

A man with a backpack and suitcase is standing in an airport, looking out a large window at a plane taking off. The image is overlaid with vertical color bands (green, orange, blue) and a red rectangle in the top right corner.

THE IMPACT OF LABOUR MIGRATION ON THE BULGARIAN ECONOMY



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ECONOMICS AND INTERNATIONAL RELATIONS INSTITUTE

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1. INTRODUCTION

"This study should be a desktop book for every management decision."

Iliana Yotova

Vice President of the Republic of Bulgaria

The shortage of skilled labour is one of the most severe constraints affecting economic growth in Bulgaria in recent years. This is a constantly recurring problem posed by employers' organisations, and it gradually embraces all sectors of the economy and professions, but also different companies - from micro-enterprises to large companies. There are various reasons for this - a permanently deteriorating demographic picture, demotivation of a significant number of the working-age population (analysed in a study by the Friedrich Ebert Foundation and the Institute of Economics and International Relations in a survey in 2017), and the quality education and vocational training that is inadequate for the labour market.

Perhaps the most significant reason for the shortage of skilled labour is related to labour migration. It has been a constant process over the past 30 years, but has become particularly accessible since the opening of the entire European labour market to Bulgarian citizens. The opening of the labour market of the EU member states took place in stages starting in 2007 and was completed at the beginning of 2014. Today millions of Bulgarians work abroad. According to estimates of the Agency for Bulgarians Abroad, almost 1/3 of Bulgarian children are born abroad. A huge number of the Bulgarians who have emigrated over the last 30 years are of working age. They also have the skills and experience of advanced, competitive labour markets. This experience would be invaluable for the Bulgarian economy if these labour migrants decided to return.

Labour emigration has a direct and negative effect on the Bulgarian economy. It deprives the economy of some of the most competitive and potentially positive workforce. The objective assessment requires that one take into account both the negative and the positive effects of labour migra-

tion. The latter include the economic and social "valve" in times of economic hardship and high unemployment. Rather than exerting pressure on social systems during periods of unemployment, labour emigration provides a solution on an individual level, and alleviates public spending. This effect should not be overestimated, because usually the state of the Bulgarian economy is related - with a certain delay - to that of the European economy. In this sense, migration into the EU, which has been a major destination in recent years, does not provide a solution to the problem. The second positive consequence of labour migration is the cash transfers of emigrants to their families in Bulgaria. These transfers are a significant economic factor, since they are significantly more than direct foreign investment, increasing the demand of paying consumers and decreasing severe social inequalities. These are positive effects, but they can hardly compensate for the long-term negative effects associated with labour migration, such as the deteriorating demographic picture, the constraints on the development of the economy, and the negative consequences of the selection process, leaving less qualified and poorly educated workers in Bulgaria.

At present, Bulgaria has no specific policy to regulate labour migration. There are different analyses, statistics on labour movement and employment in the economy are quoted, but there is a lack of a comprehensive policy, based on relevant analyses, which sets targets and is supported with the necessary resources. The aim of this study is to help in the development of a policy which is based on scientific analysis and which can choose between combinations of different measures and, most importantly, which determines the respective clearly defined goals.

In this study we will measure the real effect of labour emigration on the Bulgarian economy. We will do this through research based on an original econometric model. The quantification of the effect of emigration on the national economy will help assess the effectiveness of measures to change this trend. When deciding what policies to use, we will be able to assess the cost of the decisions and what extent of action the state can

afford. The econometric study allows an effective assessment of the impact of the state policy on the regulation of labour migration.

This study also includes sociological research that defines the profile and motivational attitudes of potential economic emigrants. The results of the sociological research provide an opportunity for policies to be developed for the prevention of labour emigration. In any case, such an approach would be more efficient and quicker to put into practice than a reversal of the flow of labour migration.

The analysis of issues related to labour migration also includes an analysis of its temporary forms - seasonal work and posted workers. Especially seasonal work abroad involves considerable labour resources from Bulgaria, mainly in the fields of tourism and agriculture. This leads to a significant shortage in the national labour market.

