

Wages in Bulgaria

1. Wage dynamics and economic development

1.1. Relationship between wages and economic development

A closer analysis of the relationship between wages and economic development proves that it is fairly weak. Since 2000, GDP has increased more quickly than the real average wage: GDP grew by 57.2% during 2000–2008, while the real average wage rose by 38.1% (Figure 1, panel A). The gap between them widened until 2006 (20%), before dropping to 14 % over the next two years. This weak relationship prolonged during the years of economic crisis (2009-2010). GDP has declined by 5.5% in 2009 and slightly increased by 0.2% in 2010. In contrast - the average real wage continued to increase respectively by 8.6% in 2009 and by 2.9% in 2010. The effect of the crisis on wage development in Bulgaria has been limited. The wages lowered their growth rates during recession. This applied to all economic sectors and branches but at different levels.

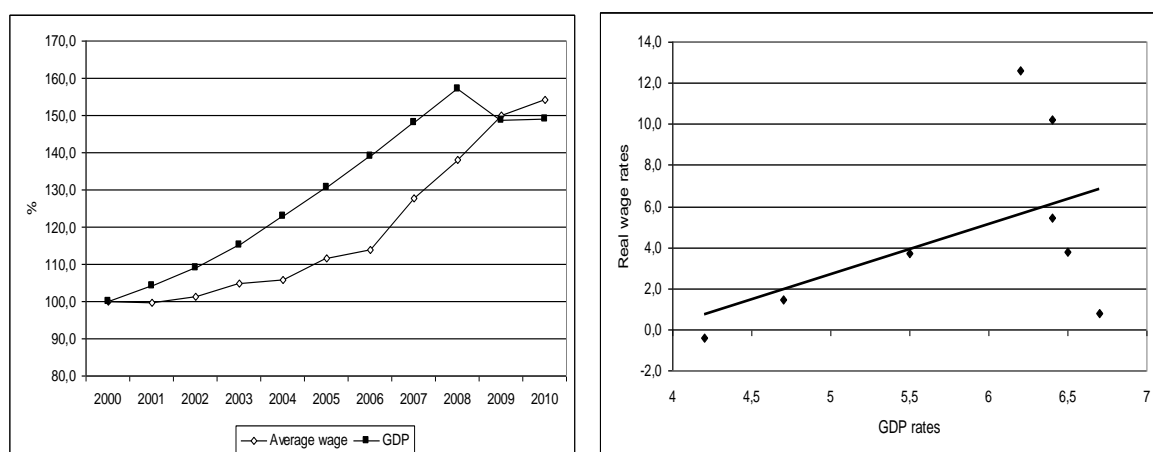
Another important feature of the relationship between GDP and wages is the large difference between their rates of growth. The real wages increase much less than GDP in the period 2000-2008 (with the exception of the past years). The gap was 1.2 percentage points per average. In addition, the higher fluctuation of wage growth suggests that the link between wages and economic performance was unstable.

The link between GDP and real wage growth rates shows a positive relationship (Figure 1 Panel B). This suggests a positive influence of GDP on real wages. However, this connection is not strong (the correlation coefficient is about 0.54).

Figure 1. GDP and real average wages, 2000–2010

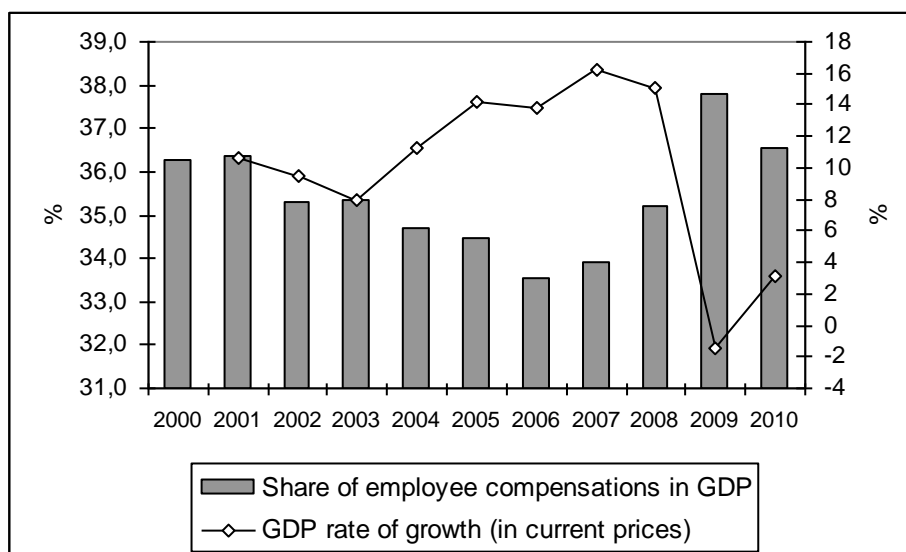
A. *Real GDP and real average wage dynamics (2000=100)*

B. *Relationship between GDP and growth real of wage rates (2000-2008)*



Source: NSI, selected years.

