The Hidden Economy in Bulgaria

(GENERAL POPULATION)

Vitosha Research

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SURVEY METHODOLOGY

Sample

National representative survey of the population covering 1,080 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 March 1-16, 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:

  I. Unreported economic activity:

  - Employment;
  - Suppressed turnovers.

  II. Natural economy and home production:

  - Activity rate;
  - Incomes;
  - Consumption.
- The hidden economy index values are presented in the Appendix.

MAIN FINDINGS

- The results of the three surveys conducted so far among the general population make it possible to outline the level of the hidden economy in this country and the tendencies in its development.

  The study of the hidden economy is becoming increasingly relevant not only in terms of domestic policy, but also in the context of the country's accession to the European Union. For example, the proportion of unreported agricultural production and the official registration of underreported arable areas and agricultural output affect the distribution of EU subsidy quotas and the country's further development.

  In this sense, the analysis of the reasons and factors generating and sustaining the hidden economy is instrumental in terms of developing an adequate and truly effective government policy.

  The latest survey has revealed the following more notable tendencies:

- The 18-month period under review has not been marked by any major changes in the overall estimates of the hidden economy. While the aggregate hidden economy index declines only slightly, its individual constituent elements have been changing far more dynamically.
- ***As a result of the measures adopted by the Government, there has occurred considerable improvement in the labor market situation in the country in terms of the registration of work contracts, the payment of social security and health insurance contributions, etc.*** There has also been a significant drop in the proportion of employees without written contracts with their employers or without social security coverage.
- However, the introduction of stricter measures has led employers to seek other ways of reducing payroll and social security expenses.
- The practice of not insuring at all those engaged in *additional work activity* still proved common. In eight out of ten cases, these workers do not have any social security coverage, and in seven out of ten, no health insurance, either. With the *main employment,* the correlation is the opposite – barely 6.5% of the permanently employed are not covered by social security and health insurance.
- Traditional home production, chiefly of foodstuffs, not only continues to occupy a large number of the population (close to one-third), but also constitutes a basic source of food to many households. One in four respondents said that ***more than half of the food consumed by their household in the course of the past year was home-produced***.
- Despite the significant number of people engaged in family farm work, ***most of the production is for home consumption***. The quantities of the products intended for sale, as well as the respective revenues, are gradually declining.
- ***There has not been any change in people's inclination to scrupulously pay their taxes and monthly utility bills***. ***In fact, it is hardly possible to speak of any significant "grayness" in this area as regards the general population***. 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.
- Even though an indirect indicator, the size of the population's savings and their dynamics provide information about the standard of living and about the economic conditions in which the hidden economy operates. ***In excess of two-thirds of the respondents said they did not have any savings at all in the period surveyed***. The absence of change in this respect is indicative of the slow progress of the economic reforms and their weak impact on the population's real incomes.

SURVEY RESULTS

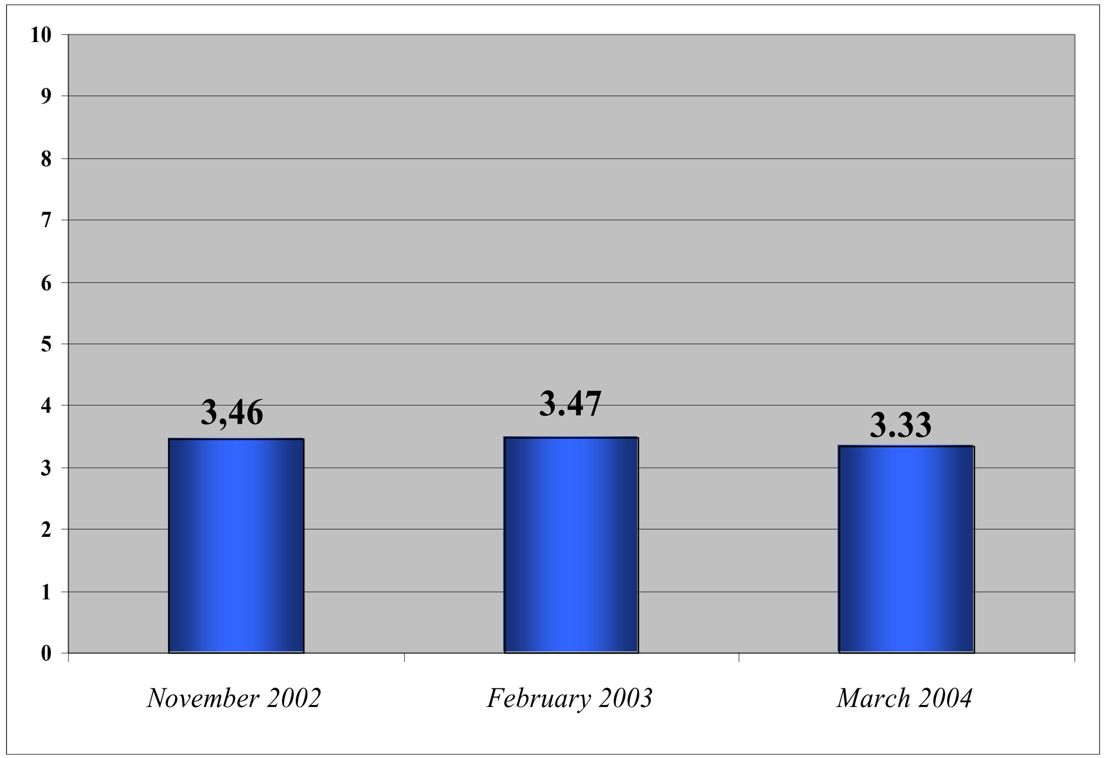
1. Hidden Economy Index

This index makes an aggregate assessment of the manifestations of the hidden economy in various economic areas grouped under two basic categories – *unreported economic activity* and *natural economy and home production.* It is a synthetic indicator of the share of the hidden economy and its change over time.

Although the total index value displays only a slight drop compared to the previous two surveys, its individual constituent characteristics have been changing more dynamically.

For example, the sale of durable goods appears to be "lightening" to some extent while the services sector on the other hand, remains almost entirely "gray". It is therefore important to always consider the overall index in terms of the dynamics of its structural elements.

Figure 1 Hidden Economy Index



Base: All respondents (November 2002 N=1077; February 2003 N=1107; March 2004 N=1080)

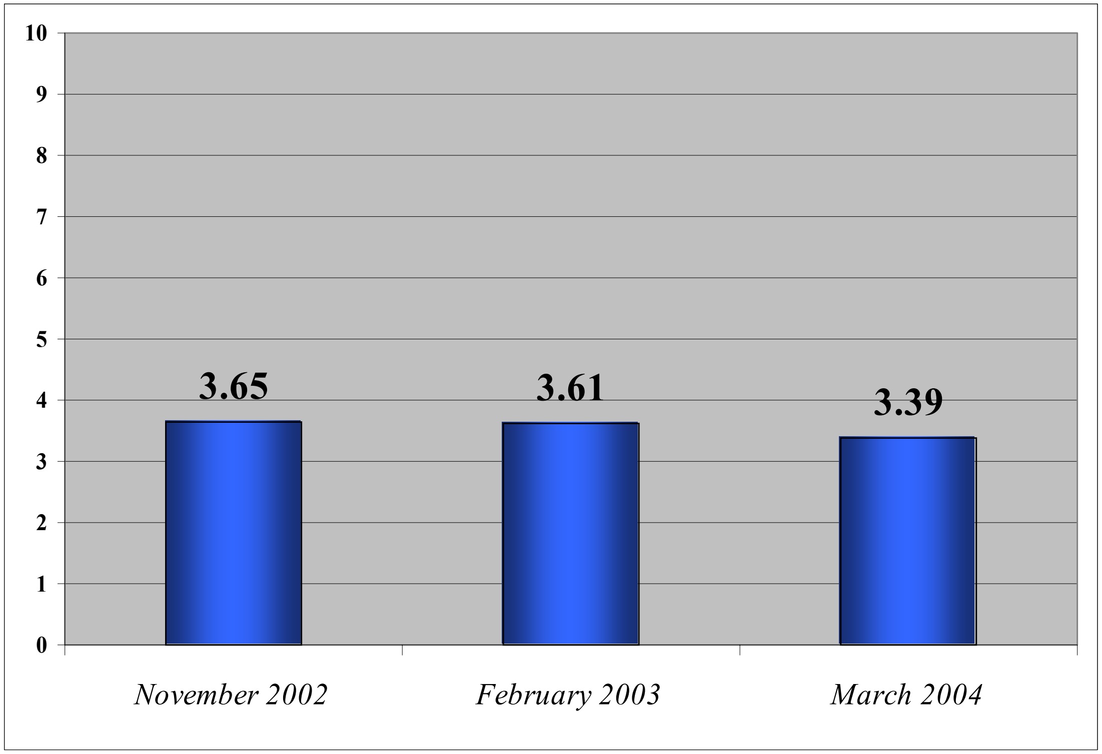
2. *UNREPORTED ECONOMIC ACTIVITY INDEX*

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

It includes two basic sum-indexes – *Employment/Labor Relations* and *Suppressed Turnovers*, which provide information about unreported work activities, non-payment of social security and health insurance contributions, frequency of issuing of tax receipts for services used or for purchases in basic product categories, etc.