In conclusion, this study proposes different solutions that can be combined in a purposeful policy for regulating labour migration. They provide the opportunity for informed decisions to be taken in which policies relate to tackling the main issues and are provided with the necessary financial resources.

The econometric study was carried out by a team from the Southwest University, headed by Prof. Gancho Ganchev. The sociological survey was conducted by the Sova Harris Agency, commissioned by the Friedrich Ebert Foundation. The analysis of the existing policies, the European legislation and the temporary employment abroad, the policy proposal and the general editing of the work were carried out by Ivailo Kalfin and Dr. Lubomir Kyuchukov from the Institute for Economics and International Relations.

2. ANALYSIS OF AVAILABLE DATA

The statistical information provides a rough understanding of the scale of labour migration. The National Statistical Institute monitors the movement on the indicator of external migration, which in practice is the closest information for the assessment of labour migration. The NSI data are broken

down by gender, age and nationality. The analysis of this indicator has its limitations. On one hand, the NSI studies this process through the prism of demographic statistics. This means there is a focus on the number of emigrants and immigrants, but without a detailed analysis of their profile and motivation. This indicator, by itself, has a bearing on demographic research, but not the economic effect, motivation and possible policies to regulate labour migration. The second constraint is that, according to the methodology, the NSI collects data on emigrants in two ways - if they themselves declare that they are emigrating, or when they want to terminate their health insurance. This methodology presupposes a real underestimation of the number of emigrants. The problem is in that the 90% of labour migrants heading for EU Member States have no formal obligation to inform the state authorities about them doing so. In many countries in the case of permanent absence, it is imperative that this be reflected in the local administration or with the police, but this is not the situation in Bulgaria. Discontinued health insurance contributions are a good but once again insufficiently accurate indicator of emigration. Some emigrants keep up contributions on a "just-in-case" basis, and one must also bear in mind the huge number of Bulgarians who are not insured. The third limitation of the available statistics is that they do not take into account the reasons for migration abroad and therefore one cannot say how many of the migrants are going abroad in order to work. Undoubtedly, cross-border migration for family or humanitarian reasons also has its impact on the economy. In the present study, however, we will confine ourselves to the effects of labour or occupational migration, since they are far more significant and are among the leading causes of migration. Such direct data cannot be obtained from the statistics compiled by the NSI.

Eurostat, for its part, also has statistics related to labour migration across borders. It provides more information related to the needs of this study. For example, the European Statistical Office examines residence permits issued for the first time and those who are newly registered in each country are categorised according to the reasons for registration. From this data we can draw conclusions to some extent. While the number of first regis-

trations is increasing in the EU and the countries of the European Economic Area since 2012 and already exceeds 3 million, which is the highest in the last decade, in Bulgaria the number of those newly registered relative to population is 4 times lower than the average and amounts to only 1.5 per thousand. If, on average, about 1/3 of those newly registered in Europe arrive for work, that number is only 16% in Bulgaria. While in the EU, the top three countries of origin of newly registered people are Ukraine (mainly because of the large activity of Poland), Syria and China, in Bulgaria the top three countries of origin are Turkey, Russia and Ukraine. From these statistics we can conclude that among those newly registered in Bulgaria for 2017 there are relatively few foreigners attracted by the national labour market and the majority of new settlers come here for another reason. We can assume that this is mainly related to family reasons, investment in real estate and the development of one's own business.

Another indicator of the Eurostat database that we can use is the increase in labour costs. From the data published it is seen that, compared to 2012, the labour cost in Bulgaria increased by over 50% in the second quarter of 2018. At 11% on average for the EU, the highest is in Romania - 75%, followed by Latvia 51.7% and Bulgaria third, with only 0.01% less than that. The combined reduction in unemployment and the significant increase in labour costs of businesses show that the lasting trend is to reduce the significant difference between payment for labour in most European countries, as well as in Bulgaria. As we will see later in the study, pay is a fundamental regulator of the direction and intensity of labour migration. Together with the trend of quickly closing this gap, if we accept the Romanian economy as a direct competitor, Bulgaria will find it increasingly difficult to provide better conditions and attract workers to its labour market – whether they be Bulgarian citizens or other nationalities.

