growing slowly. It also suggests that the loan opportunities provided are displacing the practice of saving part of one's income.

- The natural economy and home production still occupy a significant share of the national economy and constitute an important source of livelihood to more than one-fourth of the households in the country. Overall, ***the proportion of those engaged in family farm work is falling and so is the output produced. The large portion of the produce remains for home consumption but the proportion of income from selling home produced foodstuffs relative to total annual household income has increased***.

SURVEY RESULTS

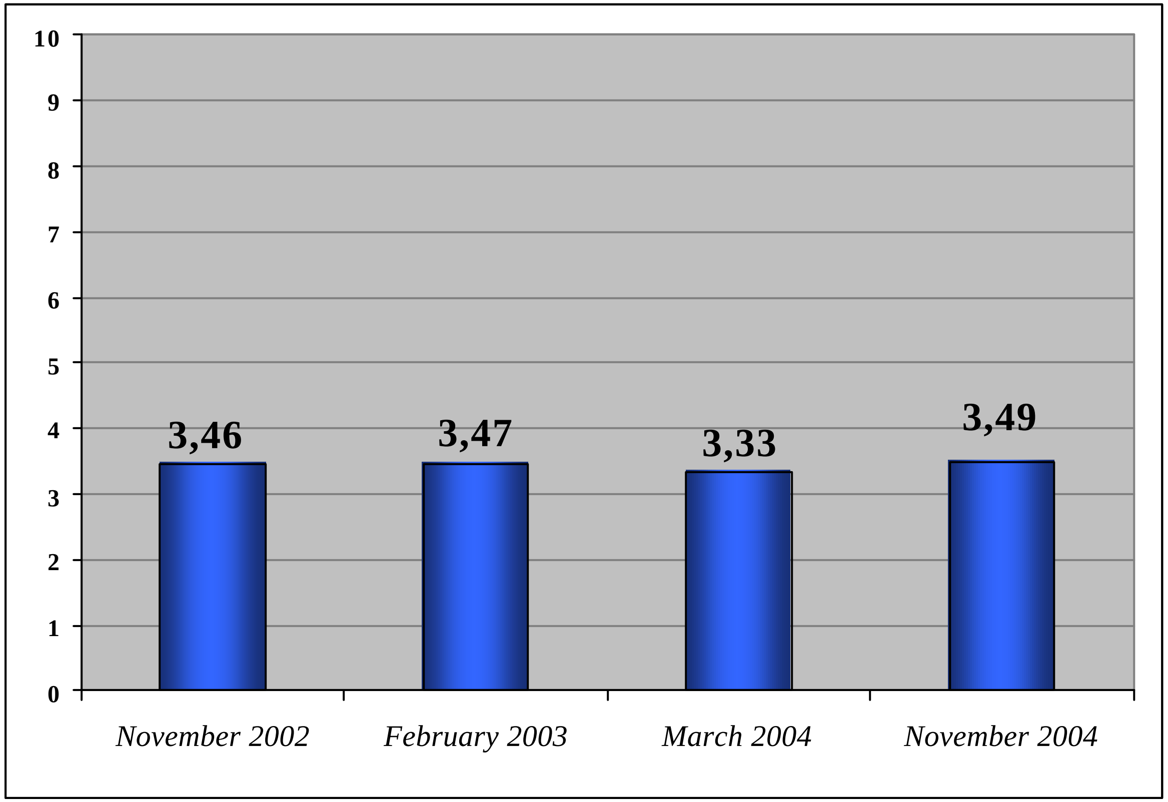
1. HIDDEN ECONOMY INDEX

This index is a synthetic indicator and makes an aggregate assessment of the forms and dynamics of the hidden economy in general and in particular economic areas grouped under two basic categories – *unreported economic activity* and *natural economy and home production.*

The total index value appears to be reverting to the level recorded in the winter of 2002/2003 (*Figure 1).* The values of most of its constituent components mark an increase from March 2004 but have changed in different directions compared to the preceding two surveys (November 2002 and February 2003).

Notwithstanding the particular structural changes, overall, the level of the hidden economy in this country has remained relatively high in the past two years. *(Figure 1)*

FIGURE 1 HIDDEN ECONOMY INDEX



Base: All respondents (November'02 N=1077; February'03 N=1107; March'04 N=1080; November'04 N=959)

2. *UNREPORTED ECONOMIC ACTIVITY INDEX*

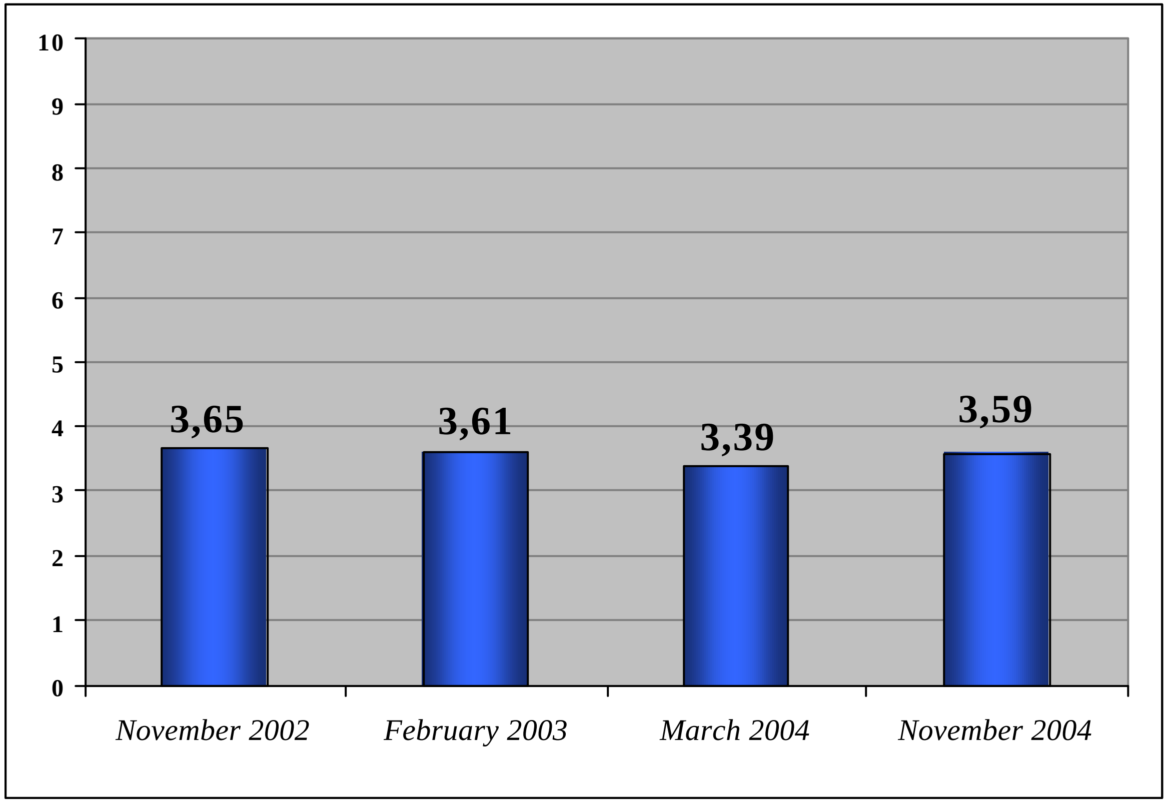
Hiding turnover and income from business and work activity is one of the chief forms of the hidden economy. The Unreported Economic Activity Index summarizes the information about unreported incomes and suppressed turnover concerning the general population.

It includes two basic sub-indexes – *Employment/Labor Relations* and *Suppressed Turnovers*. The former provides information about unreported work activities and non-payment of social security and health insurance contributions. The second one measures the frequency of issuing tax receipts for services used or for purchases in basic product categories.

The value of this index marks a slight increase from the previous survey but the overall tendency has been towards gradual decline in unreported economic activity. *(Figure 2)*

The values of the two sub-indexes have changed in opposite directions. There seems to be a reversion to the higher unreported work activity levels. On the other hand, there has been a significant drop in the practice of suppressing turnover through non-issuing of tax receipts for service delivery or sale of goods.

FIGURE 2 UNREPORTED ECONOMIC ACTIVITY INDEX



Base: All respondents (November'02 N=1077; February'03 N=1107; March'04 N=1080; November'04 N=959)