The moderate impact of economic growth on wage dynamics is due to the relatively low share of employee remuneration in GDP (Figure 2). This share ranged between 32 and 38 % during 2000–2010 and demonstrates contradictory development tendencies. It remained stable between 2000 and 2003, despite the downward trend of GDP growth (current prices). The reduction of the wage share (2003–06) does not correspond to the acceleration of GDP growth rates. In the past three years the wage share has increased significantly, while GDP rates have declined. The positive trends in wages in contrast to the contraction in economic output during the crisis contributed to an increase in the wage share. It increased by 2.6 % in 2009 and reached near 38% of GDP. This increase in wage share during the crisis suggests for a poor adaptability of wages to the economic performance.

Figure 2. Share of employee compensations in GDP, 2000–2010

Source: NSI, selected years.

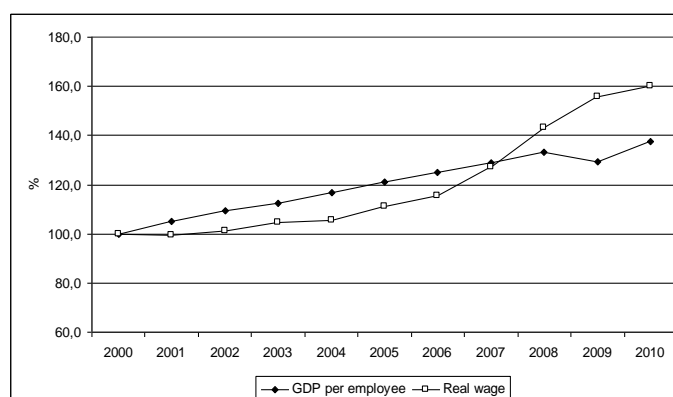
This development of the wage share may be explained by the weak connection of wages to economic results at enterprise level. During the period 2003–06 employee remuneration increased less than the gross value added (32.8% and 36.3%, respectively). As a result, workers received a lower proportion of output. In the period 2007–2008, the situation has changed, with a higher growth of employee compensation (51.1%) and a lower increase in gross value added (35.9%). Wage development during recession has been determined by many circumstances. First, there is inertia of adjustment of wages to the economic output. Wages are fixed and their changes require some time. Second, there is a trade-off between the rates of employment and those of wages. Wage increase was compensated by employment reduction. Third, most of dismissed workers were low skilled and low paid workers. This automatically increases the average wage in the firm.

1.2. Relationship between wage dynamics and productivity

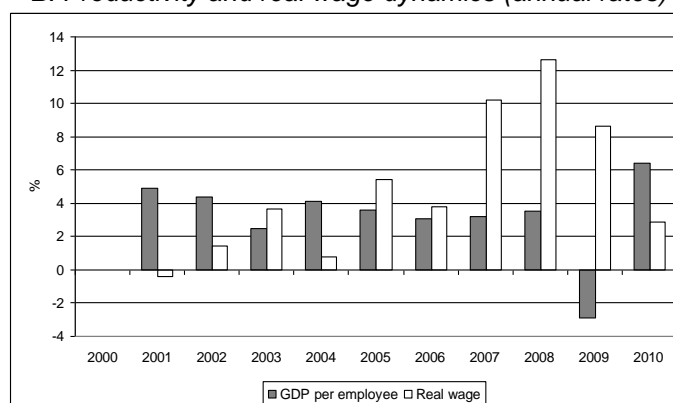
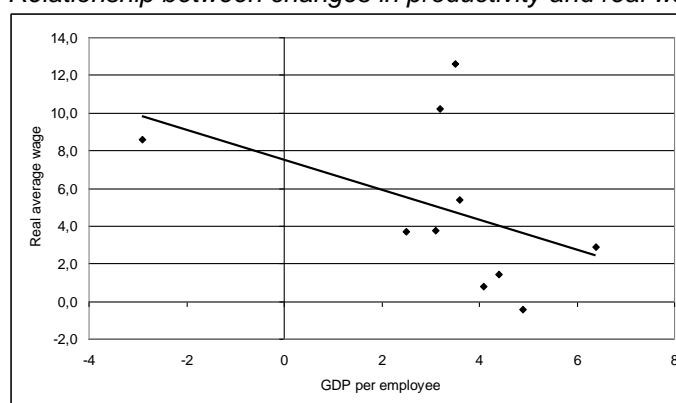
The consequence of the weak relationship with productivity¹ is the moderate impact of economic development on wage dynamics. Real wage growth in most years during the period did not follow productivity, particularly after 2000 (Figure 3).

Figure 3. Productivity and real wages, 2000–2010

A. Development of productivity and real wages (Index, 2000=100)



¹ Measured as GDP per employee.

B. Productivity and real wage dynamics (annual rates)*C. Relationship between changes in productivity and real wages*

Source: Statistical Yearbook, NSI, selected years.

Two periods of development could be distinguished (Figure 3, Panel A). In the first period (2000-2006) productivity has increased faster than the real average wage. In comparison to 2000 productivity grew up by 24.8%, while the real average wage increased by 15.5%. The second period (2007-2010) is distinguished by significant disparities between wages and productivity where wage growth exceeds productivity development. During this period real average wage increased by 27% and productivity - by 7%.