The increase in labour costs exceeds the rate of increase in labour productivity. According to Eurostat, compared to 2010, real labour productivity in Bulgaria increased by 19.1%, which is the second-highest result in the EU after Romania - 37.5% and before Po-

land - 18.4%. The average increase in the EU is only 5.8%. These data give rise to several conclusions. Firstly, the productivity of the Bulgarian economy is catching up with the average European levels, growing in the last 8 years at almost 4 times the rate.

This does not lead directly to 4 times higher economic growth or a proportionately higher pay for labour. GDP growth is slower and wages are rising faster. Another factor that is indicative is data on the movement of GDP per capita relative to purchasing power. The 10-year comparison shows that from 2006 to 2017 GDP / person in Bulgaria rose from 37% to 49% of the EU average. With this we maintain our leading position among the countries of South-eastern Europe that are not EU members, but compared to Romania, the development of the Bulgarian economy is far less successful. While in 2006 GDP per capita in Romania was comparable to Bulgaria 39% of the EU average, at the end of 2017 it was already 63%. **The comparison clearly shows that Romania's policy of anticipating outpacing of earnings is yielding results - it leads to increased internal demand, higher productivity and faster catching-up with EU average levels.** Conscious that the comparison between the two economies cannot be exhausted solely with the policy on incomes, it can certainly be said that a conscious policy of raising income does not in any way damage – but rather even helps economic growth.

There is another anomaly in Bulgaria if we look beyond the average of the economic indicators. The rapid overall increase in earnings is mainly due to the payment of highly qualified specialists in fast-growing business areas. At the same time, the incomes of many employed people are stabilizing around and below the minimum wage and grow only when and to the extent that this increases administratively. Pension benefits, social benefits for children, etc., grow much slowly, which means that this income growth exacerbates the income and social inequalities in society, which in itself is a factor that limits economic growth, as well as because of workforce emigration.

Against the background of comparatively little regular statistical information on cross-border labour migration in the EU, and in particular in Bul-

garia, this issue is touched on in certain studies. These studies are not numerous either. Nonetheless, they may provide useful information for the purposes of this study.

The last annual report of the European Commission on internal labour migration in the EU published in January 2018 is worthy of attention. It is no surprise that the highest number of labour migrants is from large countries - Romania, Poland and Italy. In 2016, the latest year covered by the report, there was an increase in the number of migrants from smaller countries - Slovenia, Malta, Ireland and Finland. The most attractive countries for labour migrants are Great Britain and Germany. Bulgaria is very rarely mentioned in this report, because emigrants are not very numerous, and the growth in 2016 was not significant. This means that, on a European level, labour migration from Bulgaria does not have any particular impact on the economies of the host countries. At the same time, the problem is quite different in terms of the Bulgarian economy. The effect on it is asymmetrical - with a negative sign and a much stronger intensity. With such an asymmetric shock, steps must definitely be taken at a national level to bring the labour market closer to that of other EU countries. Otherwise, with deepening integration, by adopting the euro, for example, our country will be affected by the negatives from common policies for the community. The EC report shows that net migration from Bulgaria is negative, with several thousand Bulgarian citizens leaving the country weighed against a small number of third parties that settled in the country. It is not surprising to see the finding that the bulk of Bulgarian emigrants - 70% - are of working age, which is more than the average for the EU. From these data it can be concluded that the goal of the majority of Bulgarian emigrants is to find a job in another EU country and not find a better climate or other reasons that motivate senior citizens to emigrate. Most emigrants from Bulgaria are men - 70%, which is a significantly higher percentage than the EU average - 52%.

An interesting result of the European survey is that in 2016 the leading country that immigrants came from was Romania - 157,000 people, this being the

case despite the rapidly rising wages in the country. Obviously, the causes of labour emigration are more complex than pay for labour and are to be measured by the quality of life and the satisfaction of citizens. The second country of origin was Poland, with 123,000, followed by the United Kingdom - with 105,000. According to data from the European Commission, Bulgaria ranked in the middle - 13th as regards the number of emigrants as a percentage of the population, with 0.4%. The highest rates in this respect were in Lithuania, Latvia and Romania - 1.65%, 1.25% and 1.25%, respectively.