The period under review is marked by considerable improvement in the labor market situation in this country in terms of the registration of employment contracts, the payment of social security and health insurance contributions, etc. This change has in turn affected the values of the overall index, as well. *(Figure 2)*

FIGURE 2 UNREPORTED ECONOMIC ACTIVITY INDEX



Base: All respondents (November 2002 N=1077; February 2003 N=1107; March 2004 N=1080)

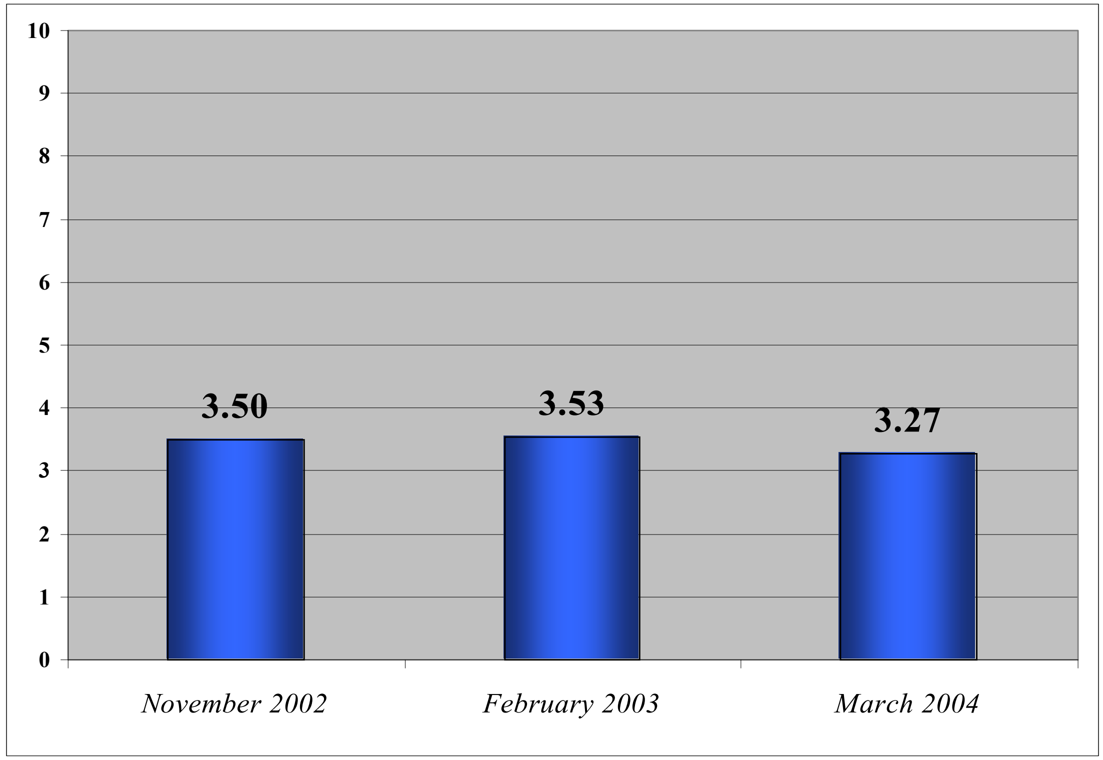
I. LABOR RELATIONS

1. *Unregistered Work Activity Index*

Owing to the adoption of a series of measures for improved labor market regulation, the tendency towards declining "grayness" in the sphere of labor relations has been kept up.

Since the introduction of the mandatory registration of work contracts, the proportion of those working without written employment contracts or without social security coverage has fallen substantially. *(Figure 3)*

Figure 3 Unregistered Work Activity Index



Base: All respondents (November 2002 N=1077; February 2003 N=1107; March 2004 N=1080)

2. *Employment in the Past Month*

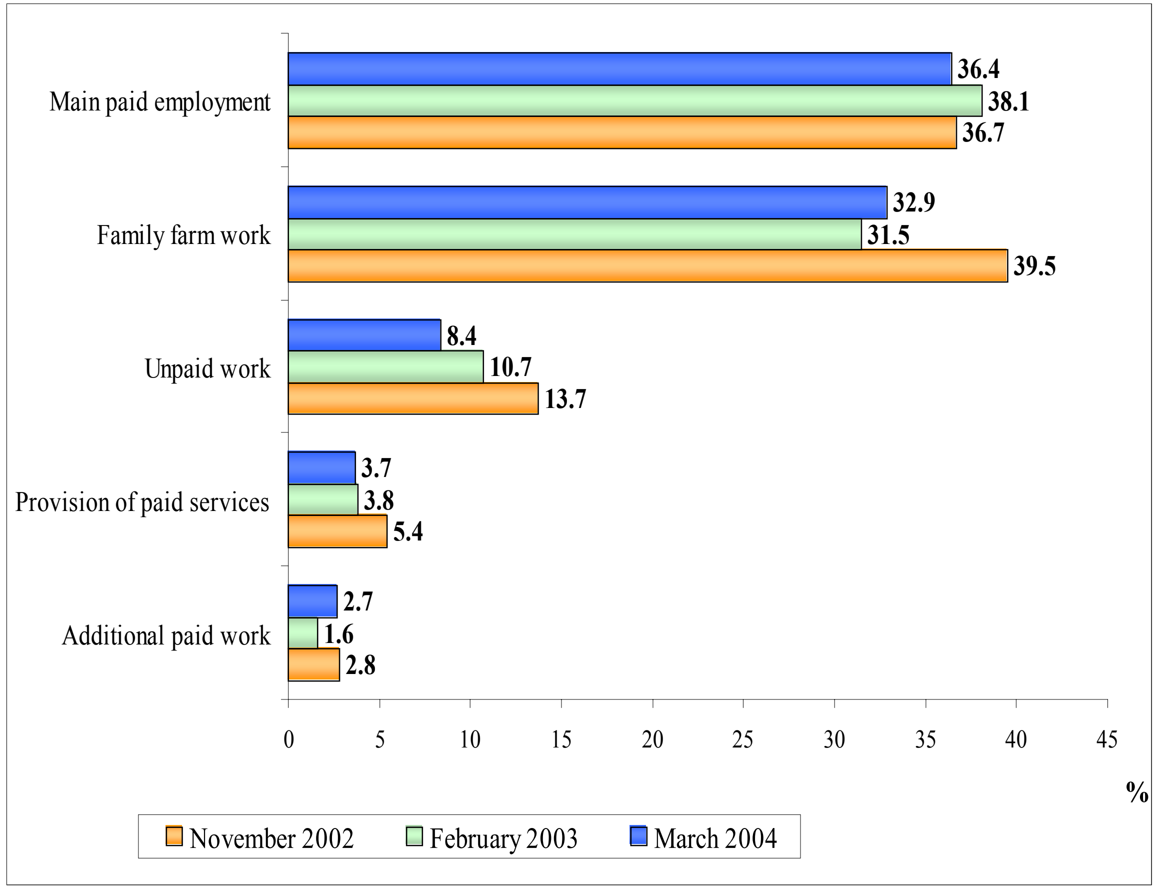
The distribution of the working age population by type of work activity retains its basic characteristics. Slightly over one-third of the respondents had been engaged in *main paid work activity* in the past month.

Nearly as many were engaged in *family farm activities (garden, crop growing, livestock farming*). The lower values registered in February 2003 and March 2004 compared to November 2002 are related to the seasonal nature of this type of work. There has practically not occurred any change in the proportion of those engaged in family farm work.

A slight drop can be observed as regards the *unpaid activities outside the home (assistance to friends, family and neighbors – shopping, cleaning, looking after children or elderly persons, volunteer work for charitable organizations, foundations, etc.)*.

The other types of *paid work*, which however are not registered by official statistics, display essentially unchanged levels. This indicates that a non-negligible proportion of the population is still engaged in work activities that are legal but are not reported and taxed. *(Figure 4)*

Figure 4. Employment in the past month



Base: All respondents (November 2002 N=1077; February 2003 N=1107; March 2004 N=1080)

Traditional home production, chiefly of foodstuffs, continues to occupy a large number of the population (close to one-third). In addition to remaining one of the main types of occupations, home production provides food to a large portion of the households and constitutes a source of additional incomes to them.

Besides family farm production, some of the people supplement their incomes through *additional work activity* and the delivery of *paid services*. There has been a slight drop in their proportion from 5.4% in November 2002 to 3.7% in March 2004. This, however, does not significantly change the overall occupational structure.

The most typical paid services are: *repair of housing/buildings (carpentry, plumbing, painting, etc.); home maintenance (cleaning, excavations, lawn mowing, etc.); repairs (cars, bicycles or other vehicles; electric appliances, etc.). (Table 1)*

In contrast to the falling share of those who perform paid services on an occasional basis, there has been a slight increase in the proportion of those regularly engaged in additional paid work (from 1.6% to 2.7%).