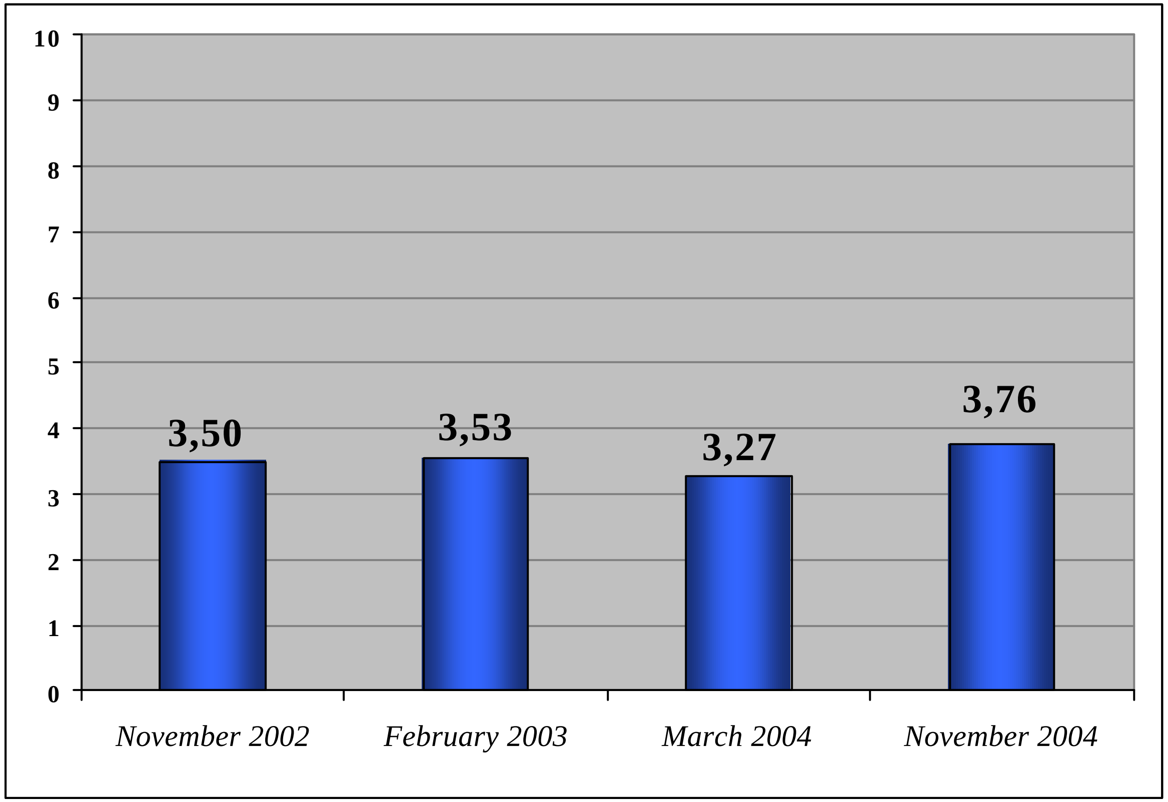
2. LABOR RELATIONS

1. UNREGISTERED WORK ACTIVITY INDEX

As a result of the adoption of a series of measures for improved labor market regulation, in 2003, there was a tangible shrinking of the hidden economy insofar as it affects labor relations. However, with the waning of the initial reactions to the steps taken by the government, there has been a reemergence of some practices of unregistered employment. ***An increase has been detected as regards both the practice of not concluding a contract at all for additional work activity and the proportion of those with an underreported social security base amount***.

The resulting aggregate value of this index is record high for the past two years *(Figure 3)*. This suggests that the impact of the regulations enacted is as yet unstable. There is a call for tougher control over their implementation and for more in-depth study of the reasons for the rise in “hidden” employment.

FIGURE 3 UNREGISTERED WORK ACTIVITY INDEX



Base: All respondents (November’02 N=1077; February’03 N=1107; March’04 N=1080; November’04 N=959)

2. *Employment in the Past Month*

In the surveyed two-year period, there has emerged a steady upward tendency as regards the proportion of the *population in paid primary or supplementary employment*. As of the end of 2004, nearly half of the respondents were engaged in either type of work activity. *(Figure 4)*

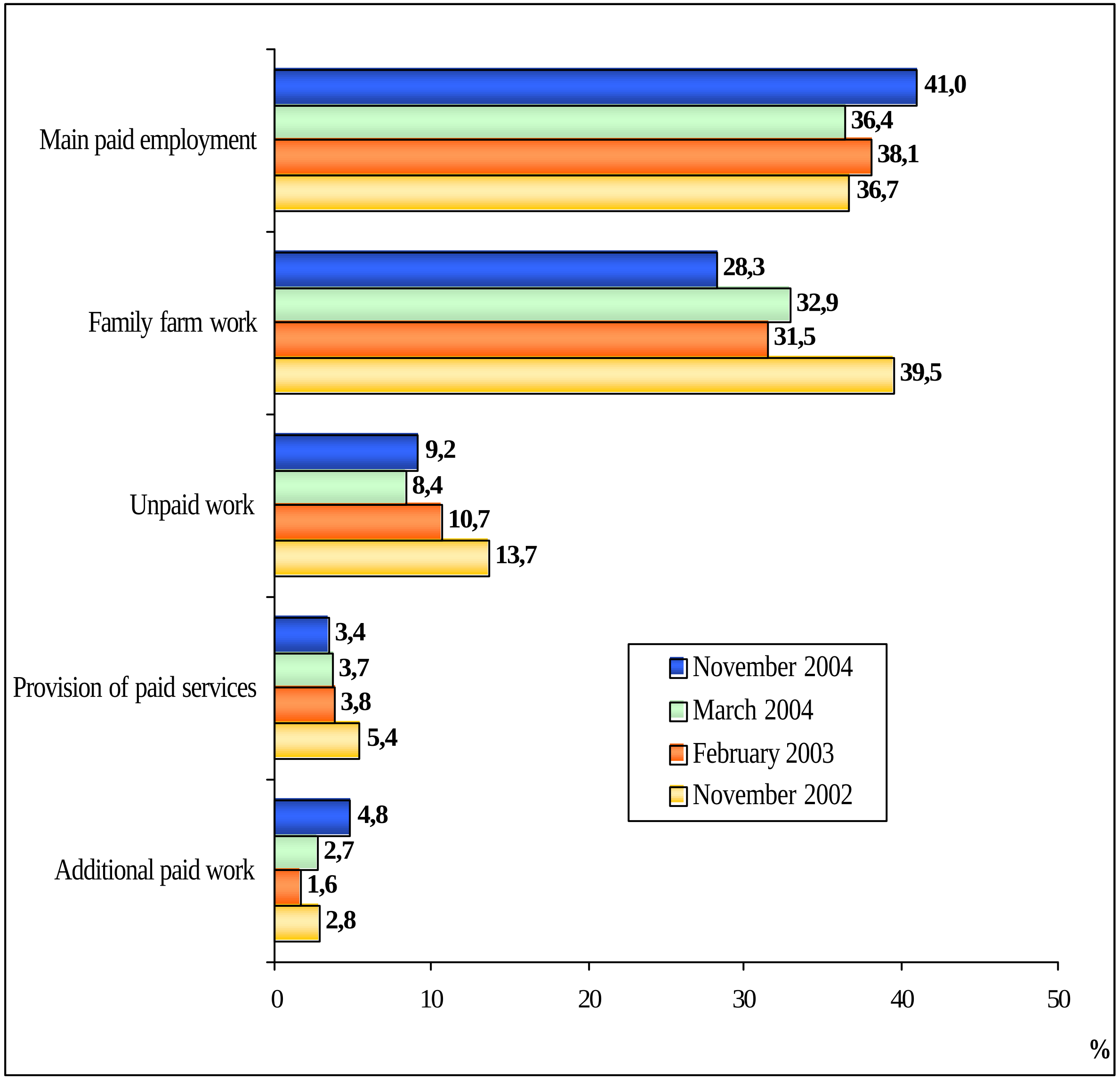
Conversely, there has been a tangible decrease in the proportion of those engaged in *activities related to home production (gardens, plots of land, animal raising).*

There has also been a decrease in *unpaid work outside the home* (assistance to friends, family, neighbors – shopping, cleaning, babysitting or taking care of an elderly person, etc., voluntary work for charitable organizations, foundations, etc.).

The number of those engaged in *paid service provision* remains relatively steady and not too high.

It can generally be concluded that, in the past two years, *the proportion of those engaged in activities that are legal but not registered officially has been declining steadily* – while it was 53.2% in November 2002, by November 2004 it had dropped to 37.5%. *(Figure 4)*

Figure 4. Employment in the Past Month



Base: All respondents (November'02 N=1077; February'03 N=1107; March'04 N=1080; November'04 N=959)

The role of *traditional home production* has been waning – in two years alone, its share fell by 11 points. Nevertheless, more than one-fourth of the adult population of the country is still involved in activities related to home production, mainly of foodstuffs.

Besides family farm work and *supplementary employment*, part of the population is also engaged in providing various *paid services*. Their share within the general occupational structure is not too important but to some people such activities are an additional means of increasing their incomes. The most commonly provided paid services are: *home repair, appliance repair, transport services, and home care of children and elderly people. (Table 1)*

As previously observed, the decreasing proportion of those engaged in *occasional paid service provision* is offset by the increasing number of people who regularly do *additional paid work* (from 2.8% to 4.8%). *(Figure 4)*

The continuing increase in the number of those with primary and supplementary employment signals a certain labor market recovery. On the other hand, the decreasing proportion of those engaged in *home production activities* and *paid service provision* constitutes indirect evidence of the shrinking of the hidden activity of individuals and sole traders.

TABLE 1. INVOLVEMENT IN DELIVERY OF BASIC TYPES OF PAID SERVICES: (%)

	Nov 2002	**Feb 2003**	**Mar 2004**	**Nov 2004**
Repair of housing/buildings (carpentry, plumbing, painting)	34,5	15,7	26,0	**32,5**
Transportation (transport, deliveries, moving services, etc.)	-	9,2	5,3	**22,0**
Repair of goods (cars, bicycles or other vehicles; electric appliances)	12,6	11,7	15,7	**12,6**
Home care services (looking after children, elderly people)	7,0	9,9	7,4	**11,9**
Home maintenance (cleaning, gardening, lawn mowing)	35,4	15,8	20,1	**6,4**
Hairdressing, sewing, shoe repair services	3,6	12,1	-	**4,6**
Renting out property (apartments, stores, garages, etc.)	5,5	2,4	-	**4,6**
Private lessons (dance, foreign languages, sports)	-	2,4	5,2	**-**
Sale of goods (telemarketing, door-to-door sale)	3,9	-	2,4	**-**
Entertainment services for weddings, parties, events (musicians, bands, DJs, singers, photographers)	-	2,3	0,0	**-**
Catering	1,6	9,9	5,2	**-**
Manufactured goods (engravings, woodcarvings, welded goods, etc.)	1,9	-	5,2	**-**
Professional services (psychologists, psychoanalysts, doctors, accountants, architects, mathematicians)	5,1	2,1	4,8	**-**
Other	10,9	20,0	12,6	**9,2**
Base	*59*	*42*	*40*	*33*

3. Contracts Concluded with Employers

The presence or absence of work contracts is one of the most important indicators of the “grayness” in the area of labor relations. It not only gives an idea of the number of those without, or with lower than due, social security coverage, but also shows the proportion of companies suppressing their actual turnover.

After the initial effect of the introduction of mandatory registration of employment contracts, some of the companies are gradually reverting to the practice of not concluding written work contracts with their employees, particularly in the case of supplementary employment. *(Table 2)*

More than two-thirds of the people engaged in additional work in fact are not registered anywhere as being in some kind of employment.