The report of the European Commission also examines how much of the immigrant flow is made up of returning representatives of the same country. For Bulgaria this percentage was 20% for 2015. This means that emigration from the country is not a very stable process, and a considerable number of those who leave to look for work abroad return. The indication is that susceptibility of the population to policies aimed at curbing emigration can be expected.

It is interesting to see the data on the main economic sectors targeted by labour migrants in Europe. While manufacturing, tourism, construction, and trade attract the largest number of workers from abroad, the sectors which are mainly dependent on foreign workers, where there is an acute shortage of national staff are tourism, construction, administration and transport. These data are interesting because the labour shortage in Bulgaria coincides to a great extent with those economic sectors as well as production. **This means that in order to attract people from abroad, our country has to compete with the labour markets of other member states. This competition puts the Bulgarian economy in an extremely difficult position, given the much lower labour income and lower labour productivity.** Consequently, in the perspective of attracting a workforce - whether Bulgarians or from third countries - it will become increasingly difficult for Bulgarian employers.

Another interesting conclusion from the EC report is that the only area in which Bulgarian emigrants in the EU create statistically significant values is personal care - those looking after the aged

and the sick, and domestic helpers. This is also the area in which there is most dissatisfaction with work, and most workers are of the opinion that their qualifications are many times higher than specific employment obligations. When one bears in mind that in most EU countries this type of work is not regulated, the only explanation as to why people would want to work in spite of dissatisfaction and lack of legal protection is that these are only people who are looking for a better salary and quality of life and who are ready to make sacrifices to achieve it. **Just such people are a significant number of the Bulgarian labour emigrants - they travel not for career or personal development, but for wages even when there are no legal guarantees that they will get them.**

One of the few but very interesting studies of the economic effects of labour migration in Bulgaria is the study by Prof. Velko Marinov "International Labour Migration - Economic Aspects"¹. In his study Prof. Marinov reviews the scientific theories that describe international labour migration, the causes for it and its effects. He stresses that cross-border labour migration is less flexible and intense than the movement of capital and trade. The reason for this is that, alongside economic laws, migration is also subject to a number of psychological factors as well as higher labour migration costs.

In his study, Prof. Marinov systematizes the benefits and negatives on the country of origin of the labour migrants. These reflections are totally relevant to the subject of this study. The negative effects of emigration on the economy are relatively clear and widely discussed - shortage of labour, depopulation of territories, negative selection of staff in the national economy, and labour market deficits for the development of a low-skilled and low-paid economy, dependency on transfers, rather than on direct investment, etc. At the same time, however, it must be pointed out that, from the point of view of the national economy, there are also positive effects of emigration. For example, emigration reduces tensions in the labour market and social protection systems when there is

a bad economic environment. Finding a job abroad acts as a valve on the labour market. Secondly, temporary migration increases employment and occupational skills. Labour emigrants who return home, and who are a significant percentage, and apply many practices, approaches, innovations that they have learned abroad, increase the productivity of entrepreneurial activity. Thirdly, a very important effect of labour emigration is the increase in wages in Bulgaria. We are witnessing high pay growth, especially in areas where expertise is lacking. In this way, income is shifted from capital to labour, which improves the quality of life and stimulates final consumption. Fourthly, emigration, especially in the case of compact Bulgarian communities, stimulates exports, insofar as these communities look for Bulgarian products. Without precise statistics, this claim is confirmed by a number of unofficial sources, especially in the food industry. Emigrants are a serious source of investment if they make good use of their savings. Many countries with significant emigration create special funds and mechanisms to encourage the investment of emigrants in their homeland. Fifth, emigrants tend to invest in a good education for their children and in the provision of better conditions for their elderly relatives. This creates the conditions for better financing of our development of educational, social and health services in the country of origin, if of course the country creates the necessary conditions. Sixth, it is probably necessary to mention the instrument with the most significant economic effect – monetary transfers of migrants to their families. According to BNB data for 2017, these transfers to Bulgaria amounted to EUR 1,150 million, an amount which exceeded foreign direct investment. The real figure is probably higher, as technological advances are increasingly used for methods of transfer that go beyond banking regulations and banking statistics. This is an important sum for the economy, which has an impact in several areas. For one thing, the income of the direct recipients of the transfer funds increases, most of whom would be poor or at risk of poverty without them. In addition, domestic demand is boosted, which stimulates business development. And a third effect is that transfers have a positive effect on the country's balance of payments, especially against the backdrop of declining foreign direct investment.