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

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

3. Concluded Contracts with Employers

The measures undertaken by the Government in the past year are beginning to have an impact in terms of the regulation of relations between the work force and employers. The presence or absence of work contracts is an important indicator of the "grayness" in the sector. It gives an idea of the proportion of those without, or with lower than due, social security coverage, as well as of the company turnover hidden by the employers.

With the introduction of mandatory registration of employment contracts, the cases when such contracts are concluded have increased substantially, not only as regards the main employment, but also for additional work activity. *(Table 2)*

The consistent adoption of the said measures has "brought out into the light" nearly half of the additional work contracts. However, quite a few of those engaged in additional paid work and some of those with full-time permanent jobs still remain outside the official statistics.

Table 2. Written contract concluded with the employer

	Main employment			Additional paid work		
	November 2002	February 2003	March 2004	Novembe r 2002	February 2003	March 2004
Yes	86,0	85,8	87,5	39,2	22,6	40,9
No	5,7	6,0	5,9	50,4	77,4	59,1
Self-employed, freelance professional	2,9	2,9	2,6	3,0	-	-
Business owner/ co-owner	5,4	5,3	3,9	7,5	-	-
Base	*393*	*417*	*392*	*31*	*18*	*24*

4. Contracts with "Secret Clauses"

The adoption of tougher measures has led employers to seek alternative ways of reducing payroll and social security expenses.

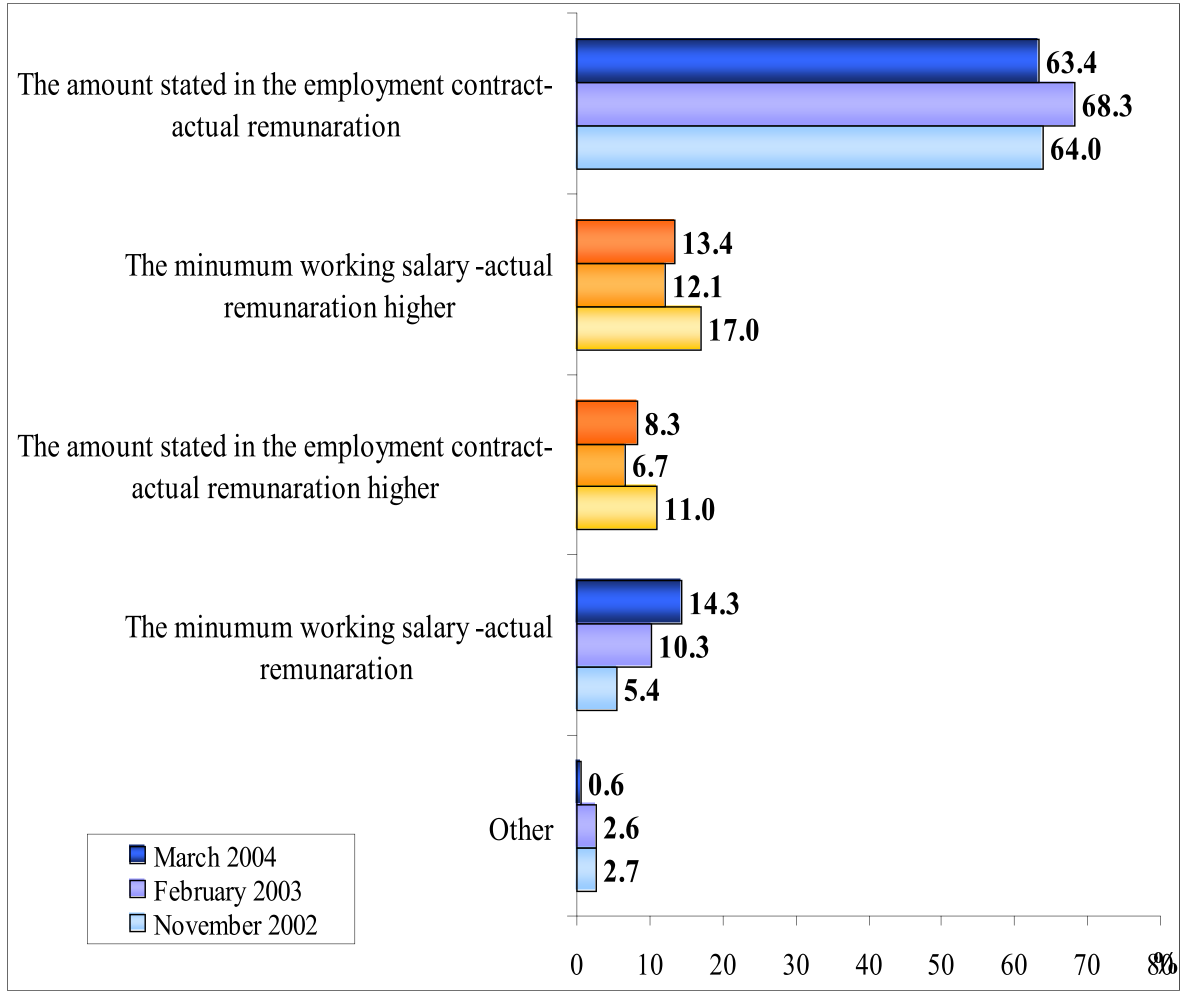
Though only slightly, the proportion of those with a *social security base amount lower than their actual remuneration* has increased from 18.8% to 21.7%.

An increasing number of employers have been hiring workers on a *minimum salary basis*. In a period of 18 months, their share has nearly doubled.

As of now, three-fourths of the respondents have declared their social security base amount is equivalent to their *actual remuneration*. However, there proves to be a certain divergence between the data obtained from asking the question directly and indirectly.

Asked directly whether in the past month they had received remuneration higher than the sum stated in their contract, 10.4% of those having work contracts answered affirmatively. Their share doubled to 21.7% when the question was posed indirectly about their social security base amount. *(Figure 5)*

Figure 5. Social security base amount



Base: Respondents with social security coverage (November 2002 N=312; February 2003 N=348; March 2004 N=314)

In the period under review, there have not occurred any notable changes in the types of contracts concluded by the employed.

Among the respondents having written contracts with their employers for their *main employment,* there predominated the **permanent employment contracts**. There has even been a slight increase compared to those working on a contractual basis. *(Table 3)*

As regards the *additional paid work*, the most common are the **specific task contracts**. There also appears to be an increase in the number of contracts concluded but owing to the small number of respondents who have any kind of contract for the additional paid work they do, it is impossible to make any statistically significant conclusions about changes in this respect.

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TABLE 3. TYPE OF WORK CONTRACT

	Main employment			Additional paid work		
	November 2002	February 2003	March 2004	November 2002	February 2003	March 2004
Permanent employment contract	90,5	92,5	94,5	8,4	-	19,5
Fixed term contract	8,2	7,0	3,8	62,6	24,2	9,7
Specific task contract	1,0	0,3	0,8	29,0	75,8	50,5
Other	0,3	0,3	0,9	-	-	20,3
Base	*334*	*357*	*340*	*11*	*4*	*10*

5. SOCIAL SECURITY AND HEALTH INSURANCE CONTRIBUTIONS

The practice of not insuring those engaged in *additional work activity* still proved common. In eight out of ten cases, these workers do not have any social security overage, and in seven out of ten, no health insurance, either. *(Tables 4 and 5)*

With the *main employment,* the correlation is exactly the opposite – barely 6.5% of the permanently employed are not covered by social security and health insurance. The social security burden is gradually beginning to be more evenly distributed among employers and workers.

TABLE 4. SOCIAL SECURITY CONTRIBUTIONS

	Main employment			**Additional paid work**		
	November 2002	February 2003	November 2002	February 2003	November 2002	February 2003
Paid by the employer	71,8	71,3	69,9	13,7	-	8,0
Paid by the respondent	9,1	7,8	7,6	4,0	-	8,3
Paid by the employer and the respondent	8,5	13,0	16,0	-	5,8	4,0
Not paid	***10,6***	***7,9***	***6,5***	***82,3***	***94,2***	***79,7***
Base	*382*	*408*	*375*	*29*	*17*	*24*

TABLE 5. HEALTH INSURANCE CONTRIBUTIONS

	Main employment			**Additional paid work**		
	November 2002	February 2003	November 2002	February 2003	November 2002	February 2003
Paid by the employer	66,0	64,0	66,6	15,0	17,8	8,3
Paid by the respondent	11,4	9,9	8,2	7,5	6,0	13,2
Paid by the employer and the respondent	16,1	19,6	19,0	3,4	5,8	8,7
Not paid	***6,6***	***6,5***	***6,2***	***74,2***	***70,4***	***69,7***
Base	*376*	*403*	*379*	*28*	*17*	*23*