Annual changes in real average wages differ significantly from productivity changes for all years during the period and especially in 2007-2009 (Figure 3, panel B). During these years real wages increased much more (10.6%, 12.1% and 8.2%, respectively) than productivity (3.2%, 3.5% and -2.9%, respectively). All this suggests a weak relationship between the two (Figure 3, panel C). The scatter diagram depicting changes in productivity and real wages shows considerable disparity in the linkages and well defined negative trend. This means that lower rates of wage increase correspond to the higher rates of productivity growth.

To some extent, the figures on wages and productivity for 2009 and 2010 were influenced by the world financial and economic crisis. As a result of the crisis, productivity in 2009 fell in comparison to 2008, while real wages increased by more than 10%. This is due to many reasons, one of which is the desire to maintain both jobs and wages. Employment declined to a lesser extent than GDP, while wages grew. This wage increase does not correspond to the employment reduction, so that there is no trade-off between them in a strict sense. Generally, this situation indicates low economic efficiency and low competitiveness. The relationship between wages and productivity started to improve in 2010. Productivity increased significantly due to the further reduction of employment, while real wage rates decreased.

Considerable disparity can be observed in the links between productivity and real wages at the branch levels. In agriculture, productivity declined (-3.9%) during 2001-08, while the real average wage grew by about 31.4%. A similar picture may be observed in electricity, gas and water. There is positive real

wage growth (6.3%) as against negative productivity (−3.1%) for the period 2000–2006. The real wages in the trade sector increased by 11.6%, while productivity grew up by 7.9%. Higher differences between productivity and wage growth can be observed in areas where productivity exceeds wage growth. For example, during the same period, productivity increased several times more than real wages in mining and quarrying, transport and manufacturing.

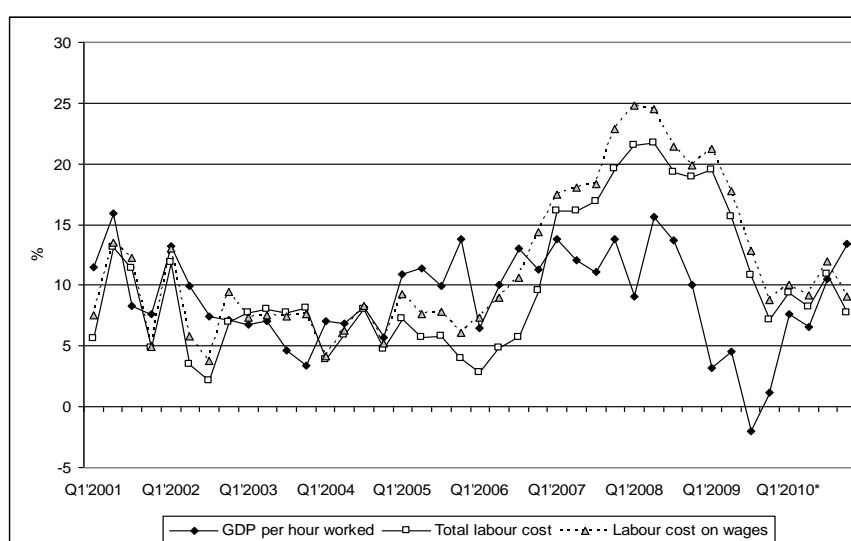
1.3 Relationship between labour costs and productivity dynamics

Dynamics of labour productivity² and labour costs³ in the period after 2000 shows differences which increase significantly in the period 2007-2009. In the period 2001-2006, the growth rate of productivity per hour is higher than the rate of total labour and salary costs (Figure 4, Panel A). For the period - the dynamics of productivity per hour was by 2.9 % higher than labour costs and by 0.9 percentage points higher the costs for wages and insurance contributions. Obviously, the wage growth comes close to productivity growth and exceeds the increase of the other labour costs. The discrepancy between the growth rates deepens significantly in the period immediately before and during the crisis (2007-2009). In this period the increase of labour costs and respectively of wage costs exceed the growth rate of the productivity of labour per hour. This growth of overall costs is due mainly to the increase of the wage costs. In 2008, the labour costs exceed the productivity by more than 8% and the wage costs - by almost 11%. During the recession in 2009, the difference grew close to 12 % regarding the growth rate of total costs and 13 % regarding wage growth rate.

Differences in productivity and labour costs in the last ten years show a poor interdependency (Figure 4, Panel B). Fluctuation between the growth rates is significant. Nevertheless, a positive dependence, even quite slight, is expected. Despite the poor impact of productivity of labour on labour cost growth, two periods of impact on the competitiveness of Bulgarian economy can be outlined. The first one (2001-2006) is characterised by establishment of favourable conditions for its increase. In this period, the productivity of labour went up by higher rates than the labour costs (incl. wages). This allowed the productivity enhancement at lower costs and therefore established conditions for better competitiveness. In the second period (2007-2009), the situation changed. Labour costs mark a significant increase, due to the costs on wages, mainly. This made the production more expensive and limited its realization. This situation is particularly unfavourable, as far as the world economic crisis is concerned. The production drop down and the limited possibility to reduce prices are not in favour of easy exit of the crisis.