1. http://departments.unwe.bg/Uploads/ResearchPapers/Research%20Papers_vol2_2007_No1_V%20Marinov.pdf

3. FORMULATION OF THE NEED FOR A NEW, SPECIFIC STUDY

As can be seen from the study so far, labour migration has a significant impact on the national economy. This influence is determined by specific effects which are both positive and negative. Both in regular statistical surveys and in scientific publications relatively little room is set aside for the effects of labour migration. This is understandable as, in the context of a liberalized labour market within the EU, statistical data can give only an approximate idea of the main trends. At the same time, public interest in emigration is increased and the debate in general is often sensitive and emotional. This is understandable because the scale of emigration affects many Bulgarian families, who have their own, not necessarily economically founded, reading of the causes and consequences of the emigration of their relatives.

If a topic is important to society and businesses in particular, it should be part of the public debate based on reliable sources of analysis. It is this need that has led us to the present study. With it, the authors do not claim to give a unique assessment of the benefits or disadvantages of emigration to the Bulgarian economy. Such an assessment is objectively impossible. The aim is rather to address the uncertainty surrounding emigration and to propose policies to curb it. This should in no way imply that emigration has no positive effects.

The lack of a sufficiently qualified workforce, which acts as a brake for economic development, is sufficient reason to devise a targeted policy for a long-term solution to this problem. Effective policies can be sought in different ways - from measures to voluntarily curb emigration (as one cannot be forced to do so within the EU), through intelligent and controlled importing of a workforce, to encouraging businesses to introduce technologies that reduce dependence on human labour. Whatever policy is considered best, it should be geared to regulating and controlling migration processes and based on trustworthy information about the factors that limit emigration and the consequences of the measures implemented.

The current study is a step towards well-founded and reasonable management of the migration processes. For the purpose of the study, well-founded scientific methods from the field of sociology and econometric analysis are used, supplemented by expert interpretations and suggestions.

4. SOCIOLOGICAL STUDY OF THE MOTIVATION FOR WORKFORCE MIGRATION IN BULGARIA

In the period 01.09 - 08.09.2018, a survey was conducted representative of the population of the country aged 18-64. The sponsor of the study was the Friedrich Ebert Foundation. The contractor of the survey was the Agency for Social, Political and Market Research "SOVA 5" AD, and the trade mark SOVA HARRIS™.

The target group consists of Bulgarian citizens of working age who do not have illnesses that prevent them from working.

The principle of two-stage nest models was used, in which 200 nests were selected on the territory of the whole country, with a probability proportional to their volume and in the second stage by a given start address and step from each nest, as many households were visited as necessary to reach 5 suitable respondents in a nest. From each household the interview was held with only one eligible respondent, who met the following criteria:

- A person aged 18-64;
- A person of working age who did not have an illness that prevented them from working.

The sample size achieved was 1000 eligible respondents meeting the above criteria. There were 1194 households in which one respondent was interviewed.

The preliminary stratification of the database from which the sample was formed was by place of residence, which guaranteed proportional representation of all regions in the country.

With this methodology, the maximum random sampling error at 95% guarantee probability is $\pm 3.10\%$ for a 50% relative share.

The distribution of interviewees by age (**first criterion for target group definition, Table 1**) is as follows:

Table 1: IS YOUR AGE FROM 18 TO 64 YEARS INCLUSIVE?

Answer	Number	Percentage
Yes	1015	85.0
No	179	15.0
Total	1194	100.0

Following the application of the second criterion - **a person who has no health-related disability (Table 2)**, we received a volume of 1000 interviewees, meeting the criteria of the survey.