II. SUPPRESSED TURNOVER

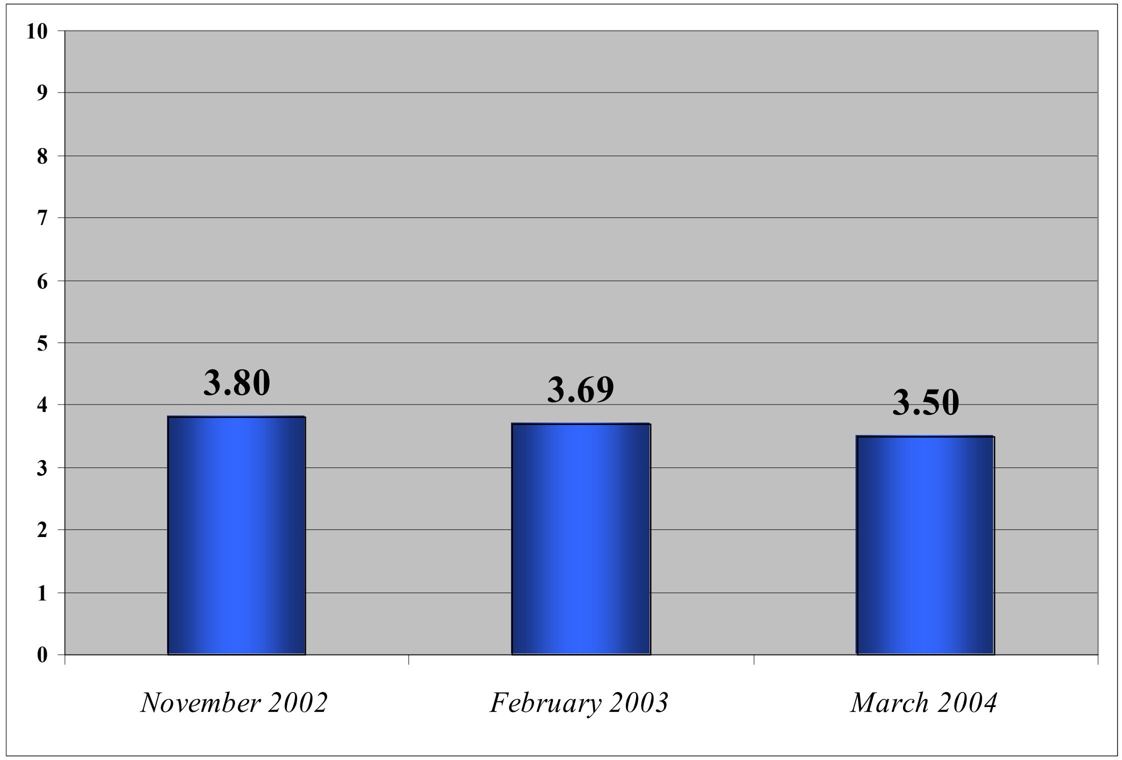
1. Suppressed Turnover Index

This index registers the rate of non-issuing of tax receipts for purchases made or services used, as well as the rate of receipt issuing in certain product categories.

It records the dynamics of turnover suppression by retailers and service providers through non-issuing of tax documents – cash receipts and invoices – for the provided services or sold goods.

The frequency of non-issuing of tax receipts for purchases made or services used has declined considerably. This is leading to a gradual shrinking of unreported turnover and the larger part of actual business activity is "coming out into the light". (*Figure 6)*

Figure 6. Suppressed Turnover Index



Base: All respondents (November 2002 N=1077; February 2003 N=1107; March 2004 N=1080)

2. ISSUING OF TAX RECEIPTS FOR PURCHASES MADE

In the case of durable goods, there appear dynamic changes in the values registered. Some categories, such as *mobile phones* and *refrigerators/freezers*, do not display any marked tendencies. The values vary broadly, with the proportion of those who did not receive cash receipts ranging between 3 and 20%.

Others, such as *washing machines* and *color TVs,* show a rising incidence of non-issuing of cash receipts or invoices. The opposite tendency can be observed with respect to *home furniture* – instances of failure to issue tax receipts have decreased nearly by half over a year and a half. *(Table 6)*

Notwithstanding these fluctuations in the individual product categories, it can generally be concluded that durable goods sales are recorded at a rate far higher than those of non-durables.

TABLE 6. GOODS PURCHASED IN THE PAST TWO YEARS (%)

	November 2002			**February 2003**			**March 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 **
Stereo system	1,3	10,4	*14*	0,7	-	*7*	0,7	14,8	*7*
Washing machine	4,2	-	*46*	4,0	5,0	*40*	4,1	12,2	*42*
Cellular (mobile) phone	10,1	20,5	*109*	11,0	7,9	*116*	12,6	10,0	*122*
Car	2,6	28,0	*28*	1,8	33,7	*18*	1,7	8,2	*13*
Home furniture	5,4	13,2	*58*	5,1	12,2	*50*	5,5	7,9	*51*
Color TV	5,0	-	*54*	7,1	2,7	*75*	7,8	7,8	*77*
CD Player	1,7	-	*19*	1,6	11,3	*18*	1,8	5,7	*18*
Refrigerator/freezer	3,7	2,7	*40*	3,8	5,4	*38*	5,0	3,8	*53*
Vacuum cleaner	3,6	-	*39*	4,5	2,1	*46*	3,9	2,7	*36*
Dish washer	0,3	-	*3*	0,2	-	*2*	0,4	-	*3*
Computer	2,0	5,3	*22*	2,5	7,6	*27*	2,1	-	*21*
Base	*1077*	** Those who purchased the respective goods*		*1107*	** Those who purchased the respective goods*		*1080*	** Those who purchased the respective goods*	

Among the non-durables, cash receipts are issued most rarely upon the purchase of *alcohol and tobacco products*, and *books and textbooks*. A slight drop appears in the number of respondents saying they have *never* received any kind of document when buying *alcohol and tobacco products* but it is too insignificant to speak of any serious reduction of the “gray sector”. One-fifth of the respondents still reported they had not been issued a tax receipt in any of the instances when they had bought goods in this category. *(Table 7)*

As of now, the failure to report turnover from the sale of non-durables by not issuing cash receipts continues to be one of the major manifestations of the hidden economy as regards the general population. The practice of not at all, or only occasionally, issuing cash receipts even seems to be on the rise – in the different product categories this share ranges between one-third and one-half of the respective sales.

TABLE 7. RATE 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	**Feb 2003**	**Mar 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**	**Nov 2002**	**Feb 2003**	**Mar 2004**
Every time	34,5	32,3	**28,9**	34,0	33,1	**33,2**	24,9	20,0	**16,9**	29,9	28,8	**25,9**	33,7	29,4	**23,2**
In most cases	32,5	35,4	**32,3**	25,3	24,4	**26,1**	20,5	21,6	**24,8**	26,2	26,1	**30,0**	22,9	22,0	**29,8**
In about half of the cases	9,0	9,0	**10,6**	8,4	8,1	**8,4**	10,1	14,0	**13,1**	10,7	12,1	**12,4**	7,3	7,5	**8,9**
In some cases	18,5	18,9	**19,4**	22,4	25,4	**23,0**	22,5	27,3	**25,7**	24,4	25,2	**22,9**	22,4	27,5	**22,0**
Never	***5,6***	***4,4***	***8,9***	***9,9***	***8,9***	***9,2***	***22,0***	***17,1***	***19,6***	***8,7***	***7,8***	***8,8***	***13,6***	***13,5***	***16,0***
Base (those who had purchased such goods)	*1022*	*1025*	*1023*	*470*	*483*	*464*	*558*	*543*	*499*	*696*	*733*	*703*	*306*	*280*	*256*

3. *Issuing of Tax Receipts for Services Provided*

The practice of not issuing tax receipts is even more marked when it comes to *paid services*.

In some categories, the practice of not recording officially the service provided is observed in 80-90% of the cases – *home maintenance (cleaning, lawn mowing); home repairs (carpentry, plumbing, painting); repairs of appliances, cars and other vehicles; hairdressing, sewing, shoe-repair services*. *(Table 8)*

Despite the small number of users in some of the service categories, which makes it statistically inappropriate to draw any definitive conclusions, the situation observed in the last two surveys remains essentially unchanged. On this basis, it is possible to conclude that **the shadow economy in the service sector is still twice as big than in the consumer goods retail business**. The average proportion of those who were not given cash receipts for a service used is 57.9%.

This once again characterizes the service sector as almost entirely "gray". There is a continuing practice of hiding the actual turnover and employed work force, both of which are difficult to detect and record by official statistics.

Table 8. Receipts issued for services used in the past month (%)

	November 2002		February 2003		March 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
Home maintenance (cleaning, gardening, lawn mowing)	0,6	**46,5**	0,9	**85,2**	1,4	**90,5**
Repair of housing/buildings (carpentry, plumbing, painting)	5,0	**87,1**	3,7	**64,5**	3,0	**83,0**
Repair of goods (cars, bicycles or other vehicles; electric appliances)	7,3	**69,7**	7,6	**66,9**	6,5	**79,5**
Hairdressing, sewing, shoe repair services	25,9	**84,3**	29,2	**72,3**	29,3	**79,3**
Private lessons (dance, foreign languages, sports)	2,2	**68,6**	1,8	**74,0**	2,8	**73,4**
Entertainment services for weddings, parties, events (musicians, photographers)	0,7	**35,8**	0,6	**60,2**	0,7	**66,7**
Professional services (psychologists, doctors, accountants, architects)	13,1	**67,0**	19,8	**62,9**	16,3	**65,9**
Home care services (looking after children, elderly people)	0,9	**84,0**	1,2	**81,3**	0,6	**64,3**
Renting property (apartments, stores, garages, etc.)	1,8	**41,5**	1,5	**50,3**	1,6	**52,3**
Manufactured goods (engravings, wood carvings)	-	**-**	0,5	**58,7**	0,5	**49,0**
Sale of goods (telemarketing)	-	**-**	-	**-**	0,5	**25,2**
Transportation (transport, deliveries)	6,2	**42,5**	9,1	**41,3**	10,3	**23,6**
Catering	1,7	**31,0**	2,7	**25,1**	1,3	**-**
Base	*1077*	*Users of the respective service*	*1107*	*Users of the respective service*	*1080*	*Users of the respective service*

III. REDISTRIBUTION

1. Rate of Payment of Taxes and Fees

In contrast to businesses' inclination to hide turnover and evade the social security burden as much as possible, the population is quite scrupulous about paying monthly utility bills and taxes due. There has not been any change in respondents' attitudes in the period since the previous survey.