Figure 4. Productivity and labour cost dynamics, 2001-2010 (annual basis)

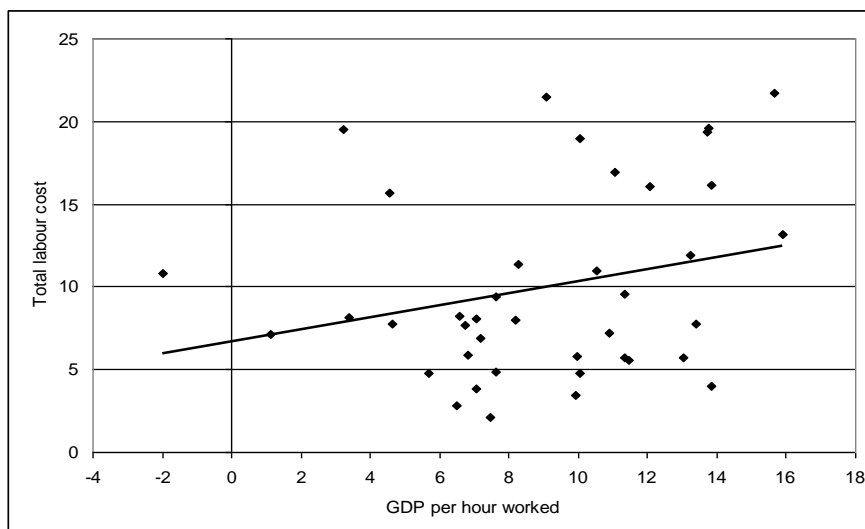
A. Quarterly growth rates of productivity and labour costs (total and on wages)



² Measured as GDP per hour worked in current prices.

³ Measured per hour worked in current prices.

B. Relationship between changes in productivity and total labour cost



Note: *) Preliminary data.

Source: NSI

1.4. Expected trends in wage and productivity growth

The recovery of the Bulgarian economy after the crisis most probably will proceed further at a slow pace with a view of the poor investment activity, limited internal demand and strong dependency from foreign markets. In short term perspective (2010-2013) it is logical to expect slightly increase of economic growth rate. Preliminary data of NSI show that the GDP in 2010 increases by 0.2%, which may be considered as a start of the recovery process. A possible scenario of GDP dynamics is the following: in 2011 to achieve an increase of 2 to 3%; in 2012 – of 3 to 4%; and in 2013 - of 3 to 5%. The export will be the key factor in 2011, and in the next years it will be supported by direct foreign investments inflows and internal demand and consumption. The expected effect on the labour market will consist in slight reduction of unemployment in favour of the employment.

In the light of this macro-economic scenario, the productivity of labour is assumed to rise at a higher rate than the GDP. This is due to the assumption that the employment intensification will be at a lower rate than the GDP. Expended trend in the productivity is 4-5% per year in 2011 and 2012. In 2013 and afterwards prediction is about certain decrease of the rate to 3-4%, as a result of higher number of employees.

Wage dynamics depends on numerous factors, among which state policy on incomes and power of the individual social partners in the process of collective bargaining are of key importance. During the crisis, and until now, the state policy on incomes is restrictive, which is characterised by frozen minimum wage and wages financed from the state budget. It is difficult to forecast the level of wages in terms of collective labour agreements. In the private sector, where the individual contracts prevail, the rate and the dynamics of wages are based on achieved production results and it is quite impossible to expect high dynamics. Having in mind these circumstances, wage dynamics in 2011 will reach the values of 2010 in nominal and real terms, i.e. the nominal wage most probably will increase within 5-6%, and in real terms this represents 1-2% (annual inflation 4%). In 2012-2013 a higher rate of nominal wages may be expected (6-7% per year), based on several considerations. Firstly, imposed restrictions on minimum wage will not be realized within a longer period. It is quite possible that the minimum wage and wages close to it will increase. Secondly, implementation of policies on higher dependence of wage on productivity in conditions of expected economic growth will result in increase of salaries, including salaries financed from the State budget.

2. The Painful Problems of the Minimum Wage in Bulgaria

The minimum wage (MW) is most frequently considered as a kind of social protection of vulnerable labour. By setting MW as a *mandatory wage*, several social goals are pursued as to support the lowest acceptable living standards that are indispensable for the health, capacity for work and normal well-

being of the workers. It also protects workers against unreasonably low remuneration in slumps of the business cycle, or in case of low trade union bargaining power. The mandatory MW is also considered as a tool for establishing a decent payment for the low qualified workers, as far as their remuneration, as a rule, does not relay to their productivity in majority of the cases. However, this protected minimum remuneration depends on economic situation in the country and the achieved common standards of living; inflation dynamics; labour productivity; baseline of the average wage; tax system and scope of redistribution; balance of the power between trade unions and employers' organizations; other arguments (even political), or from importance only for the focal country.

2.1. MW in Bulgaria

After 1990 and until now, in Bulgaria the mandatory minimum wage (MW) is set up by decrees of the Council of Ministers. These decisions are discussed accordingly and in advance at the National Council for Tripartite Co-operation. The size of the MW is determined as an absolute value per month and per hour having in mind the normal duration of working time (8 hours per day and five working days per week, four working weeks in a month). For example, in January 2009 the first Decree of the Council of Ministers⁴ stipulates that the wage shall be at the level of 240 BGN (122.71 Euro) per month and 1.42 BGN (0.71 Euro) per hour. These levels were not changed in 2010 and are still valid for 2011. Thus the value of the minimum wage is fixed as statutory and represents the minimum standard of remuneration, which cannot be breached. The Law allows social partners to negotiate different, but not lower than the statutory minimum.