Table 2: DO YOU HAVE AN THAT PREVENTS YOU FROM WORKING?

Answer	Number	Percentage
Yes	15	1.5
No	1000	98.5
Total	1015	100.0

Characteristics of the study group

Age

With regard to age, the sample is balanced and imitates the general population - the population of the country aged 18 to 64 (within the statistical error quoted above) - Table 3.

Table 3

Age group	Percentage of the sample	Percentage of the total population
18-30	25.0	25.7
31-40	21.8	22.3
41-50	22.3	21.0
51-64	30.9	30.7
Total	100.0	100.0

Family status and children

Approximately 53% of the people surveyed live with a partner to whom they are married, 17% live in cohabitation, 19% are single, divorced accounts for 7%, and 4% are widows or widowers. Table 4 presents the breakdown of the marital status of the persons surveyed by their age group. It is evident that more than 69% of married men or women are between the ages of 41 and 64, while 70% of unmarried couples are between the ages of 18 and 40, which corresponds to the current trends and attitudes towards marriage and cohabitation.

Table 4

What is your marital status?	Age group			
	18-30	31-40	41-50	51-64
Married	7.9%	22.9%	30.4%	38.8%
Living in cohabitation with a partner to whom you are not married	33.3%	36.4%	18.2%	12.1%
Divorced	4.2%	8.3%	31.9%	55.6%
Widow / widower	-	-	5.1%	94.9%
Single	79.4%	15.9%	2.6%	2.1%
Total	25.1%	21.8%	22.2%	30.9%

74% of those surveyed have children, 45% of them have one child, 53% have two children and 2% have 3 or more children.

With respect to the care that those interviewed provide for their family members, 41% of them answered that they take care of children attending or not attending school, 12% care for students, 5% take care of persons who have retired for health reasons, and 2% look after persons who have retired due to age.

Educational level and qualifications achieved

30% of respondents said they had completed higher education, 59% - secondary, 11% - primary and lower than primary education. 36% said they had a professional qualification.

Main sources of income in the household

The main source of income for 83% of the surveyed persons is the income from labour activity in Bulgaria; 5.2% also have income from labour without an employment contract; 4.5% receive childcare allowances; 3% receive benefits from social payments; 3% have income from dividends, rent, hiring out of assets, etc.

Command of foreign languages

Approximately 22% of those surveyed stated that they speak foreign languages fluently. This accounts for 26% of men, 17% of women; 29% of graduates and 29% of people aged 18 to 30. The data are presented in Table 5.

Table 5

Do you speak a foreign language fluently?		Yes	No
Gender	Male	26.1%	73.9%
	Female	17.3%	82.7%
What level of education do you have?	Higher	27.1%	72.9%
	Secondary	20.6%	79.4%
	Primary or lower	14.8%	85.2%
How old are you?	18-30	28.8%	71.2%
	31-40	22.0%	78.0%
	41-50	24.2%	75.8%
	51-64	13.9%	86.1%
Total		21.7%	78.3%

Attitudes towards measures to attract workers from other countries to Bulgaria

Regarding measures to attract workers from other countries to Bulgaria, 77% of the people surveyed declared that they do not approve of these measures, against 23% approval. Those who disapproved included 76% of men and 78% of women, 78% of non-working people, 68% of pensioners, 74% of workers in state-owned enterprises, 78% of private sector workers and 82% of self-employed workers. Table 6 reflects the profile of attitudes of the target group surveyed towards measures to attract workers from other countries to Bulgaria.