Table 2. Written Contract Concluded with the Employer

	Primary employment				Supplementary paid employment			
	Nov 2002	**Feb 2003**	**Mar 2004**	**Nov 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**	**Nov 2004**
Yes	86,0	85,8	87,5	**84,9**	39,2	22,6	40,9	**21,9**
No	5,7	6,0	5,9	**9,0**	50,4	77,4	59,1	**68,6**
Self-employed, freelance professional	2,9	2,9	2,6	**3,8**	3,0	-	-	**7,1**
Business owner/co-owner	5,4	5,3	3,9	**2,3**	7,5	-	-	**2,4**
Base	*393*	*417*	*392*	*385*	*31*	*18*	*24*	*46*

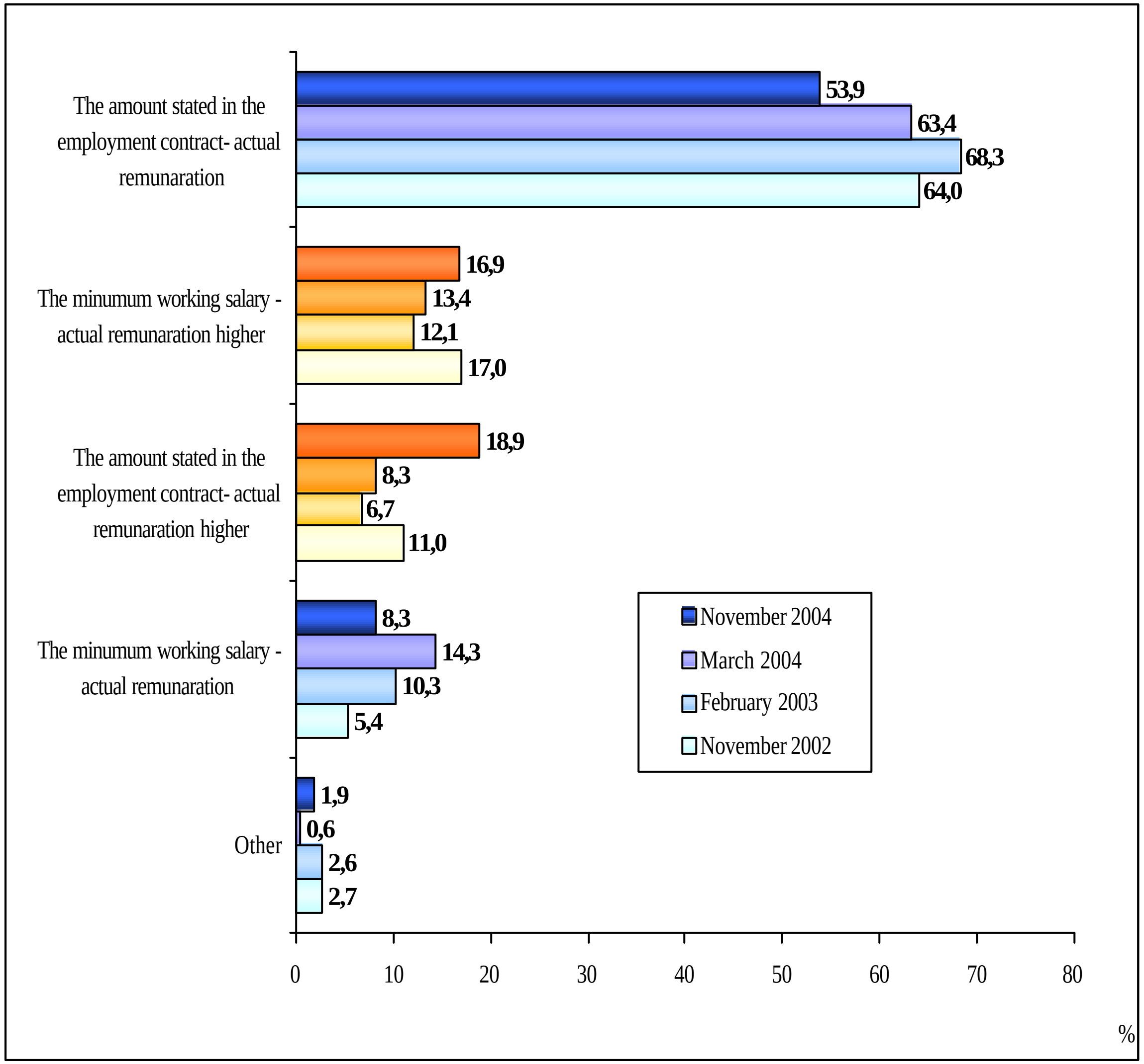
4. CONTRACTS WITH "SECRET CLAUSES"

Along with the attempts to completely hide certain work activities, some of the employers and employees are trying to reduce their expenditures by not paying the due health and social security contributions.

In less than a year (March-November 2004), the proportion of workers for whom the *due social security contributions are not paid* increased from one-fifth to more than one-third *(Figure 5)*. Six out of ten employees have *social security coverage corresponding to their actual remuneration as stated in their contracts*. For the remaining ones, the social security base amount is either the minimum salary or some other sum that in any case is lower than their actual monthly remuneration.

Even in the latest survey there appeared a discrepancy between the directly and indirectly obtained data. Asked directly whether in the past month they had received ***remuneration higher than stated in their contract***, only 10.3% of those working under contracts of employment answered affirmatively. When the question was put indirectly, about ***their social security base amount***, their proportion increased threefold - to 35.8%. *(Figure 5)*

FIGURE 5. SOCIAL SECURITY BASE AMOUNT



Base: Respondents with social security coverage (November'02 N=312; February'03 N=348; March'04 N=314; November'04 N=303)

Over the two years there did not occur any serious shifts in terms of the types of contracts concluded by the employees. In the case of *primary employment*, there predominate **contracts of employment**, and in the case of *supplementary employment*, the **specific task contracts**. *(Table 3)*

As regards *supplementary employment*, there has been an increase in the number of employment contracts concluded but owing to the small number of respondents who actually have a contract at all for the additional work they do, it is not possible to draw any statistically significant conclusions about possible changes in this respect.

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TABLE 3. TYPE OF WORK CONTRACT

	Primary employment				Supplementary paid employment			
	Nov 2002	**Feb 2003**	**Mar 2004**	**Nov 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**	**Nov 2004**
Employment contract	90,5	92,5	94,5	**93,8**	8,4	-	19,5	**35,0**
Fixed term contract	8,2	7,0	3,8	**5,5**	62,6	24,2	9,7	**23,4**
Specific task contract	1,0	0,3	0,8	**0,3**	29,0	75,8	50,5	**41,6**
Other	0,3	0,3	0,9	**-**	-	-	20,3	**-**
Base	*334*	*357*	*340*	*327*	*11*	*4*	*10*	*10*

5. *Social Security and Health Insurance Contributions*

Regarding the payment of health insurance and social security contributions, there again appears to be a certain reversion to the former levels of “evasion”. ***This applies to a higher degree to primary employment – one out of ten employees does not have any social security coverage at all***. There has also been a slight increase in the proportion of those *without health insurance*. *(Tables 4 and 5)*

Unlike the primary employment, in the case of supplementary employment there has been a certain improvement regarding social security and health insurance. The number of the employed without health insurance and social security coverage is still too high (three out of ten) but the proportion of the insured is increasing steadily. *(Tables 4 and 5)*

The problem with the failure to pay health insurance and social security contributions for *supplementary employment*, however, is of a slightly different nature. ***Under the existing social security system, the payment of additional contributions in no way helps ensure higher-quality health and social services to the employees***. On the contrary, they rather perceive it as a redundant expenditure. For this reason, unless the legal framework is changed, the non-payment of health insurance and social security contributions for supplementary employment will be a persistent practice of benefit to the employers but likewise, to the employees themselves.

TABLE 4. SOCIAL SECURITY CONTRIBUTIONS

	Primary employment				Supplementary paid employment			
	Nov 2002	Feb 2003	Mar 2004	Nov 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2004
Paid by the employer	71,8	71,3	69,9	**77,0**	13,7	-	8,0	**14,6**
Paid by the respondent	9,1	7,8	7,6	**5,5**	4,0	-	8,3	**7,8**
Paid by the employer and the respondent	8,5	13,0	16,0	**7,3**	-	5,8	4,0	**4,6**
Not paid	***10,6***	***7,9***	***6,5***	***10,2***	***82,3***	***94,2***	***79,7***	***73,0***
Base	*382*	*408*	*375*	*366*	*29*	*17*	*24*	*44*

TABLE 5. HEALTH INSURANCE CONTRIBUTIONS

	Primary employment				Supplementary paid employment			
	Nov 2002	Feb 2003	Mar 2004	Nov 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2004
Paid by the employer	66,0	64,0	66,6	**75,0**	15,0	17,8	8,3	**12,1**
Paid by the respondent	11,4	9,9	8,2	**7,5**	7,5	6,0	13,2	**10,4**
Paid by the employer and the respondent	16,1	19,6	19,0	**9,2**	3,4	5,8	8,7	**4,6**
Not paid	***6,6***	***6,5***	***6,2***	***8,3***	***74,2***	***70,4***	***69,7***	***72,9***
Base	*376*	*403*	*379*	*361*	*28*	*17*	*23*	*44*