In 2010 the MW deducted by payable taxes reached 189.70 BGN – a level that is below the poverty line of 211 BGN. This is the main argument of those who insist on its increase in 2011. The poverty line was introduced in 2007 in Bulgaria and before that its functions were delegated to the MW as a basic income line to determine the social insurance and social assistance payments. The MWs was kept below the poverty line until 2007 and this was proved by some experts' calculations in 2002 – 2005.

2. 2. Levels and coverage

In 2011 the statutory minimum wage in Bulgaria was 122.7 euro - the lowest in EU27⁵. This level is traditional for Bulgaria, nevertheless that the MW dynamics in the period 2000–2011 is one of the highest in EU 27, but close to the other new member-states (Romania, Slovakia, Estonia and Latvia).

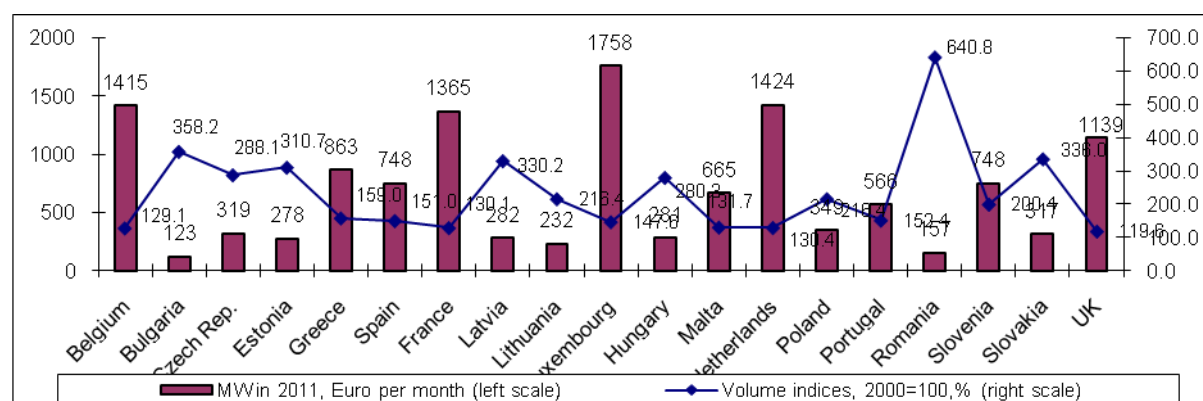


Figure 1. The MWs (Euro per month) for some member states in 2011 and its ratio in 2011 to 2000, Eurostat.

In some periods (1990-1995 in particular) the MW in Bulgaria was an object of severe restrictions in favour of the financial stability. After the crisis in 1996-1998 its rate accelerated. For a certain period, it was bounded to the increase of the average wage in the public sector. In 2005 the MW was negotiated by the social partners at a relatively high level, because of the quite powerful position of the

⁴ State Gazette n^o 4, 16.01.2009.

⁵ It is comparable only with those in Romania – 157.2 Euro, but far from the Lithuania and Estonia which are on third and fourth place, with minimal wages of 237.7 and 157.2 Euro (Eurostat).

trade unions. In the period of crisis the MW remained on one and same level. The combination of these preconditions has led to an increase of MW by a high rate in the period after 2000 (Figure 2).

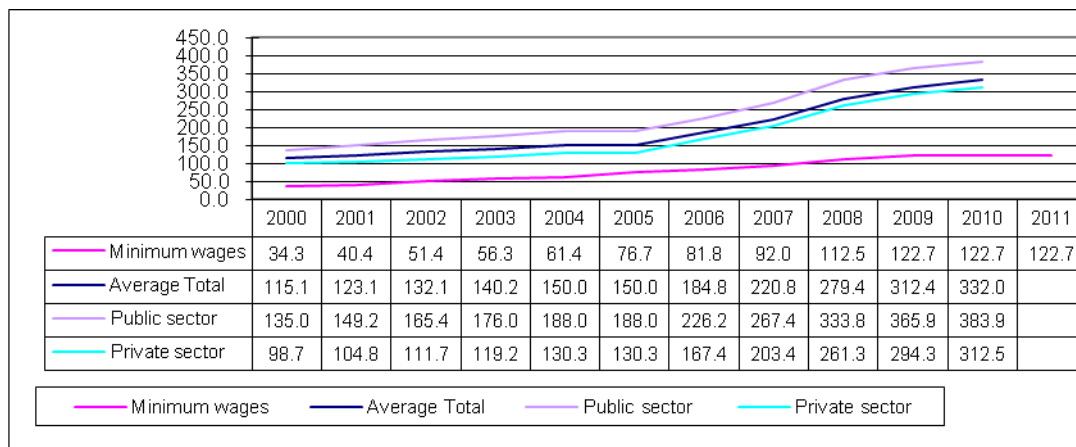


Figure 2. The minimum and average wages in Bulgaria (Euro per month)

The comparison of the dynamics of the minimum wage to the dynamics of the wages in the private and the public sectors proves significant distance after 2000. It is obvious that the mandatory MW was not a push-up factor for these average wages and had its trajectory.