Table 6

Do you approve of the measures to attract workers from other countries to Bulgaria?			
		Yes	No
Gender	Male	24.3%	75.7%
	Female	22.0%	78.0%
What level of education do you have?	Higher	22.4%	77.6%
	Secondary	21.3%	78.7%
	Primary or lower	33.6%	66.4%
How old are you?	18-30	25.3%	74.7%
	31-40	22.0%	78.0%
	41-50	26.1%	73.9%
	51-64	20.1%	79.9%
Workplace	Not working	21.8%	78.2%
	Pensioner	32.1%	67.9%
	Working in a state enterprise	26.4%	73.6%
	Working in a private company	22.5%	77.5%
	Working in one's own company	18.5%	81.5%
	Other kinds of work	26.3%	73.7%
Place of residence	Village	20.9%	79.1%
	Town	24.2%	75.8%
	Regional Centre	22.4%	77.6%
	Sofia	26.3%	73.7%
Total		23.1%	76.9%

Experience and Attitudes to Work Abroad

15% of the respondents declared that they have more than 6 months of experience abroad. It is interesting to note that 54% of those with experience of work abroad are again considering looking for jobs outside the borders of Bulgaria.

Table 7

Have you any experience of working abroad for more than 6 months?	Are you considering seeking work abroad on a temporary or permanent basis?	
	Yes	No
Yes	54.1%	45.9%
No	17.3%	82.7%
Total	22.8%	77.2%

To the question **"Are you considering seeking work abroad on a temporary or permanent basis?"** 23% of those surveyed gave a positive answer, whilst 77% indicated a negative answer.

An intention to look for work abroad was expressed by 30% of men, 30% of undergraduates, 33% of 18- to 30-year-olds and 36% of those who do not work. The distribution is presented in Table 8.

Table 8

Are you considering seeking work abroad on a temporary or permanent basis?			
		Yes	No
Gender	Male	29.5%	70.5%
	Female	16.3%	83.7%
What level of education do you have?	Higher	18.3%	81.7%
	Secondary	24.1%	75.9%
	Primary or lower	30.6%	69.4%
How old are you?	18-30	32.8%	67.2%
	31-40	25.7%	74.3%
	41-50	20.6%	79.4%
	51-64	14.6%	85.4%
Place of work	Not working	35.9%	64.1%
	Pensioner	3.6%	96.4%
	Working in a state enterprise	17.1%	82.9%
	Working in a private company	22.7%	77.3%
	Working in one's own company	9.1%	90.9%
	Other kinds of work	26.3%	73.7%
Place of residence	Village	21.5%	78.5%
	Town	20.0%	80.0%
	Regional centre	25.5%	74.5%
	Sofia	25.1%	74.9%
Total		22.9%	77.1%

Motivation to work abroad

This section examines the attitudes of those who have declared their intention to seek temporary or permanent employment abroad. Their absolute number in the sample is 229 persons.

The data show that, in terms of gender, 64% of those intending to seek work abroad are men. In terms of education, 62% of them have secondary education. 60% of those intending to look for work abroad are between the ages of 18 and 40 and approximately 80% are people living outside the capital. The profile is presented in Table 9.

Table 9

Profile of people with the intention of working abroad		
Gender	Male	64.2%
	Female	35.8%
What level of education do you have?	Higher	23.6%
	Secondary	62.0%
	Primary or lower	14.4%
How old are you?	18-30	35.8%
	31-40	24.5%
	41-50	20.1%
	51-64	19.7%
Place of work	Not working	26.6%
	Pensioner	0.4%
	Working in a state enterprise	10.5%
	Working in a private company	58.1%
	Working in one's own company	2.2%
	Other kinds of work	2.2%
Place of residence	Village	26.2%
	Town	22.7%
	Regional centre	31.9%
	Sofia	19.2%
Total		100,0%

Attitudes to looking for a job abroad

The main reasons that motivate people in the target group to look for work abroad are:

- Higher pay (95%);
- Better social system (50%);
- Better healthcare (40%);
- Better opportunities for development of competences (29%);
- Better career opportunities (19%);
- Better human rights and justice (14%);
- Better education (9%);
- Being together with other family members (9%).

30% of those in the target group indicated that if they found work abroad, they would first try and then decide how long to stay abroad. This was declared by 35% of women, 39% of university graduates, 30% of people with secondary education, 40% of people aged 18-30, and 46% of employees in state-owned enterprises. Not a small proportion - about a quarter - stated that they plan to stay abroad for up to 5 years; approximately one fifth intend to stay for a period of 5 to 10 years; 10% - for over 10 years; 6% - to retirement, and 2% to stay forever. 6% cannot say.