In excess of 80% of the people always strive to pay what they owe although to more than two-thirds this entailed personal and household deprivations.

Some only pay their bills after they receive a warning that the service will be cut off, but there are practically none who do not pay their bills at all because they deem them too high. *(Table 9)*

Table 9. Subjective attitudes to the payment of utility bills and fees (%)

	Monthly bills and fees														
	Electricity			Water			Telephone			Central heating			Gas		
	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004
I always pay my bills and this does not lead to any deprivations for me and my household	20,9	18,3	**19,0**	22,9	23,5	**22,2**	24,9	20,4	**20,4**	19,1	13,2	**21,8**	31,0	18,8	**-**
I always pay my bills although my household and I suffer deprivations as a result	70,4	72,2	**68,6**	67,2	66,3	**64,7**	68,1	71,0	**70,4**	69,9	61,5	**57,7**	60,0	9,9	**35,7**
I pay my bills when I get a warning that the service will be cut off and I can't avoid it	5,5	4,8	**5,6**	5,9	4,9	**5,1**	4,3	4,8	**5,2**	6,8	7,0	**8,2**	5,1	-	**-**
I never pay my bills because I think they are very high	***0,2***	***-***	***0,4***	***0,4***	***-***	***0,4***	***0,2***	***-***	***0,4***	***-***	***-***	***-***	***-***	***10,3***	***-***
I don't pay my bills because I can't afford to	***3,0***	***1,4***	***2,8***	***3,5***	***2,1***	***3,8***	***2,5***	***0,6***	***0,2***	***4,2***	***11,8***	***4,1***	***3,9***	***-***	***6,9***
Someone from outside the household pays them / someone else pays them *	NA	3,3	**3,6**	NA	3,2	**3,8**	NA	3,3	**3,5**	NA	6,5	**8,2**	NA	61,1	**57,4**
Base (The respondents who use the respective service)	*1010*	*1098*	*1066*	*1005*	*1083*	*1057*	*811*	*887*	*831*	*561*	*189*	*171*	*125*	*10*	*14*

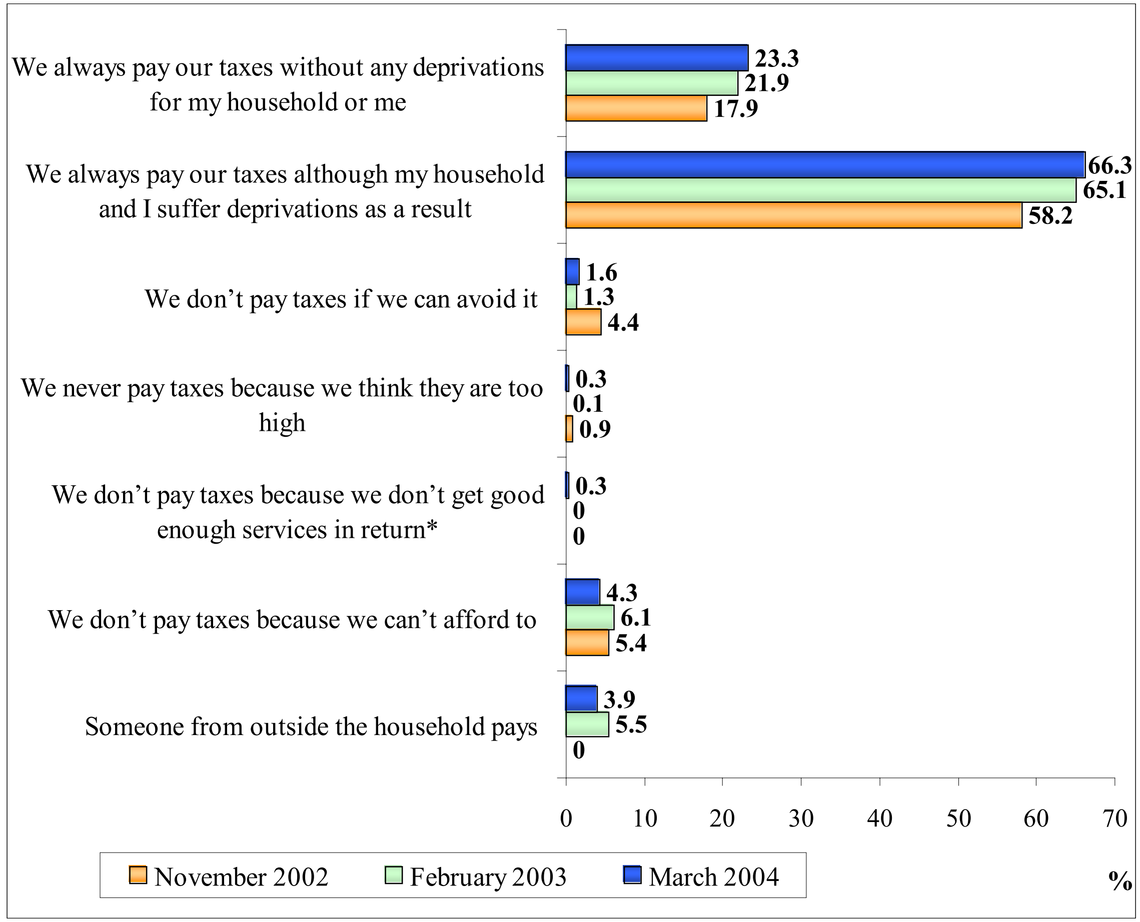
**This option was included in the question in February 2003.*

Similarly to the utility bills, regarding taxes, the ***prevailing attitude is to duly and promptly pay the taxes owed***. There even emerged a slight tendency towards increase of the share of those who always strive to pay their taxes regardless of possible deprivations they and their households might suffer as a result. *(Figure 7)*

Nine out of ten people always pay their taxes, even if they run into financial hardships as a result.

In fact, it is hardly possible to speak of any significant "grayness" in this area as regards the general population. Insofar as there are people who do not pay their taxes, this is typically due not to their wish to evade them but their actual financial inability to pay.

FIGURE 7. SUBJECTIVE ATTITUDES TO THE PAYMENT OF TAXES



**This option was included in the question in the March 2004 survey.*

Base: The respondents liable for such taxes (November 2002 N=1077; February 2003 N=1039; March 2004 N=956)

2. UNPAID VERSUS PAID TAXES

Not only popular attitudes, but also the actual tax payment patterns remain unchanged from the previous survey.

Nine out of ten respondents ***said they had paid in full*** *their income tax, real property tax, and personal property tax. (Table 10)*

TABLE 10. PAID SHARE OF TAXES OWED FOR THE PREVIOUS YEAR (%)

	None			One fourth			Half			Three fourths			In full		
	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004
Household members' income tax	4,6	5,2	1,4	0,3	0,4	0,4	2,6	-	0,4	1,0	0,4	0,4	**91,4**	**94,1**	**97,4**
Real property tax (family housing, holiday house, plot of land, etc.)	5,3	8,5	8,7	0,4	0,3	0,2	3,0	1,0	1,6	1,8	0,3	0,4	**89,5**	**89,9**	**89,1**
Personal property tax	3,3	6,5	6,1	-	-	0,6	0,7	0,3	0,9	-	-	-	**96,1**	**93,2**	**92,5**