22. SUPPRESSED TURNOVER

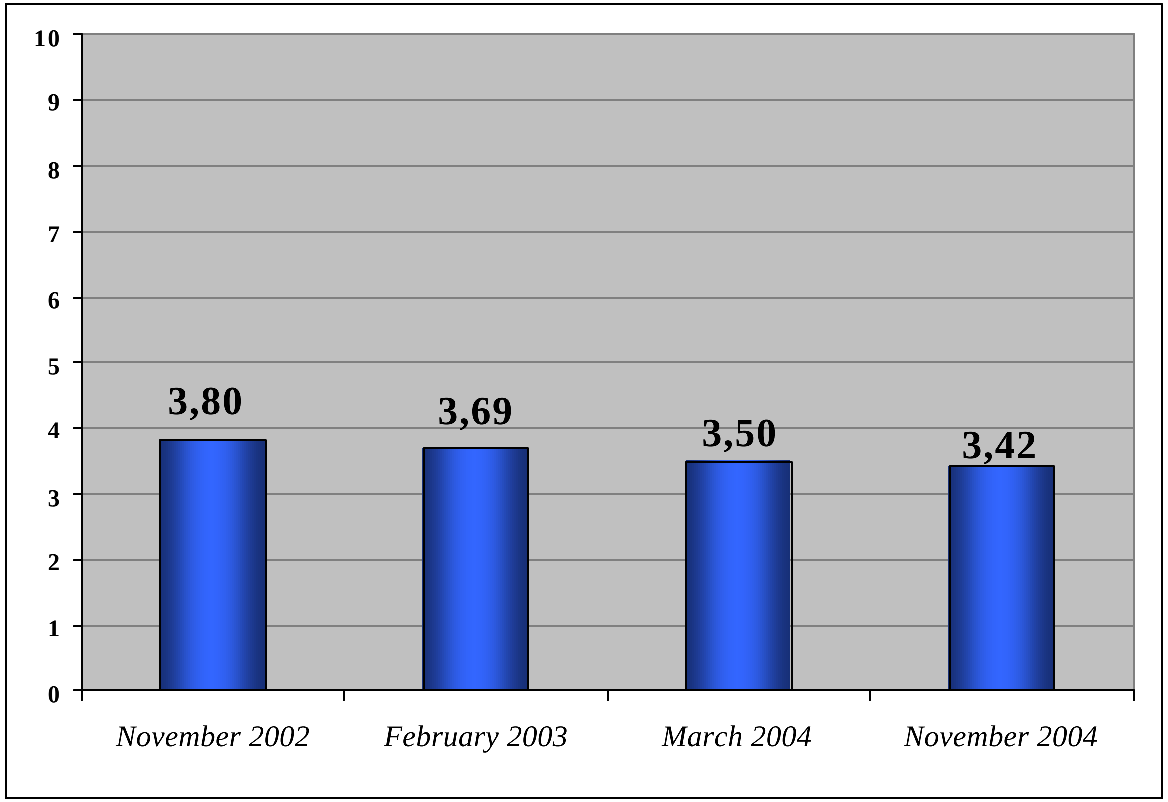
1. Suppressed Turnover Index

One of the most notable and persistent tendencies in the past two years has been the **lasting drop in the incidence of non-issuing of tax receipts for purchases made or services used**. (*Figure 6)*

The drop observed in November 2004 in the value of the aggregate index of the turnover suppressed by companies through non-issuing of tax receipts and invoices was due largely to a certain "lightening" in the services and non-durables retail sectors.

As regards durables, the process has been slower and a considerable proportion of the sales of white and brown goods – more than one-fourth – still remain unregistered and unreported.

Figure 6. Suppressed Turnover Index



Base: All respondents (November'02 N=1077; February'03 N=1107; March'04 N=1080; November'04 N=959)

2. *Issuing of Tax Receipts for Purchases of Durable Goods*

In all of the categories of durables surveyed, the number of people who have purchased the respective goods has been increasing steadily in the past two years. This is indirect evidence of real growth in the consumption of these types of goods.

Nevertheless, in some categories, the incidence of non-issuing of tax receipts is still quite high. These are typically ***cars***, ***mobile phones***, and ***home furniture***. *(Table 6)*

Despite the small base, which does not allow making categorical comparisons, there is reason to speak of a certain rise in the incidence of non-issuing of financial documents in some product categories (e.g. *computers*, *refrigerators/freezers*, and *dishwashing machines*). This is also what accounts for the only slight increase in the overall index reflecting this aspect of the hidden economy.

Table 6. Goods Purchased in the Past Two Years (%)

	November 2002			**February 2003**			**March 2004**			**November 2004**		
	Have purchased	Have not received cash receipts	*Base**	Have purchased	Have not received cash receipts	*Base**	Have purchased	Have not received cash receipts	*Base**	Have purchased	Have not received cash receipts	*Base**
Car	2,6	**28,0**	*28*	1,8	**33,7**	*18*	1,7	**8,2**	*13*	4,7	**27,8**	*42*
Dish washer	0,3	-	*3*	0,2	-	*2*	0,4	-	*3*	0,7	**24,4**	*4*
Cellular (mobile) phone	10,1	**20,5**	*109*	11,0	**7,9**	*116*	12,6	**10,0**	*122*	22,4	**12,8**	*185*
Home furniture	5,4	**13,2**	*58*	5,1	**12,2**	*50*	5,5	**7,9**	*51*	10,9	**11,5**	*89*
CD Player	1,7	-	*19*	1,6	**11,3**	*18*	1,8	**5,7**	*18*	3,6	**7,3**	*34*
Computer	2,0	**5,3**	*22*	2,5	**7,6**	*27*	2,1	-	*21*	5,3	**6,7**	*41*
Stereo system	1,3	**10,4**	*14*	0,7	-	*7*	0,7	**14,8**	*7*	1,9	**5,1**	*19*
Color TV	5,0	-	*54*	7,1	**2,7**	*75*	7,8	**7,8**	*77*	13,3	**4,7**	*110*
Refrigerator/freezer	3,7	**2,7**	*40*	3,8	**5,4**	*38*	5,0	**3,8**	*53*	7,0	**4,0**	*60*
Washing machine	4,2	-	*46*	4,0	**5,0**	*40*	4,1	**12,2**	*42*	9,8	**3,3**	*81*
Vacuum cleaner	3,6	-	*39*	4,5	**2,1**	*46*	3,9	**2,7**	*36*	7,7	**1,6**	*59*

Base	1077	* Those who purchased the respective goods	1107	* Those who purchased the respective goods	1080	* Those who purchased the respective goods	959	* Those who purchased the respective goods

Unlike the durable goods, sales of consumer non-durables definitely display increasing legitimization. ***In all product categories, there has been an increase in the reported issuing of cash receipts in all or most cases of purchase***.

Failure to issue tax receipts is still most common in the sale of *alcohol, tobacco products, books and textbooks*. Nevertheless, in the past two years, there has been a serious drop in the number of respondents reporting they have *never* been issued a receipt for the purchase of these types of goods. *(Table 7)*

TABLE 7. INCIDENCE OF TAX RECEIPT ISSUING IN THE PAST THREE MONTHS FOR THE FOLLOWING PRODUCT CATEGORIES

	Foodstuffs			Apparel and shoes			Alcohol and tobacco products			Toiletries and cosmetics			Books and textbooks		
	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004
Every time	34,5	28,9	**38,4**	34,0	33,2	**34,9**	24,9	16,9	**25,4**	29,9	25,9	**34,0**	33,7	23,2	**37,1**
In most cases	32,5	32,3	**32,2**	25,3	26,1	**32,0**	20,5	24,8	**26,5**	26,2	30,0	**32,1**	22,9	29,8	**27,3**
In about half of the cases	9,0	10,6	**7,3**	8,4	8,4	**5,6**	10,1	13,1	**9,9**	10,7	12,4	**8,6**	7,3	8,9	**4,2**
In some cases	18,5	19,4	**15,2**	22,4	23,0	**15,7**	22,5	25,7	**21,5**	24,4	22,9	**17,3**	22,4	22,0	**20,7**
Never	***5,6***	***8,9***	***6,9***	***9,9***	***9,2***	***11,7***	***22,0***	***19,6***	***16,6***	***8,7***	***8,8***	***8,0***	***13,6***	***16,0***	***10,7***
Base (those who purchased such goods)	*1022*	*1023*	*922*	*470*	*464*	*573*	*558*	*499*	*503*	*696*	*703*	*689*	*306*	*256*	*326*

3. Issuing of Tax Receipts for Services Provided

The incidence of non-issuing of tax receipts is even higher in the area of *paid service provision*.

In some categories, the practice of not recording officially the services provided covers as much as 75-84% of all cases – *home maintenance* (cleaning, lawn mowing)*; professional services; home repair* (carpentry, plumbing, painting). *(Table 8)*

Nevertheless, there appears to be a certain reduction of the "grayness" in the services sector. With some services requiring increasing special skills and certification (e.g. *home care services, catering, transport services*) and with the creation of companies specialized in such service delivery, there has also been a decline in the practice of not registering officially the respective service.

Yet, the ***incidence of unreported activity in the services sector is still at least twice as high as in retail***. The average proportion of those who did not receive cash receipts for services they paid for remains too high – 60.4%.

Table 8. Receipts Issued for Services Used in the Past Month (%)

	November 2002		February 2003		March 2004		November 2004	
	Have used the service	**Have not been given receipts**	Have used the service	**Have not been given receipts**	Have used the service	**Have not been given receipts**	Have used the service	**Have not been given receipts**
Home maintenance (cleaning, gardening, lawn mowing)	0,6	**46,5**	0,9	**85,2**	1,4	**90,5**	2,1	**84,0**
Professional services (psychologists, doctors, accountants, architects)	13,1	**67,0**	19,8	**62,9**	16,3	**65,9**	11,8	**80,8**
Repair of housing/buildings (carpentry, plumbing, painting)	5,0	**87,1**	3,7	**64,5**	3,0	**83,0**	6,8	**78,1**
Hairdressing, sewing, shoe repair services	25,9	**84,3**	29,2	**72,3**	29,3	**79,3**	28,5	**72,8**
Private lessons (dance, foreign languages, sports)	2,2	**68,6**	1,8	**74**	2,8	**73,4**	3,1	**72,2**
Repair of goods (cars, bicycles or other vehicles; electric appliances)	7,3	**69,7**	7,6	**66,9**	6,5	**79,5**	6,6	**69,4**
Sale of goods (telemarketing)	-	**-**	-	**-**	0,5	**25,2**	1,1	**64,7**
Home care services (looking after children, elderly people)	0,9	**84,0**	1,2	**81,3**	0,6	**64,3**	1,4	**64,1**
Renting property (apartments, stores, garages, etc.)	1,8	**41,5**	1,5	**50,3**	1,6	**52,3**	2,8	**63,0**
Entertainment services for weddings, parties, events (musicians, photographers)	0,7	**35,8**	0,6	**60,2**	0,7	**66,7**	0,8	**55,3**
Manufactured goods (engravings, wood carvings)	-	**-**	0,5	**58,7**	0,5	**49,0**	0,7	**36,9**
Transportation (transport, deliveries)	6,2	**42,5**	9,1	**41,3**	10,3	**23,6**	11,7	**30,6**
Catering	1,7	**31,0**	2,7	**25,1**	1,3	**-**	4,6	**13,1**

Base	*1077*	*Base (Users of the respective service)*	*1107*	*Base (Users of the respective service)*	*1080*	*Base (Users of the respective service)*	*959*	*Base (Users of the respective service)*

[222]. *REDISTRIBUTION*

1. RATE OF PAYMENT OF TAXES AND FEES

The latest survey has confirmed the prevailing inclination among the population to scrupulously and promptly pay the monthly utility bills.