The ratio between the MW and the average wage reflects on income inequality between employees with low and employees with average wages (Figure 3). It seems decreasing after 2005, but here the eventual influence of the grey economy will have to be taken into account. In comparison with the other member-states this ratio is better balanced in Bulgaria for the period after 2000. Its average value was 40.1% and it was below the average tendency for the EU-27 (figure 4).

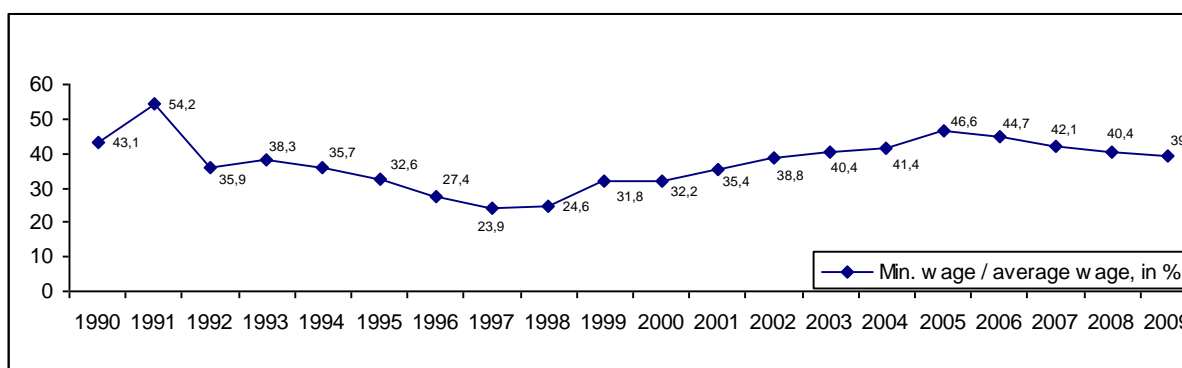


Figure 3. Ratio of minimum to average wage, in % Source: Eurostat.

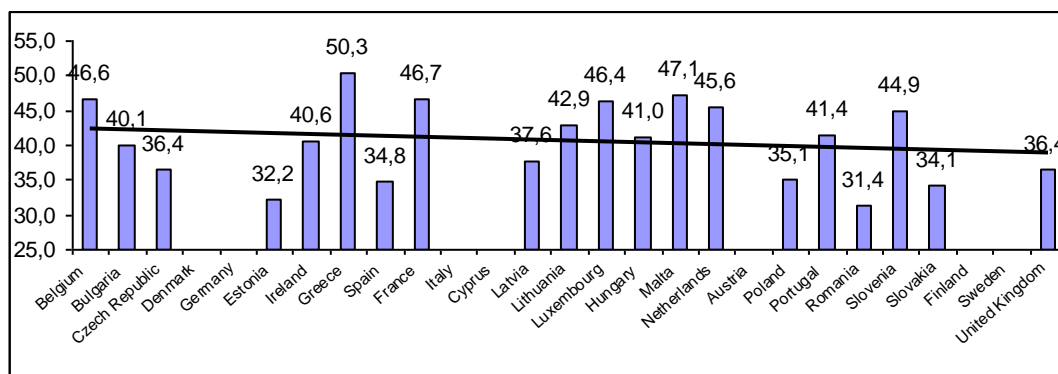


Figure 4. Average ratio of minimum to average wage for the period 2000-2010, by countries (in %) Source: Eurostat.

2. 3. The mandatory minimum wage: its coverage and variations across economic sectors

In the period of crisis, employers quickly dismissed low qualified workers whose labour contribution to the economic results was small (or null). The number of full time employees whose remuneration equals the minimum wage has been reduced twice, while the number of total employed decreased only by 19%. Undertaken lay-offs of low qualified workers lead to an increase of the average wage.

The structure of employees at minimum wage by branches is close to the overall structure of employees (Table 1). The branches with the highest number of workers at minimum wage are 'Manufacturing' and 'Wholesale and retail trade; repair of motor vehicles and motorcycles'. In the same time, some branches are distinguished by a higher concentration of minimum wage remunerations than the average, such as 'Administrative and support service activities', 'Agriculture, forestry and fishing', 'Accommodation and food service activities'. Obviously, in these branches low qualified workers are needed. The latter two economic activities groupings are characterised by employment in the grey economy, which allows them to retain high employment at minimum or low wages. The eventual increase of the MW may be of importance for the increase of the overall labour costs and the consequent negative impacts in terms of unemployment, although at a different extent for the individual sectors.