** Those liable for such taxes*

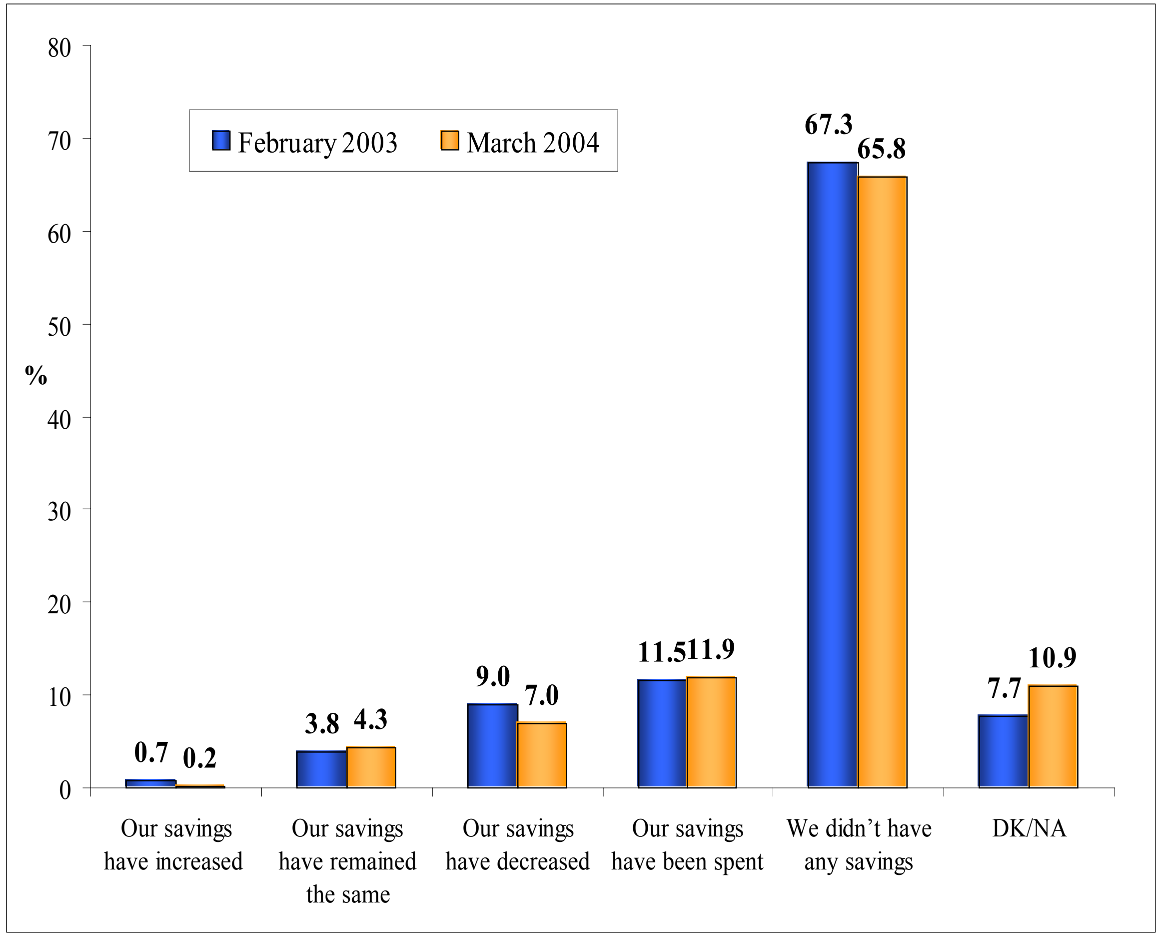
IV. SAVINGS

Even though an indirect indicator, the size of the population's savings and their dynamics provide information about the standard of living and about the economic conditions in which the hidden economy operates.

As evident from the data in *Figure 8,* insofar as they evolve at all, household savings mark a downward tendency. One in ten of those surveyed said their household savings had decreased over the past year and 11.9%, that they had been completely spent.

A considerable share of the respondents – close to two-thirds – said they ***did not have any savings at all***. The absence of change in this respect is indicative of the slow progress of the economic reforms and their weak impact on the population's real incomes.

FIGURE 8. ASSESSMENT OF HOUSEHOLD SAVINGS VERSUS PREVIOUS YEAR



Base: All respondents (February 2003 N=1107; March 2004 N=1080)

V. NATURAL ECONOMY

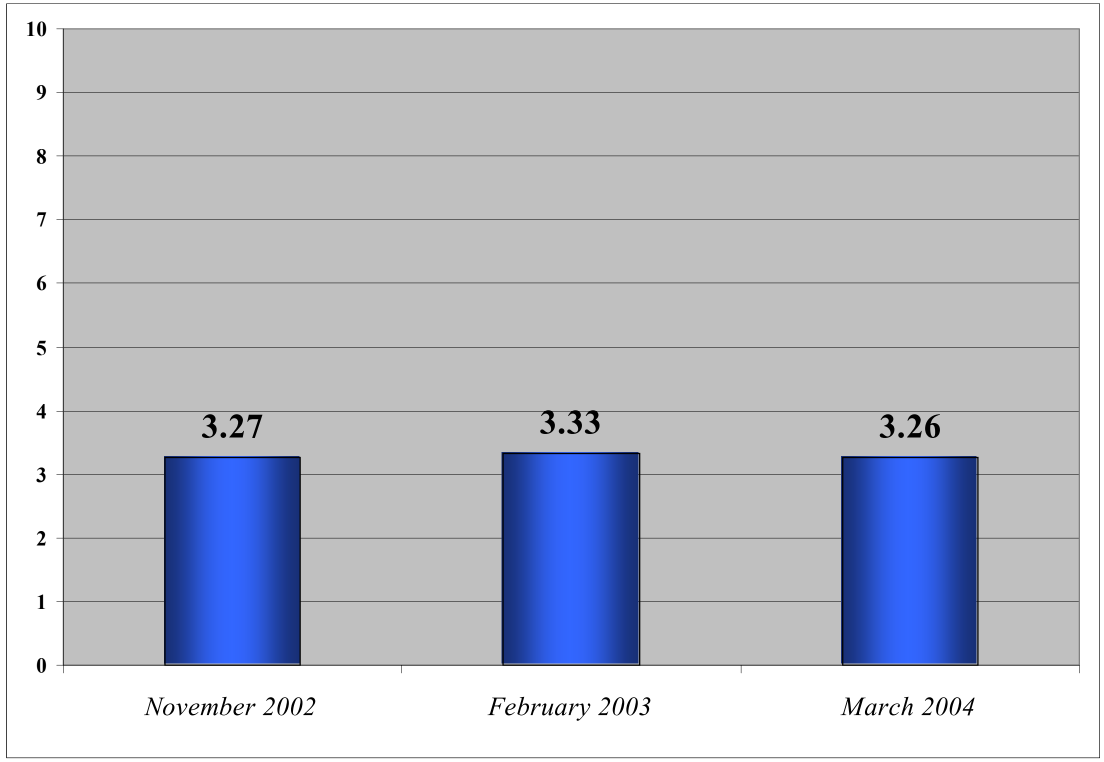
1. Natural Economy and Home Production Index

This index registers the relative "weight" of home production and consumption of home-produced goods in the "hidden" sector of the economy. Although the farmers producing products intended for personal consumption and use are not required to officially register this work activity and it is generally considered an additional one, to a large portion of the population (32.9%) family farm work proved to have become the principal activity and chief source of livelihood. In this sense, the size of the natural economy is an important indicator of the hidden economy in this country.

The index comprises the following sub-indexes: *Work Activity*, *Incomes*, and *Consumption*. There has not been any substantial change in either the aggregate value of the index or in the individual indicators it is measuring. *(Figure 9)*

The natural economy and home production still represent a significant share of the country's economy and a basic means of coping with the economic crisis to nearly one-third of the households.

Figure 9. Natural Economy Index



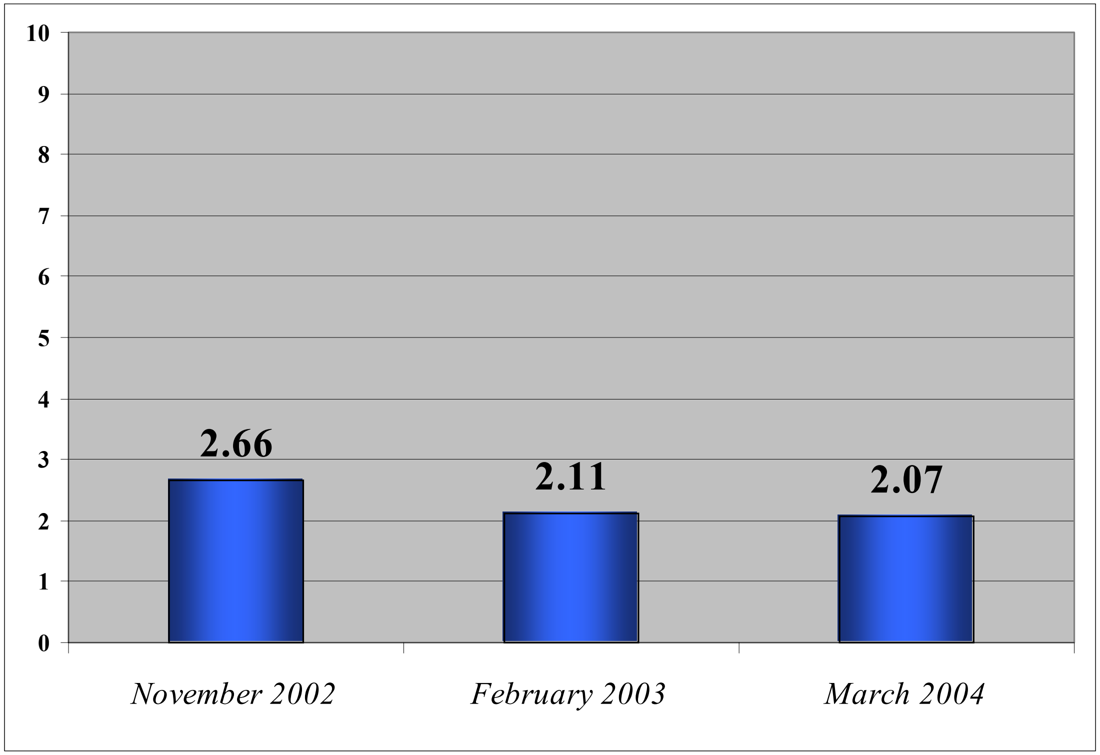
Base: The respondents engaged in family farm work and voluntary work (November 2002 N=574; February 2003 N=467; March 2004 N=447)