In excess of 80% of the people always strive to pay their bills, although to more than two-thirds this entails deprivations for them and for their households. *(Table 9)*

Some only pay their bills after they receive a warning that the service will be cut off and when they cannot avoid it. This practice is most common as regards the bills for central heating. The latter is also the category with the highest proportion of respondents saying they do not pay because they cannot afford to.

Regardless of whether they pay their bills promptly or put it off as much as they can, there are practically *no respondents who do not pay their bills at all because they deem them too high*. The wish generally prevails to pay off all utility bills in a timely manner.

TABLE 9. SUBJECTIVE ATTITUDES TO THE PAYMENT OF UTILITY BILLS AND FEES (%)

	Monthly bills and fees														
	Electricity			**Water**			**Telephone**			**Central heating**			**Gas**		
	Nov ‘02	**Mar‘ 04**	**Nov ‘04**	**Nov ‘02**	**Mar ‘04**	**Nov ‘04**	**Nov ‘02**	**Mar ‘04**	**Nov ‘04**	**Nov ‘02**	**Mar ‘04**	**Nov ‘04**	**Nov ‘02**	**Mar ‘04**	**Nov ‘04**
I always pay my bills and this does not lead to any deprivations for me and my household	20,9	19,0	**21,8**	22,9	22,2	**23,8**	24,9	20,4	**23,0**	19,1	21,8	**15,4**	31,0	-	**7,4**
I always pay my bills although my household and I suffer deprivations as a result	70,4	68,6	**71.4**	67,2	64,7	**67,1**	68,1	70,4	**70,0**	69,9	57,7	**59,8**	60,0	35,7	**55,9**
I pay my bills when I get a warning that the service will be cut off and I can’t avoid it	5,5	5,6	**4,7**	5,9	5,1	**6,4**	4,3	5,2	**4,7**	6,8	8,2	**10,6**	5,1	-	**3,8**
I never pay my bills because I think they are very high	***0,2***	***0,4***	***0,1***	***0,4***	***0,4***	***0,1***	***0,2***	***0,4***	***0,2***	-	-	-	-	-	-
I don’t pay my bills because I can’t afford to	***3,0***	***2,8***	***0,4***	***3,5***	***3,8***	***1,3***	***2,5***	***0,2***	***0,6***	***4,2***	***4,1***	***5,7***	***3,9***	***6,9***	***4,5***
Someone from outside the household pays them / someone else pays them *	NA	3,6	**1,5**	NA	3,8	**1,3**	NA	3,5	**1,6**	NA	8,2	**8,5**	NA	57,4	**28,4**
Base (The respondents who use the respective service)	*1010*	*1066*	*938*	*1005*	*1057*	*913*	*811*	*831*	*774*	*561*	*171*	*167*	*125*	*14*	*22*

** This option was included in the question in February 2003*

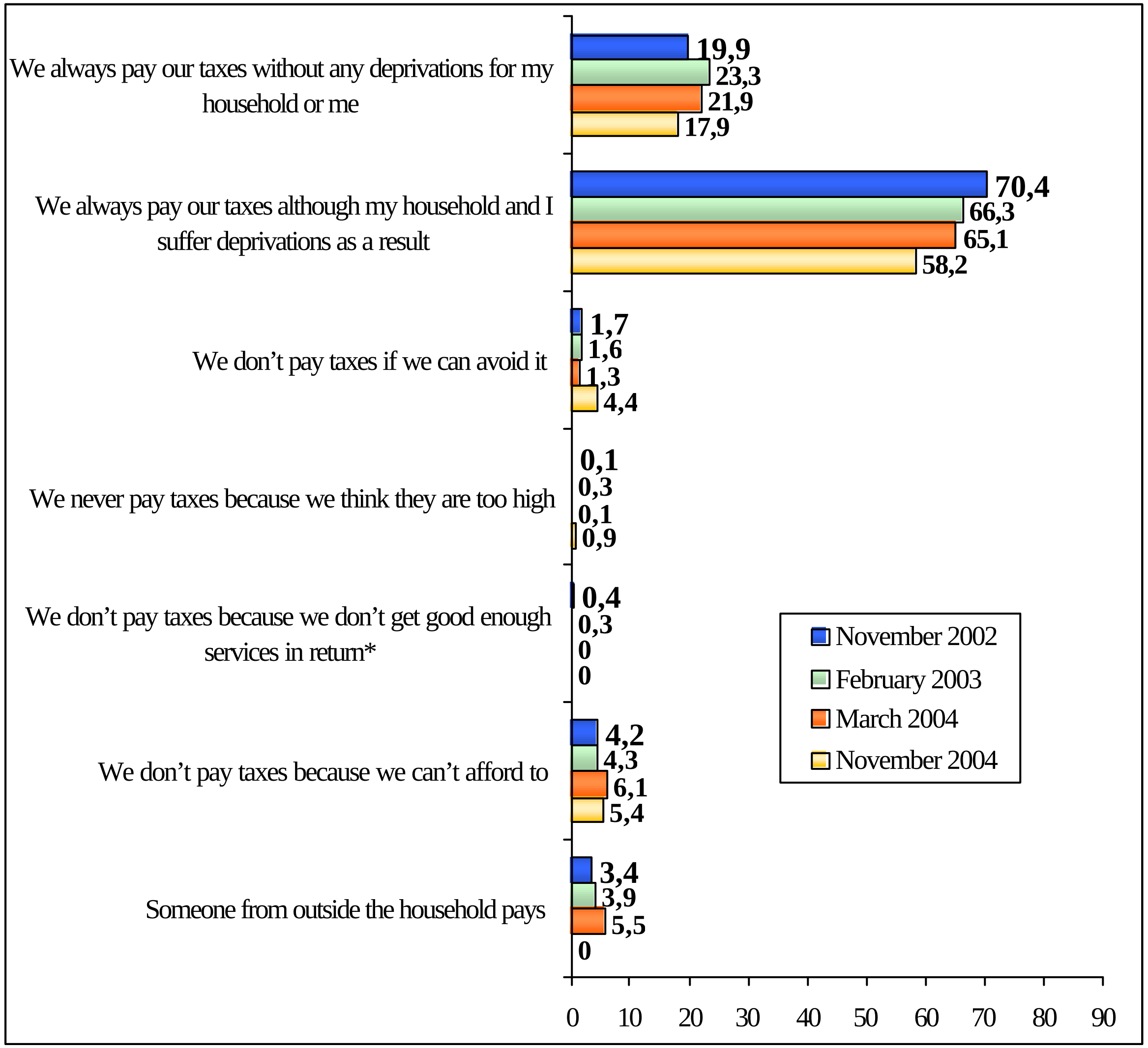
The respondents generally appeared equally scrupulous about paying their taxes.

Over the two-year period, the tax burden has increased considerably relative to people's incomes and paying the due taxes has by now become cause for deprivation to more than two-thirds of the households. *(Figure 7)*

Nevertheless, nine out of ten people always pay their taxes, even if it causes them financial difficulties.

Insofar as there are people who do not pay their taxes, this is typically due not to their wish to evade them but to their actual financial inability to pay.

FIGURE 7. SUBJECTIVE ATTITUDES TO THE PAYMENT OF TAXES



Base: The respondents liable for such taxes (November'02 N=1077; February'03 N=1039; March'04 N=956; November'04 N=836)

2. Unpaid in Relation to Paid Taxes

Regarding the actual payment of due taxes, the situation is consistent with the noted prevailing inclination to pay off one's tax obligations in a timely manner.

The lowest rate of tax collection for the previous year was registered with respect to real property taxes. Nonetheless, even here, nine out of ten respondents reported they had paid their taxes in full. *(Table 10)*

Regarding the taxes on personal income and on personal property, the proportions of those who had paid them in full were even higher.

Table 10. Paid Portion of Taxes Owed for the Previous Year (%)

	None			One fourth			Half			Three fourths			In full		
	Nov '02	Mar '04	Nov '04	Nov '02	Mar '04	Nov '04	Nov '02	Mar '04	Nov '04	Nov '02	Mar '04	Nov '04	Nov '02	Mar '04	Nov '04
Household members' income tax	4,6	1,4	**2,3**	0,3	0,4	**0,3**	2,6	0,4	**0,3**	1,0	0,4	**0,4**	91,4	97,4	**96,7**
Real property tax (family housing, holiday house, plot of land, etc.)	5,3	8,7	**7,8**	0,4	0,2	**0,7**	3,0	1,6	**1,0**	1,8	0,4	**0,6**	89,5	89,1	**89,9**
Personal property tax	3,3	6,1	**2,1**	-	0,6	**-**	0,7	0,9	**0,6**	-	-	**0,4**	96,1	92,5	**96,9**

