Measuring and Tackling the Undeclared Economy in Bulgaria

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- National Statistical Institute of Bulgaria, Non-financial National accounts department, Macroeconomic statistics Directorate is in charge to estimate the Gross domestic product - a macroeconomic indicator that aims to measure the value of production that flows through the economy.

- Non-observed economy includes all production activities which are not covered through the traditional sources of information.

- National accounts experts tries to measure the non-observed economy for an exhaustive description of economic activities. Additional estimates, called exhaustiveness adjustments to the source data are to be implemented.

- NSI uses internationally approved methodology for an exhaustiveness estimation and description called Tabular approach.

- **Tabular approach - exhaustiveness by types:**

  – N1. Enterprises Deliberately Not Registering – Underground

  – N2. Enterprises Deliberately Not Registering – Illegal

  – N3. Enterprises Not Required to Register

  – N4. Enterprises (Legal Persons) Not Surveyed

  – N5. Registered Entrepreneurs Not Surveyed

  – N6. Enterprises Deliberately Misreporting

  – N7. Other Statistical Deficiencies

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Key characteristics of the different types of adjustments

N1	Producer should have registered (underground producer)	➢ Producer fails to register in order to avoid tax & social security obligations. These are often small producers with turnovers which exceed the thresholds above which they should register their income. ➢ Producers that fail to register because they are involved in illegal activities that fall under N2, rather than N1. ➢ Type N1 does not include all underground activities, some of which are associated with type N6.
N2	Illegal producer that fails to register	➢ N2 covers activities of producers that avoid registration entirely. ➢ N2 excludes illegal activities by registered legal entities or entrepreneurs that report (or misreport) their activities under legal activity codes.
N3	Producer is not obliged to register	➢ Producer is not required to register because it has no market output. Typically, these are non-market household producers involved in: - production of goods for own consumption or for own fixed capital formation, - construction of and repairs to dwellings. Producer has some market output but it is below the level at which the producer is expected to register as an entrepreneur.
N4	Registered legal person is not included in statistics	➢ The legal person may not be included in the statistics for a variety of reasons. For example; the business register is out of date or updating procedures are inadequate; the classification data (activity, size or geographic codes) are incorrect; the legal person is excluded from the survey frame because its size is below a certain threshold; etc.

N5	**Registered entrepreneur is not included in statistics**	➢ A registered entrepreneur may not be included in the statistics for many reasons. The administrative source with lists of registered entrepreneurs may not always pass on complete or up to date lists to the statistical office. ➢ Even if there is a regular flow of accurate and comprehensive information from the administrative source to the statistical office, the registered entrepreneur may not be included in the business register for several reasons (some examples were given under N4).
N6	**Misreporting by the producer**	Misreporting means that gross output is under-reported and intermediate consumption is over-reported in order to evade (or reduce) income tax, value added tax or social security contributions. Examples: - payments in cash without receipts; - VAT fraud.
N7	**Statistical deficiencies in the data**	➢ N7 could be of type a) - data that is incomplete, not collected or not directly collectable, and b) - data that is incorrectly handled, processed or compiled by statisticians. ➢ Statistical deficiencies: some examples: - Handling of non-response; - Production for own final use by market producers; - Tips; - Wages & salaries in kind; - Secondary activities.

- Methods for measuring non-observed economy
  - ✓ By type of non-observed economy:
    - Not registered/not surveyed economic units,
    - Employment method,
    - Quantity (multiplied) by price,
    - Grossing-up methods,
    - Industry specific surveys,
    - Comparison with expenditure data.
  - ✓ Enterprises deliberately misreporting:
    - Use of fiscal data
    - Surveys on experts' judgment about misreporting
    - Specific adjustment methods – average coefficients of the sector
  - ✓ Other Statistical Deficiencies
    - Use of fiscal data
    - Households' budget survey
    - Specific surveys

- NSI elaborate the estimates of all types of exhaustiveness adjustments

  ✓ N1   Additional income - Above the threshold N1.

  ✓ N2   Illegal activities - not yet implemented.