2. *Natural Economy Activity Rate Index*

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

The lower index value compared to November 2002 is associated largely with the seasonal nature of farm work. In fact, compared to last year, there has not been any change at all in the proportion of people engaged in unpaid activities and work in family farms. *(Figure 10)*

Figure 10. Natural Economy Activity Rate Index



Base: The respondents engaged in family farm work and voluntary work (November 2002 N=574; February 2003 N=467; March 2004 N=447)

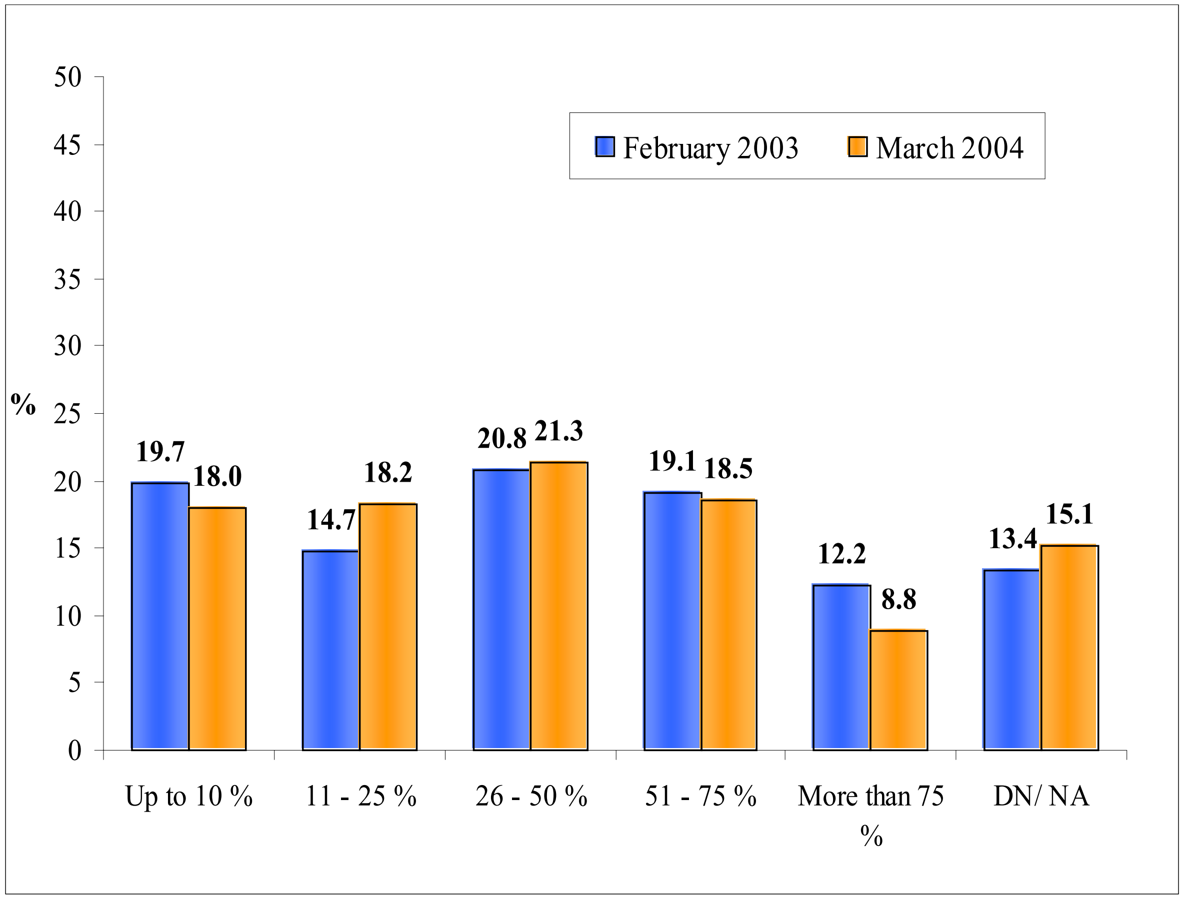
Traditional home production, chiefly of foodstuffs, not only continues to occupy a large number of the population (close to one-third), but also constitutes a basic source of food to many households.

One in four respondents said that ***more than half of the food consumed by their household in the course of the past year was home-produced***. *(Figure 11)*

Even if home production is not of a commercial nature and not a classical form of hidden economy, the large proportion of home-produced foodstuffs is also part of hidden consumption.

The reasons for the endurance of this type of production are both of an economic and social and psychological nature. The consumption of home-made products is a successful means of coping with the economic crisis and the low incomes of the households. In addition, product quality is largely guaranteed.

FIGURE 11. PROPORTION OF HOME PRODUCE CONSUMPTION IN TOTAL HOUSEHOLD CONSUMPTION



Base: The respondents engaged in home production (February 2003 N=348; March 2004 N=356)

Even though there has not been any change in the share of those engaged in family farm work, there emerges a gradual tendency towards declining output of most types of products – *eggs, melons, bread, meat, alcohol*. The decrease is particularly notable as regards *milk* – in a year and a half, the produced quantity has fallen nearly by half.

Some of the product categories, however, are marked by increasing output – *cheese, grapes, home-canned food, and fruits and vegetables. (Table 11)*

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

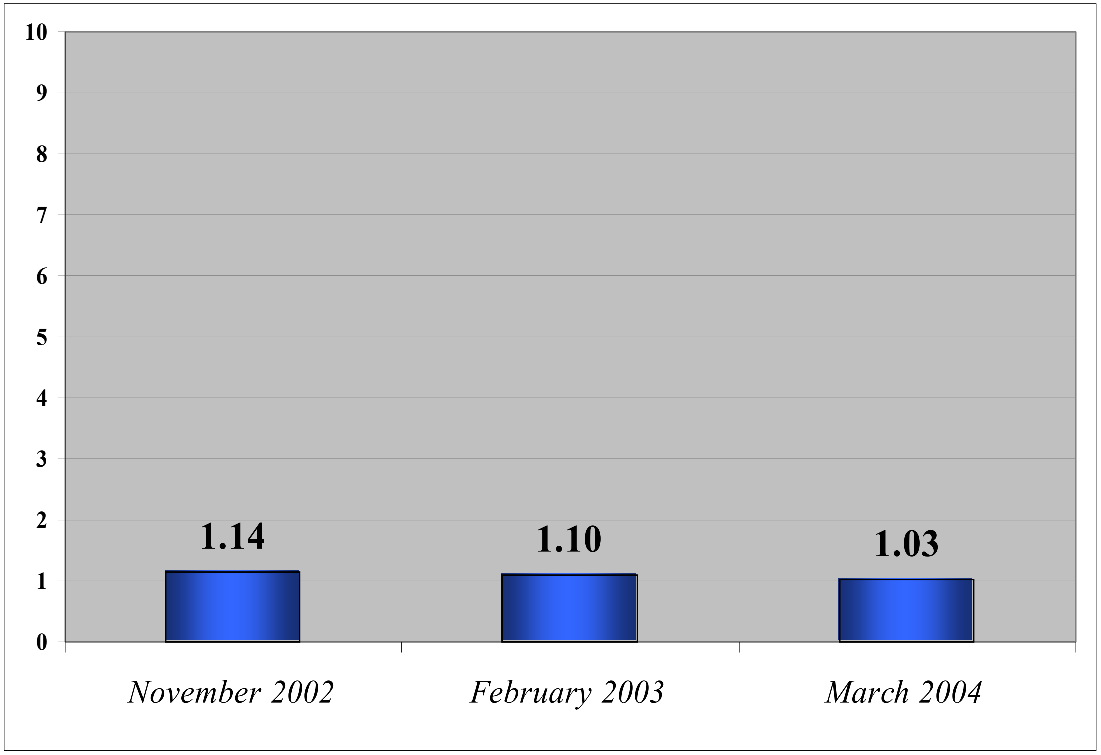
	Products			**Average annual quantity**			***Base****		
	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004	Nov 2002	Feb 2003	Mar 2004
Fruits and vegetables	34,9	25,9	27,5	117,29 kg	127,46 kg	167,13 kg	*205*	*181*	*210*
Home-canned food	30,9	26,4	27,4	101,14 kg	89,30 kg	104,19 kg	*215*	*218*	*204*
Eggs	24,4	22,3	24,3	367,29	417,00	338,60	*156*	*151*	*171*
Meat	19,2	17,7	20,7	130,07 kg	114,54 kg	105,8 kg	*134*	*150*	*164*
Milk	16,0	15,3	16,6	721,17 l	569,95 l	381,97 l	*107*	*92*	*109*
Grapes (vineyards)	16,9	13,3	13,0	229,55 kg	263,88 kg	328,05 kg	*120*	*108*	*93*
Cheese	10,6	9,0	9,3	39,22 kg	35,93 kg	44,09 kg	*72*	*54*	*71*
Alcohol	12,0	10,3	8,7	127,94 l	112,89 l	107,26 l	*88*	*95*	*80*
Water melons and honey melons	8,5	5,6	6,1	195,17 kg	188,33 kg	139,32 kg	*48*	*35*	*42*
Bread	1,7	1,1	0,8	186,14 kg	113,42 kg	87,76 kg	*10*	*7*	*5*
Base	*1077*	***1107***	***1080***	** Those producing the respective product*					

3. *NATURAL ECONOMY INCOME INDEX*

The index shows the size and importance of home produced goods intended for sale and of the thus generated revenues. It is composed of the following two sub-indexes: *Share of home production output intended for sale* and *Income from Sold Home Produce*.