Base: Those liable for such taxes

²V. SAVINGS

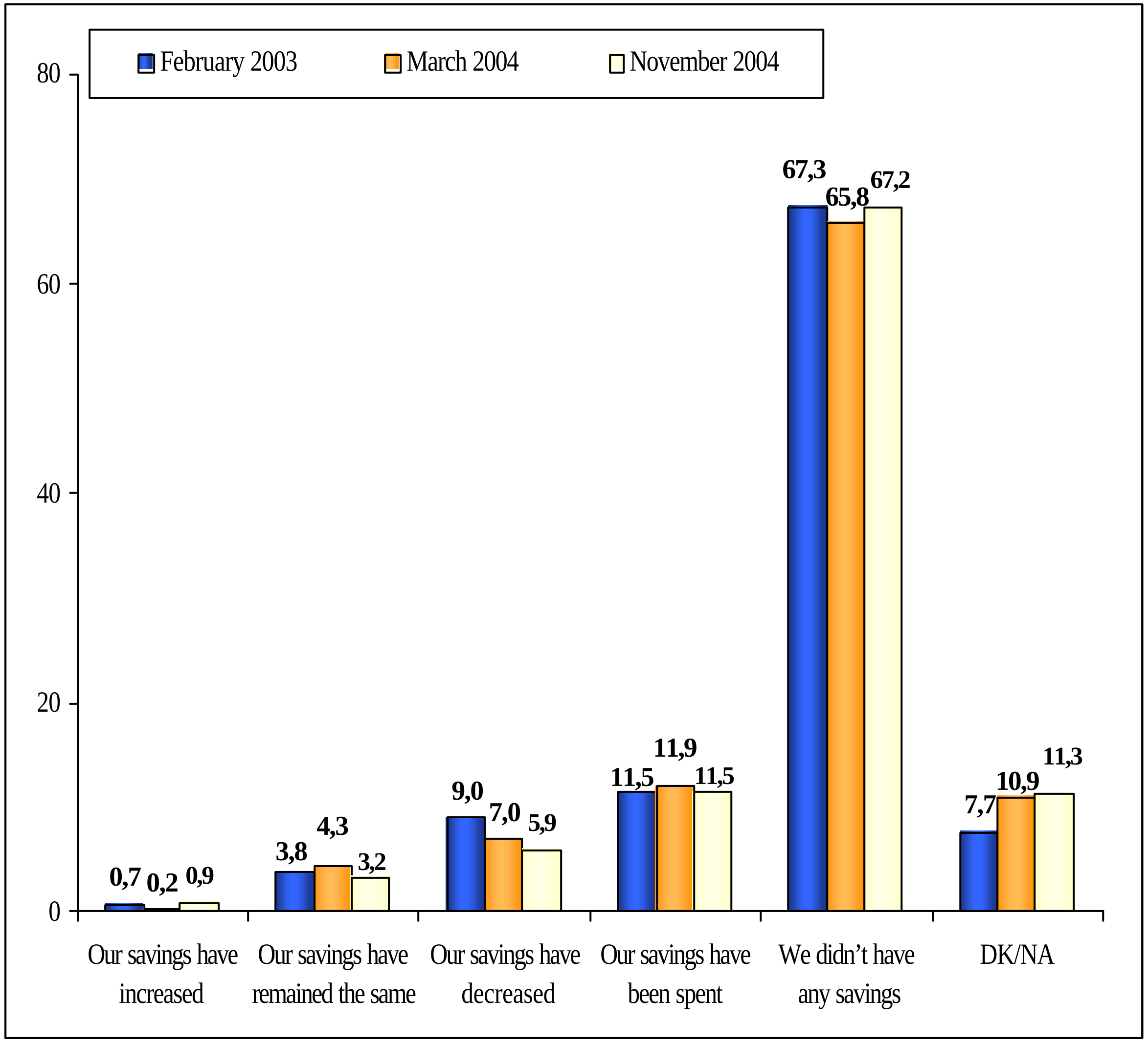
The size of the savings of the population and their dynamics provide indirect information about the standard of living and about the economic conditions in which the hidden economy operates.

In the past two years, there have practically not been any changes in savings levels among the population – more than two-thirds apparently do not have any at all. *(Figure 8)*

Equally constant are the proportions of those whose savings were spent in the course of the previous year or remained the same.

The lack of any change in this respect suggests that the population's real incomes are still only growing slowly. It is also indicative of the occurring substitution of the practice of saving part of one's income for taking out loans.

FIGURE 8. ASSESSMENT OF HOUSEHOLD SAVINGS VERSUS PREVIOUS YEAR



Base: All respondents (February'03 N=1107; March'04 N=1080; November'04 N=959)

V. *NATURAL ECONOMY*

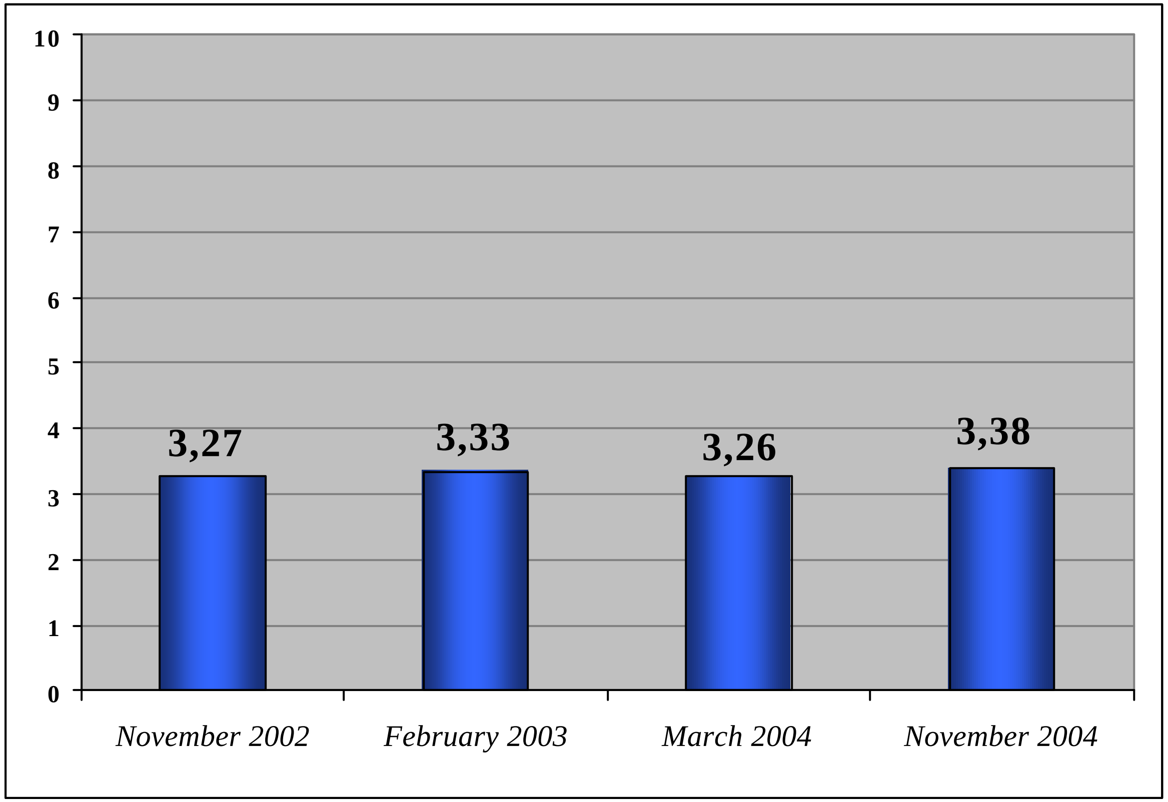
1. Natural Economy and Home Production Index

This index registers the relative "weight" of home production and consumption of home-produced goods in the "hidden" sector of the economy. Home production for self-consumption does not require official registration and is generally considered additional work activity. To a considerable portion of the population (28.3%), however, home production has become the principal type of work activity and chief source of livelihood. Besides being a means of meeting their needs for foodstuffs, to some of the households, family farm activities are a source of additional income. For this reason, the size of the natural economy is an important indicator of the changes in the share of the hidden economy in this country.

The index comprises the following sub-indexes: *Work Activity*, *Incomes*, and *Consumption*. While the aggregate value of the index remains essentially unchanged from the previous surveys *(Figure 9)*, there have occurred certain changes in the structure of the Natural Economy Index. ***The proportion of those engaged in family farm work is falling and so is the family farm output. An ever-larger portion of the produce remains for home consumption.*** On the other hand, ***in the past year, the proportion of income from selling home produce relative to total annual household income has increased***.

The natural economy and home production still constitute an important source of livelihood to more than one-fourth of the households in this country.

Figure 9. Natural Economy Index



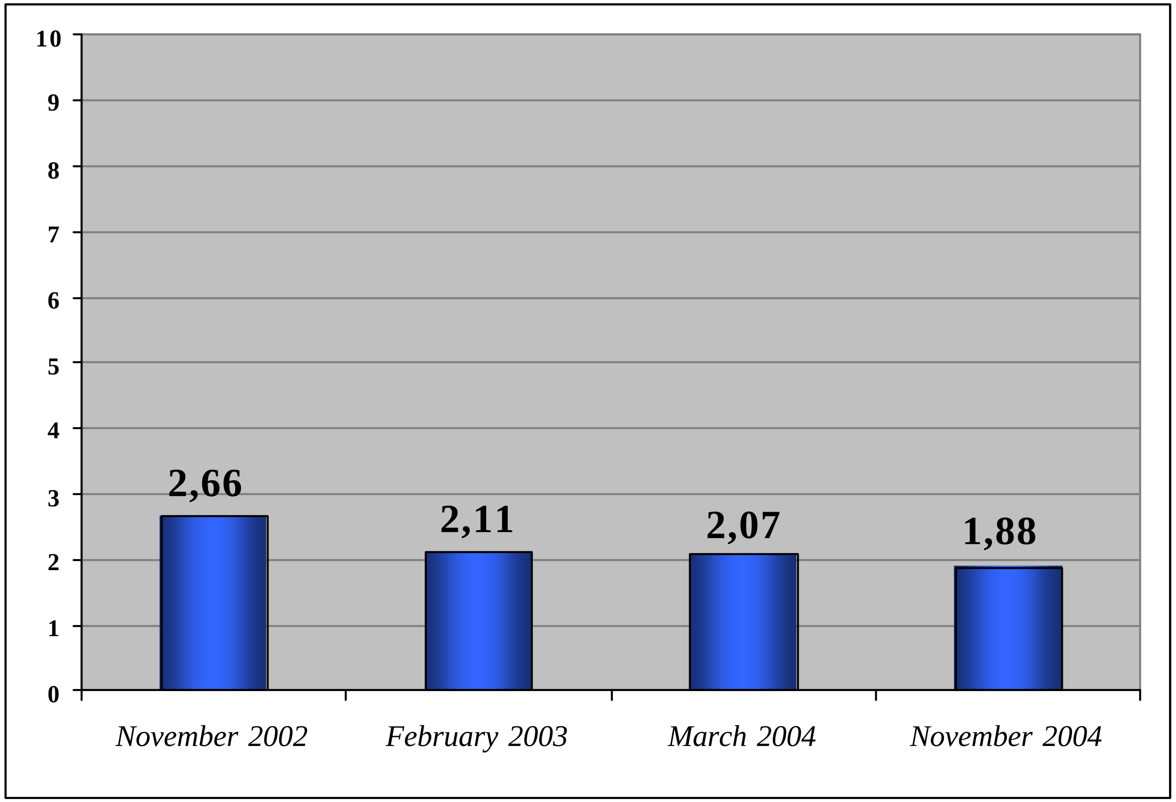
Base: The respondents engaged in family farm work and voluntary work
(Nov'02 N=574; Feb'03 N=467; Mar'04 N=447; Nov'04 N=360)

2. *NATURAL ECONOMY ACTIVITY INDEX*

This index measures the aggregate proportions of those engaged in family farm work and housework/voluntary work.