  ✓ N3   Unincorporated activities; Shuttle trade; Individual building of houses;

          Additional income - Below the threshold N3.

  ✓ N4   National accounts adjustments - Intermediate consumption to Gross output ratio;

          Adjustment for units that report quarterly but not annually.

  ✓ N5   Adjustment for self-employed persons.

  ✓ N6   Working without contract – Labour Force Survey.

  ✓ N7   Income in kind; Private use of business cars; Tips.

- NSI regularly provides information about the relative share of these estimates in Gross value added and GDP.

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
N1 in percent of	GVA	0.40	0.41	0.41	0.47	0.65	0.63	0.55	0.54	0.51	0.51	0.38	0.53	0.55
	GDP	0.35	0.36	0.37	0.41	0.55	0.54	0.46	0.46	0.42	0.44	0.33	0.46	0.48
N2 in percent of	GVA													
	GDP													
N3 in percent of	GVA	3.00	3.04	3.32	3.49	3.33	2.93	2.34	2.14	2.12	1.00	0.42	0.81	0.81
	GDP	2.62	2.67	2.95	3.03	2.83	2.48	1.96	1.80	1.77	0.86	0.36	0.70	0.70
N4 in percent of	GVA	9.03	9.54	11.15	9.41	6.07	4.59	2.58	1.57	2.38	3.78	5.57	5.49	7.15
	GDP	7.90	8.38	9.90	8.18	5.16	3.88	2.16	1.32	1.98	3.24	4.80	4.75	6.19
N5 in percent of	GVA	2.14	1.75	1.58	1.93	1.78	2.56	2.39	1.97	2.21	2.06	1.97	2.64	1.69
	GDP	1.87	1.54	1.40	1.68	1.51	2.17	2.00	1.66	1.84	1.77	1.70	2.28	1.46
N6 in percent of	GVA	3.02	2.65	2.50	2.59	3.19	3.17	3.52	2.88	2.15	3.01	2.66	2.77	1.61
	GDP	2.64	2.32	2.22	2.25	2.71	2.68	2.95	2.42	1.79	2.58	2.29	2.39	1.39
N7 in percent of	GVA	3.37	3.00	3.07	3.23	3.68	3.85	3.53	3.22	3.22	3.32	3.46	3.27	3.23
	GDP	2.95	2.63	2.72	2.81	3.13	3.26	2.96	2.71	2.69	2.85	2.98	2.83	2.79
Total in percent of	**GVA**	**20.94**	**20.39**	**22.04**	**21.12**	**18.69**	**17.72**	**14.91**	**12.33**	**12.59**	**13.68**	**14.47**	**15.51**	**15.04**
	GDP	**18.33**	**17.90**	**19.56**	**18.35**	**15.90**	**15.00**	**12.50**	**10.36**	**10.49**	**11.76**	**12.46**	**13.42**	**13.02**

- Evaluation of drugs in Bulgaria

  ✓   Sources: - empirical data obtained from the study of drugs in Bulgaria in the period between 1998 - 2013, - Call records, interviews and inquires with; drug addicts, drug dealers, victims of drug use, relatives of drug addicts and occasional use drugs people; - Study of literature sources from over 20 studies, many official statistics on drug-related agencies drug-related auxiliary internet sites and more; - Data from the National Statistical Institute, Ministry of Interior and Customs Agency.

  The following types of drugs are included:

  - Cannabis, - Amphetamine, - Cocaine, - Ecstasy, - Heroin, - LSD.

  The following groups consuming the above drugs are covered;

  - Pupils, - Students, - Prisoners, - Number of persons registered in the District Police Directorates, - Matured persons.

- Evaluation of the prostitution in Bulgaria

  ✓   Report of a study of prostitution in Bulgaria conducted by the European Initiatives Foundation Risk Monitor - "For and against the legalization of prostitution" 2011
  (http://www.riskmonitor.bg/bg/publication/category/dokladi/3)

  Layers of prostitution: very low, low, medium and higher layer.

- Thank you for your attention!

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