Despite the significant number of people engaged in family farm work, ***most of the production is for home consumption***. The quantities of the products intended for sale, as well as the respective revenues, are gradually declining. *(Figure 12)*

FIGURE 12. NATURAL ECONOMY INCOME INDEX



Base: The respondents who have received incomes from the sale of home produce in the past year (November 2002 N=77; February 2003 N=69; March 2004 N=86)

With the exception of *milk*, produced for commercial purposes in one-third of the cases, all the remaining products are consumed by the producer households themselves. *(Table 12)*

TABLE 12 SHARE OF HOME PRODUCTION OUTPUT INTENDED FOR SALE

	None is for sale		About 1/4		About 1/2		About 3/4		All of it		*Base**	
	Feb 2003	Mar 2004	Feb 2003	Mar 2004	Feb 2003	Mar 2004	Feb 2003	Mar 2004	Feb 2003	Mar 2004	Feb 2003	Mar 2004
Bread	**100,0**	**100,0**	-	-	-	-	-	-	-	-	*12*	*9*
Home-canned home-grown fruit, vegetables, meat	**100,0**	**100,0**	-	-	-	-	-	-	-	-	*285*	*283*
Cheese	**100,0**	**98,9**	-	1,1	-	-	-	-	-	-	*95*	*98*
Alcohol	**100,0**	**98,9**	-	-	-	1,1	-	-	-	-	*109*	*88*
Water and honey melons	**95,0**	**97,0**	3,5	1,5	1,5	1,5	-	-	-	-	*59*	*64*
Fruits and vegetables	**95,8**	**95,4**	0,8	1,8	1,4	0,7	1,0	1,4	1,1	0,7	*278*	*286*
Meat	**96,4**	**94,7**	1,6	1,0	0,5	1,4	0,9	2,4	0,6	0,5	*192*	*216*
Eggs	**96,6**	**93,7**	3,0	5,2	0,4	1,2	-	-	-	-	*235*	*253*
Grapes (vineyards)	**96,5**	**91,2**	1,3	3,6	0,8	3,6	0,8	1,5	0,6	-	*140*	*137*
Milk	**67,8**	**67,8**	3,7	5,8	7,7	9,2	12,4	13,1	8,4	4,1	*163*	*172*

** Those producing the respective product*

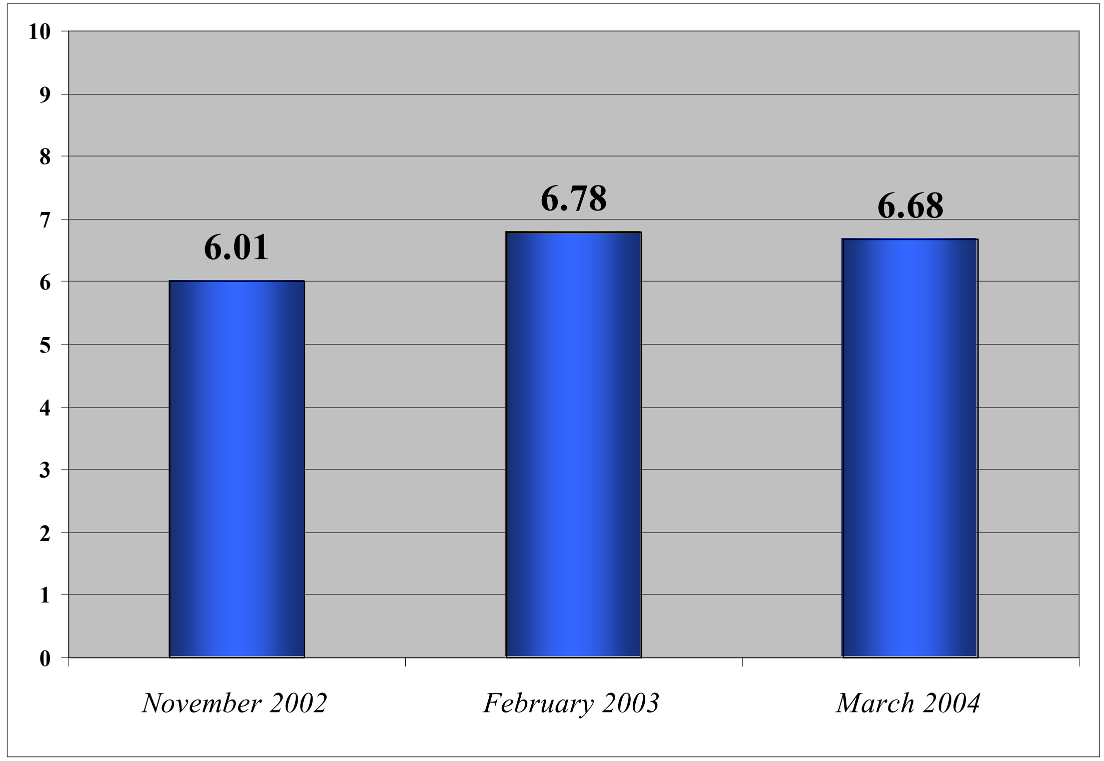
4. *Home Produce Consumption Index*

This index shows the share of *home produce consumption* in total household consumption.

As in the previous two surveys, the share of home produce consumption remains quite high, which again points to the non-negligible role of this sector of the economy. (*Figure 13)*

For one-third of the households, more than half of their food in the past year was home produced.

Figure 13. Home Produce Consumption Index



Base: The respondents consuming home products (November 2002 N=384; February 2003 N=302; March 2004 N=302)

APPENDIX. HIDDEN ECONOMY INDEX VALUES

A. GENERAL HIDDEN ECONOMY INDEX

HIDDEN ECONOMY	November 2002	February 2003	March 2004
	3.46	**3.47**	**3.33**
1. UNREPORTED ECONOMIC ACTIVITY	**3.65**	**3.61**	**3.39**
2. NATURAL ECONOMY AND HOME PRODUCTION	**3.27**	**3.33**	**3.26**

B. UNREPORTED ECONOMIC ACTIVITY INDEX

1. UNREPORTED ECONOMIC ACTIVITY	November 2002	February 2003	March 2004
	3.65	**3.61**	**3.39**
1.1. EMPLOYMENT	**3.50**	**3.53**	**3.27**
1.1.1. Undeclared jobs	***2.15***	***2.73***	***2.30***
1.1.1.1. Share of those working without contracts	3.09	4.47	3.55
1.1.1.2. Share of those working under contracts with "secret clauses"	1.22	1.00	1.04
1.1.2. Payment of social security contributions	***3.99***	***3.69***	***3.40***
1.1.2.1. Share of those without social security coverage	5.17	5.50	4.64
1.1.2.2. Social security base amount	2.80	1.88	2.17
1.1.3. Share of persons without social security coverage	***4.36***	***4.17***	***4.10***
1.2. SUPPRESSED TURNOVERS	**3.80**	**3.69**	**3.50**
1.2.1. *Issuing of tax receipts for purchases and services*	***3.80***	***3.69***	***3.50***
1.2.1.1. Rate of tax receipt issuing for purchases made	0.73	0.80	0.66
1.2.1.2. Rate of tax receipt issuing for services used	6.84	6.38	5.77
1.2.1.3. Rate of tax receipt issuing for definite product categories	3.83	3.89	4.07

C. NATURAL ECONOMY AND HOME PRODUCTION INDEX

2. NATURAL ECONOMY AND HOME PRODUCTION	November 2002	February 2003	March 2004
	3.27	**3.33**	**3.26**
2.1. Activity Rate	**2.66**	**2.11**	**2.07**
2.1.1.Share of those engaged in family farm work	3.95	3.15	3.29
2.1.2.Share of those engaged in housework/voluntary work	1.37	1.07	0.84
2.2. Incomes	**1.14**	**1.10**	**1.03**
2.2.1.Share of produce intended for sale	0.42	0.34	0.37
2.2.2.Income from sold home produce	1.87	1.87	1.68
2.3. Consumption	**6.01**	**6.78**	**6.68**
2.3.1.Relative share of home produce consumption in total household consumption	6.01	6.78	6.68

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