The lower index value registered in the previous two surveys conducted in the months of February and March may to some extent be accounted for by the seasonal nature of family farm work. Over the long term, however, the proportion of those engaged in voluntary or family farm work has been declining steadily. *(Figure 10)*

FIGURE 10. NATURAL ECONOMY ACTIVITY INDEX



Base: The respondents engaged in family farm work and voluntary work (Nov'02 N=574; Feb'03 N=467; Mar'04 N=447; Nov'04 N=360)

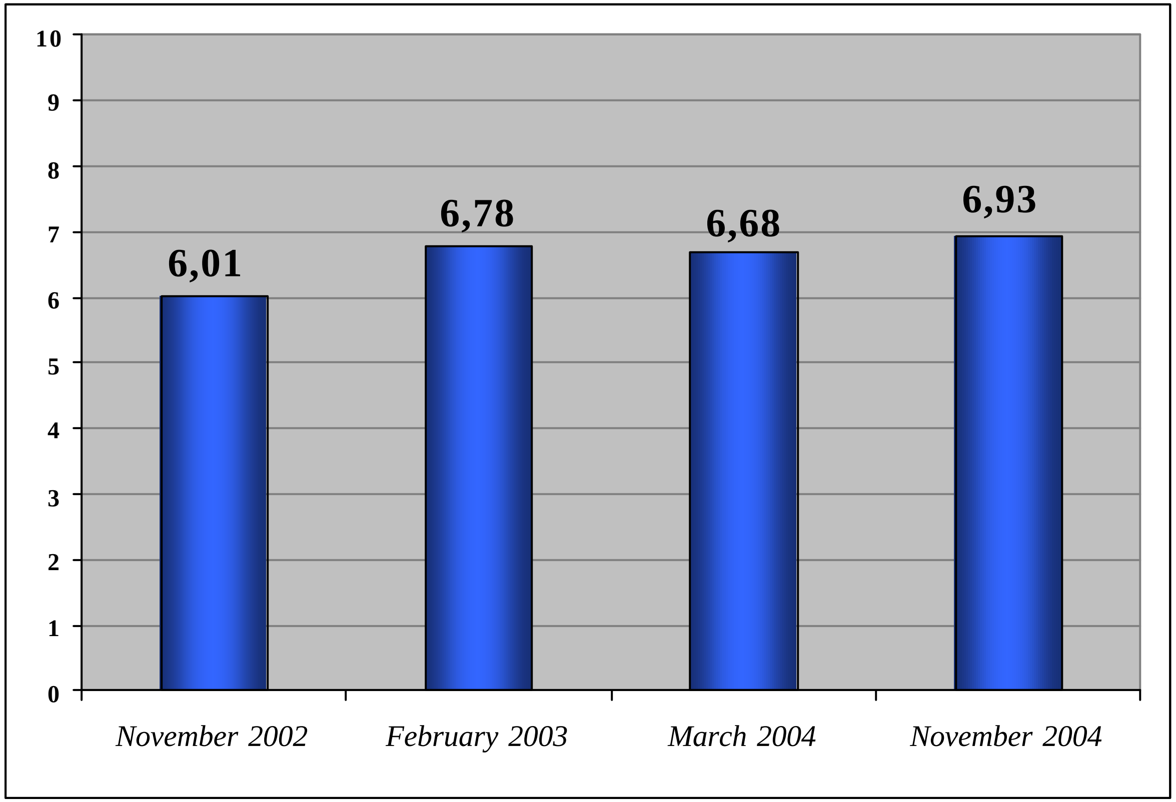
3. *HOME PRODUCED FOOD CONSUMPTION INDEX*

This index shows the relative share of *home produced food consumption* in total household consumption.

Despite the decline in home production in terms of volumes of produce, the share of home produce consumption remains at the high level registered in earlier surveys. (*Figure 11)*

More than half of the foodstuffs consumed by one in three households with family farms have been home produced. This high proportion is indicative of the persistent important role of the natural economy and home production in the country's economy.

FIGURE 11. HOME PRODUCED FOOD CONSUMPTION INDEX*



Base: The respondents consuming home products (Nov'02 N=384; Feb'03 N=302; Mar'04 N=302; Nov'04 N=190)

** In November 2002, the question was formulated slightly differently and this is what accounts for the difference in the results obtained.*

The latest survey again found that traditional home production, chiefly of foodstuffs, not only continues to occupy a large number of the population (28.3%), but also constitutes a basic source of food to many households.

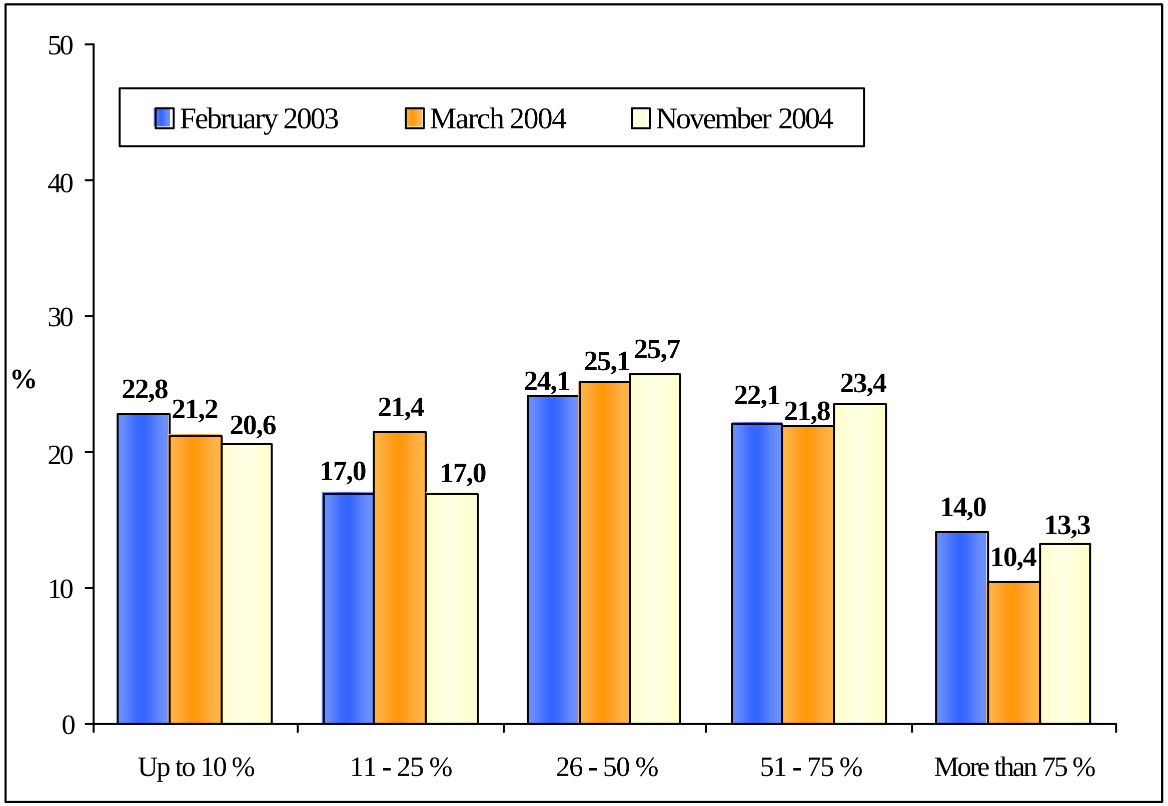
Home-produced food consumption accounts for an important share of total household food consumption. *(Figure 12)*

At least one in ten households with family farms practically subsists almost entirely on home-produced food – representing in excess of 75% of its food consumption.

Home production and consumption remain quite steady. The reasons for this are both of an economic, and social and psychological nature. On the one hand, the consumption of home-made products is a successful means of coping with the economic crisis and the low incomes of the households. Furthermore, home production largely guarantees a high level of product quality.

The high share of home-produced food consumption and its importance to many households in this country make it all the more necessary to communicate and explain in advance the expected changes that will affect farmers with the country's accession to the European Union.

FIGURE 12. SHARE OF HOME-PRODUCED FOOD CONSUMPTION IN TOTAL HOUSEHOLD CONSUMPTION



Base: The respondents engaged in home production
(February'03 N=302; March'04 N=302; November'04 N=190)

Family farm output continues its downward trend – both in absolute volumes and as a share of total output.

In the past two years, the drop has been particularly notable as regards the production of *fruit and vegetables, home-canned food, eggs, and meat*.

A drop in average annual output has been registered in all product categories as compared to two years ago. *(Table 11)* The single exception is *cheese*, where there has been a slight increase from November 2002.

Milk production appears to be recovering, yet still falls short of the volumes produced two years ago. The same tendency appears with respect to *water and honey melons*, as well as *bread* production.