Table 1. Number and structures of full-time employees employed with a MW and the total number of employees for 2008-2010 and by economic activities groupings

	2008	2009	2010	2010/ 2008 (in %)	2008	2009	2010	2010/ 2008 (in %)	2008	2009	2010
	Number of employees with minimum wage				Number of employees				Relative share of employees with minimum wage		
Total, Number	248478	161839	121967	49,1	2466852	2404633	2197722	89,1	10,1	6,7	5,5
Total, in %	100,0	100,0	100,0	49,1	100,0	100,0	100,0				
Agriculture, forestry and fishing	3,7	2,3	3,1	41,6	2,7	2,8	2,8	92,2	13,9	5,6	6,3
Mining and quarrying	0,3	0,4	0,2	33,8	1,2	1,1	1,2	87,6	2,7	2,3	1,0
Manufacturing	32,1	29,4	33,9	51,9	24,7	22,5	23,2	83,8	13,1	8,8	8,1
Electricity, gas, steam and air conditioning supply	0,0	0,1	0,1	-	1,4	1,4	1,5	94,3	0,0	0,3	0,3
Water supply, sewerage, waste management	0,9	0,5	0,4	19,4	1,4	1,4	1,5	94,5	6,9	2,6	1,4
Construction	5,1	2,9	3,3	31,2	9,8	8,9	6,6	60,3	5,3	2,2	2,7
Wholesale and retail trade; repair	18,3	20,7	22,0	59,0	16,1	17,1	18,3	101,5	11,4	8,1	6,7
Transportation and storage	4,0	4,2	4,8	59,4	5,9	5,9	5,9	88,2	6,8	4,7	4,5
Accommodation and food service activities	6,1	5,1	4,2	33,9	4,4	4,8	4,4	88,0	13,9	7,2	5,3
Information and communication	0,7	1,0	0,5	37,7	2,4	2,6	2,6	94,5	2,9	2,6	1,2
Financial and	0,3	0,1	0,3	46,7	2,2	2,3	2,4	99,3	1,3	0,3	0,6

insurance activities											
Real estate activities	0,6	0,5	0,6	50,5	1,0	1,1	0,8	75,3	5,7	2,8	3,8
Professional, scientific and technical activities	1,7	1,3	1,0	28,8	2,9	3,1	2,9	89,8	6,1	2,7	2,0
Administrative and support service activities	12,2	13,5	12,4	49,9	4,2	4,4	4,6	96,8	29,0	20,6	14,9
Public administration and defence; compulsory social security	4,8	8,1	4,4	45,1	5,2	5,4	5,4	92,1	9,2	10,2	4,5
Education	1,8	1,5	1,6	42,2	6,9	6,9	7,6	97,3	2,6	1,5	1,1
Human health and social work activities	4,9	6,0	5,5	55,4	5,1	5,5	5,8	101,3	9,5	7,4	5,2
Arts, entertainment and recreation	1,2	1,1	1,0	41,0	1,3	1,4	1,3	91,8	9,2	5,4	4,1
Other service activities	1,5	1,3	0,9	30,0	1,2	1,4	1,3	93,6	12,1	6,0	3,9

Source: NSI.

Negotiating differentiated minimum wages is an element of the already wide spread general practice of formation of total remuneration at a contracted basis. It takes into account all factors that may impact the value of the real remuneration. For example, the collective bargaining for 2011 arrived at an increase of wages in export oriented firms with a sharp growth rate of sales and added valued, such as machine building, electrical engineering, metallurgy, food processing industry. Vice versa was agreed for the branches with decreasing productivity and sales – commerce, services, transport and construction. Thus, the minimum wages in the real sector are conformable to both to the overall economic situation and the inflation and to the specific conditions in the branch or company. It is possible to renegotiate already agreed levels of the minimum wage. In this context, indexation of incomes, including of minimum wage, for which the trade unions insisted in the beginning of 2011, exist in practice and has not been suspended even in the crisis period. It is based in a larger extent on collective bargaining. However, the protection of low incomes of employees in the public sector and other workers not covered by collective labour agreements represents a problem and these are the majority of the employees after having in mind the 20% union density in 2008⁶.

The importance of the practice to spread out the collective branch contracts has an increasing importance for the workers not covered by labour agreements. This practice is more and more widely applied in Bulgaria.

Untypical forms of employment represent a separate group of issues. Home workers have been already covered by collective agreements and are protected after introduction of amendments in the labour legislation. Other workers with untypical forms of employment depend on establishment of correct minimum hourly wages. As mentioned already, hourly wages are applied but in the conditions of a normal duration of the working day. Expanding the application of hourly wages will have to be accompanied by protection of their minimum level. For example, the hourly wage may be conformable to the contribution of the low qualified labour and be determined for duration of not less than six hours, but also dependent on the marginal contribution of this labour for the overall economic results. The question is still open and discussions and decision in the condition of Bulgaria are forthcoming.

⁶ Industrial relations in Europe 2010, European Commission Directorate-General for Employment, Social Affairs and Inclusion, Unit B1 p. 25.

In the budgetary organizations, the starting salaries of employees change according to the income policy reflected in the state budget. The determination of a new level of mandatory minimum wage will have a social function, but it will increase low salaries, and most probably – the average salary in the sector.

2.4. “Pros” and “Cons” an increase of MW

The most important arguments for increasing the minimum wage concern its social importance as protection of low labour incomes and basic standard of living of people employed at MW (at a certain extent – of their families). The MW should be related to the poverty line. *The increase of the minimum wage to a level higher than the poverty line, after taxation, does not have an alternative.*

Higher minimum wages will stimulate consumer demand and particularly the demand from low income groups (as a rule, in these groups the incomes' increase is completely consumed). This is a favourable result for activating the consumers' demand within the context of exiting the crisis. However, the question is whether the increase of MW conforms to the increasing inflation and the slow increase of labour productivity. The word is not about the productivity of the low-qualified labour, but about the productivity at national level and the economic growth. There are contradictions in the relationship between labour productivity and average salary-labour costs-competitiveness that lead to the conclusion that the increase of MW should be made with caution, i.e. moderated small corrections will have to be made in the MW. Also – the limited potential for State Budget revenues will have to be taken into account in recent period of going out of the crisis. In addition - there are some predictions about a “W”-shape of its trajectory and that insists on well weighted decisions about the Budget's re-distributions.