TABLE 11. TYPES OF PRODUCTS AND AVERAGE ANNUAL HOME PRODUCTION OUTPUT

	Products			**Average annual quantity**			***Base****		
	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004	Nov 2002	Mar 2004	Nov 2004
Fruits and vegetables	34,9	27,5	**23,8**	117,29 kg	167,13 kg	**93,50 kg**	*205*	*210*	*228*
Home-canned food	30,9	27,4	**23,3**	101,14 kg	104,19 kg	**68,76 kg**	*215*	*204*	*223*
Eggs	24,4	24,3	**17,7**	367,29	338,60	**299,71**	*156*	*171*	*170*
Meat	19,2	20,7	**13,9**	130,07 kg	105,8 kg	**100,90 kg**	*134*	*164*	*134*
Grapes (vineyards)	16,9	13,0	**11,6**	229,55 kg	328,05 kg	**191,26 kg**	*120*	*93*	*111*
Milk	16,0	16,6	**10,3**	721,17 l	381,97 l	**565,49 l**	*107*	*109*	*99*
Alcohol	12,0	8,7	**9,3**	127,94 l	107,26 l	**90,26 l**	*88*	*80*	*89*
Cheese	10,6	9,3	**5,6**	39,22 kg	44,09 kg	**43,69 kg**	*72*	*71*	*54*
Water melons and honey melons	8,5	6,1	**3,5**	195,17 kg	139,32 kg	**142,84 kg**	*48*	*42*	*33*
Bread	1,7	0,8	**1,0**	186,14 kg	87,76 kg	**126,53 kg**	*10*	*5*	*9*
Base	***1077***	***1080***	***959***	** Those producing the respective product*					

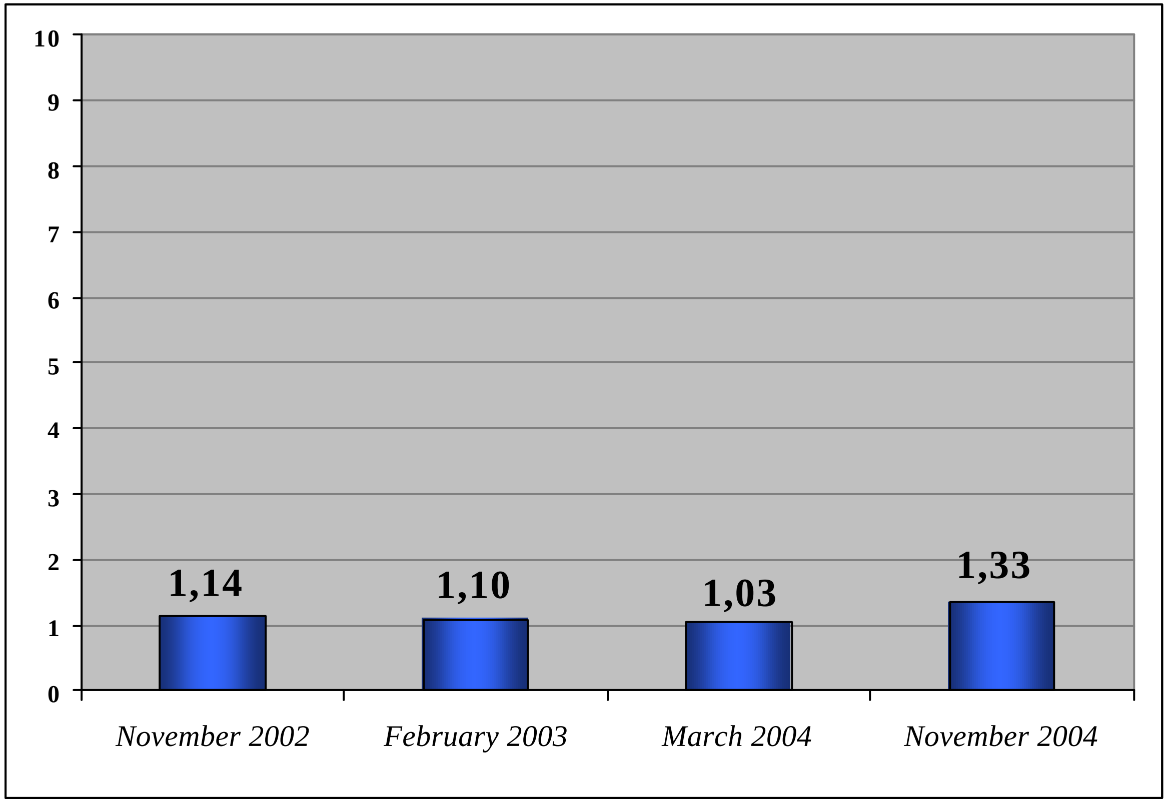
4. HOME PRODUCTION INCOME INDEX

The Home Production Income Index shows the amount and importance of home produced foods offered for sale and of the thus generated revenues.

The slight increase in the value of this index is largely due to higher revenues from the sale of home-produced foods. *(Figure 13)*

Yet, overall, the **home production output is still largely intended for home consumption**.

FIGURE 13. HOME PRODUCTION INCOME INDEX



Base: The respondents who received income from the sale of home produce in the past year
(X^{2}’02ã. N=77; ^{22}’03ã. N=69; ^{222}’04ã. N=86; X^{2}’04ã. N=41)

With the declining proportion of those engaged in family farm work and the falling output, the amounts intended for sale also decrease. It can be concluded that the ***chief purpose of home production of foods is precisely their home consumption***.

Milk production is a habitual exception in this respect, with part of the output marketed rather than consumed by the households themselves. Even with this product, however, the share offered for sale dropped from one-third to one-fourth over a period of nine months. *(Table 12)*

TABLE 12 SHARE OF HOME PRODUCTION OUTPUT OFFERED FOR SALE

	None		**About 1/4**		**About 1/2**		**About 3/4**		**All of it**		***Base****	
	Mar 2004	Nov 2004	Mar 2004	Nov 2004	Mar 2004	Nov 2004	Mar 2004	Nov 2004	Mar 2004	Nov 2004	Mar 2004	Nov 2004
Bread	**100,0**	**100,0**	-	**-**	-	**-**	-	**-**	-	-	*9*	*8*
Home-canned home-grown fruit, vegetables, meat	**100,0**	**100,0**	-	**-**	-	**-**	-	**-**	-	-	*283*	*214*
Eggs	**93,7**	**97,6**	5,2	**2,0**	1,2		-	**0,5**	-	-	*253*	*160*
Cheese	**98,9**	**97,2**	1,1	**2,8**	-	**-**	-	**-**	-	-	*98*	*51*
Alcohol	**98,9**	**97,1**	-	**-**	1,1	**2,9**	-	**-**	-	-	*88*	*83*
Meat	**94,7**	**96,7**	1,0	**0,6**	1,4	**1,9**	2,4	**0,8**	0,5	-	*216*	*125*
Fruits and vegetables	**95,4**	**95,8**	1,8	**0,5**	0,7	**2,4**	1,4	**1,0**	0,7	0,4	*286*	*223*
Water and honey melons	**97,0**	**92,6**	1,5	**-**	1,5	**2,6**	-	**4,9**	-	-	*64*	*31*
Grapes (vineyards)	**91,2**	**92,3**	3,6	**2,7**	3,6	**2,2**	1,5	**1,8**	-	1,0	*137*	*110*
Milk	**67,8**	**76,6**	5,8	**-**	9,2	**10,1**	13,1	**11,4**	4,1	2,0	*172*	*95*

** Those producing the respective product*

APPENDIX. HIDDEN ECONOMY INDEX VALUES

À. GENERAL HIDDEN ECONOMY INDEX

HIDDEN ECONOMY	November 2002	February 2003	March 2004	November 2004
	3,46	**3,47**	**3,33**	**3,49**
1. UNREPORTED ECONOMIC ACTIVITY	3,65	3,61	3,39	3,59
2. NATURAL ECONOMY AND HOME PRODUCTION	3,27	3,33	3,26	3,38

B. UNREPORTED ECONOMIC ACTIVITY INDEX

1. UNREPORTED ECONOMIC ACTIVITY	November 2002	February 2003	March 2004	November 2004
	3,65	**3,61**	**3,39**	**3,59**
1.1. EMPLOYMENT	**3,50**	**3,53**	**3,27**	**3,76**
1.1.1. Undeclared jobs	***2,15***	***2,73***	***2,30***	***2,68***
1.1.1.1. Share of those working without contracts	3,09	4,47	3,55	4,33
1.1.1.2. Share of those working under contracts with "secret clauses"	1,22	1,00	1,04	1,03
1.1.2. Payment of social security contributions	***3,99***	***3,69***	***3,40***	***4,13***
1.1.2.1. Share of those without social security coverage	5,17	5,50	4,64	4,67
1.1.2.2. Social security base amount	2,80	1,88	2,17	3,59
1.1.3. Share of persons without health insurance coverage	***4,36***	***4,17***	***4,10***	***4,47***
1.2. SUPPRESSED TURNOVERS	**3,80**	**3,69**	**3,50**	**3,42**
1.2.1. *Issuing of tax receipts for purchases and services*	***3,80***	***3,69***	***3,50***	***3,42***
1.2.1.1. Incidence of tax receipt issuing for purchases of durable goods	0,73	0,80	0,66	0,99
1.2.1.2. Incidence of tax receipt issuing for services used	6,84	6,38	5,77	5,83
1.2.1.3. Rate of tax receipt issuing for particular product categories	3,83	3,89	4,07	3,45

C. NATURAL ECONOMY AND HOME PRODUCTION INDEX

2. NATURAL ECONOMY AND HOME PRODUCTION	November 2002	February 2003	March 2004	November 2004
	3,27	**3,33**	**3,26**	**3,38**
2.1. Occupation	**2,66**	**2,11**	**2,07**	**1,88**
2.1.1.Proportion of those engaged in family farm work	3,95	3,15	3,29	2,83
2.1.2. Proportion of those engaged in housework/voluntary work	1,37	1,07	0,84	0,92
2.2. Incomes	**1,14**	**1,10**	**1,03**	**1,33**
2.2.1.Share of output offered for sale	0,42	0,34	0,37	0,28
2.2.2.Income from sold home produce	1,87	1,87	1,68	2,38
2.3. Consumption	**6,01**	**6,78**	**6,68**	**6,93**
2.3.1.Relative share of home-produced food consumption in total household consumption	6,01	6,78	6,68	6,93

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