Traditionally, low labour costs are a key factor for maintaining price competitiveness of Bulgarian export. However, reduction of the number of employees with MW does not necessary result in worsening export competitiveness, according to the higher rate of exports to imports in the last 2 years and the positive trade balance in the beginning of 2011. This is a completely natural result, due to the overall low average salary rate in Bulgaria, compared with the other member states (and to other factors as well). In this context, it can be assumed that the problem related to the increase of mandatory MW will not impact the position of export oriented industries and their role in stimulating the economic growth. Here again, a moderate increasing rate of MW is required.

The problem raised from the practice of registering minimum wages by employers in order to avoid payment of higher insurance contributions, while paying higher wages to workers, is discussed repeatedly. However, in crisis periods, this practice does not have a serious importance in registered mass layoffs of low paid workers. It may not be expected that the increase of MW will stimulate such practice, inherent to the grey economy.

Arguments against minimum wage increase include the increase of labour costs of employers and the expenditures of already adopted Budget for 2010. In both cases, it comes to costs which are not scheduled and not secured with the respective incomes. This leads to financial instability at both enterprise and national levels.

According to the organizations of employers, companies' recovery is still fragile and can not support additional labour costs. Their opinion is that the increase of the MW will preserve and even increase the current unemployment level. In the same time, previous years' practice shows that the companies don't respond to reduction of taxes and introduction of other incentives with hiring more employees. In this relation, definite expectations can not be formulated that a reduction of unemployment rate will occur in case of preservation of the current level of MW. As already mentioned, low qualified workers have been the first dismissed by employers as the less necessary⁷. In eventual more active restructuring of the economy these workers will remain redundant at the labour market. Therefore, once again it comes to the requirement of minimal corrections of mandatory MW only in relation with the poverty line.

Minimum remunerations by branches can be agreed in the collective labour contracts that may lead to variations by branches and by professions. These trends of decentralization will contribute to

⁷ The surveys of employers in the last two years show that a key factor for their expectations (including hiding employees) plays the uncertain economic conditions.
Data from NSI.

achieving consensus on acceptable levels of minimum remunerations by branches and activities and should be further promoted.

In addition to arguments for moderate increase of MW, the business should receive a support in the current difficult conditions of exiting the crisis. The question is about a combination of employment and an increase of labour productivity. The business should receive preferences for qualification and requalification of hired personnel and newly hired workers in the process of restructuring and introduction of technological innovations. This is one of the main challenges of our development altogether with alleviation of the administrative burden and mitigation of corruption. Well known is the need of new qualifications of currently unemployed persons. In this relation, it should be monitor that the increase of the minimum wage will not result in limitation of Budget expenditures for human resource development. This aspect of the current situation is still little discussed, but this is exactly it that should be applied in the social dialogue and in defining future responsibilities of social partners in terms of preserving employment and improving labour productivity. The social partners may find an appropriate division of responsibilities

3. Main conclusions:

1. The impact of economic growth on the dynamics of wages in the period after 2000 can be assessed as moderate. The wage growth does not follow the dynamics of the GDP. This means relatively poor wage adaptability to achieved economic results.
2. Wage dynamics is slightly dependent on fluctuations in productivity of labour. This poor relationship is strongly demonstrated during the first four years, when the wage growth rate significantly outstrips the growth rate of labour productivity. This is valid for almost all economic sectors.
3. The economic crisis and measures undertaken by the government to limit wage growth in the public sector have exercised a positive effect on achieving closer dependence of wages on economic results. Nevertheless, the poor adaptability of wages on economic growth and labour productivity remains unchanged.
4. The relationship between dynamics of labour costs and productivity is relatively poor. However, this fact has a different effect on the Bulgarian economy. The effect is positive in the period 2000-2006, when the productivity of labour grows more quickly than the labour costs. In the last years, the growth of labour costs significantly exceeds the productivity, which reduces the competitiveness of the Bulgarian economy.
5. The MW is not a push-up factor of the average wage, but it is such factor for the wages in public sector and for those close to the MW.

4. Policy recommendations

1. The restrictive policy on wages carried out in the crisis period is not appropriate in the conditions of economic recovery and revival. Incomes policy should be structured in a way that stimulates internal demand. This requires the application of measures that ensure growth of incomes in conformity with inflation, budget revenues and economic results. This approach will secure not inflationary increase of incomes from labour that will have a positive effect on consumer demand.
2. A closer dependence of wage and labour costs growth on productivity is needed. This requires the introduction of mechanisms in the collective bargaining process which will ensure stronger dependence of wages on labour productivity.
3. The MW should be related to the poverty line. The increase of the minimum wage to a level higher than the poverty line, after taxation, does not have an alternative. The increase of the minimum wage will have not to result in limitation of Budget expenditures for human resource development.