Table 10 presents the demographic characteristics of the surveyed target group on the period for which people plan to stay abroad.

Table 10

If you now had the opportunity to work abroad permanently, for what period of time would you plan to work there?								
		First I would try and after that I would decide	Up to 5 years	5-10 years	More than 10 years	Until retirement	Forever	I can't say
Gender	Male	27.2	26.5	22.4	11.6	6.8	1.4	4.1
	Female	35.4	19.5	20.7	7.3	4.9	3.7	8.5
What level of education do you have?	Higher	38.9	22.2	11.1	13.0	1.9	3.7	9.3
	Secondary	29.6	25.4	25.4	9.2	7.0	1.4	2.1
	Primary or lower	18.2	21.2	24.2	9.1	9.1	3.0	15.2
How old are you?	18-30	40.2	14.6	18.3	11.0	6.1	3.7	6.1
	31-40	21.4	32.1	21.4	8.9	5.4	1.8	8.9
	41-50	21.7	32.6	19.6	10.9	10.9		4.3
	51-64	31.1	22.2	31.1	8.9	2.2	2.2	2.2
Place of work	Not working	29.5	18.0	21.3	8.2	6.6	6.6	9.8
	Pensioner	-	100.0	-	-	-	-	-
	Working in a state enterprise	45.8	25.0	20.8	4.2	4.2	-	-
	Working in a private company	29.3	24.1	22.6	12.0	6.8	0.8	4.5
	Working in one's own company	20.0	40.0	20.0	20.0	-	-	-
	Other kinds of work	-	60.0	20.0	-	-	-	20.0
Place of residence	Village	30.0	26.7	16.7	15.0	6.7		5.0
	Town	32.7	19.2	25.0	7.7	9.6	1.9	3.8
	Regional centre	34.2	19.2	16.4	9.6	5.5	5.5	9.6
	Sofia	20.5	34.1	34.1	6.8	2.3	-	2.3
Total		30.1	24.0	21.8	10.0	6.1	2.2	5.7

With regard to the type of work abroad, 71% of the target group interviewed declared that they would prefer permanent work. Seasonal work, but which is repeated every year, would be preferred by 14% of people, 9% have no preferences, and 6% would prefer seasonal work of up to one year.

The majority of people in the target group - 65% - stated that if they started work abroad, they would soon aim to take their families to be with themselves. One must not overlook the fact that 74% of people who intend to stay abroad for more than 10 years and 60% of those who intend to stay abroad forever also aim to take their families with them. (Table 11)

Table 11

If you started work abroad, would you soon aim to take your family with you?			
		Yes	No
If you now had the opportunity to work abroad permanently, for what period of time would you plan to work there?	First I would try and then I would decide	65.2%	34.2%
	Up to 5 years	64.2%	35.8%
	5-10 years	63.3%	36.7%
	More than 10 years	73.9%	26.1%
	Until retirement	50.0%	50.0%
	Forever	60.0%	40.0%
	I can't say	69.2%	30.8%
Total		64.6%	35.4%

To the question **“Are you ready to go to work abroad without previously signing an employment contract and having guarantees for working and living conditions?”** 66% of those surveyed responded negatively.

34% declared they were ready to go abroad without having a pre-signed employment contract and guarantees for living and working conditions. This amounts to 55% of people with primary education, 48% of those who do not work and 43% of those living in villages (Table 12).

Table 12

Are you ready to go to work abroad without previously signing an employment contract and having guarantees for working and living conditions?			
		Yes	No
Gender	Male	36.1%	63.9%
	Female	31.7%	68.3%
What level of education do you have?	Higher	18.5%	81.5%
	Secondary	35.9%	64.1%
	Primary or lower	54.5%	45.5%
How old are you?	18-30	37.8%	62.2%
	31-40	33.9%	66.1%
	41-50	30.4%	69.6%
	51-64	33.3%	66.7%
Place of work	Not working	47.5%	52.5%
	Pensioner		100%
	Working in a state enterprise	25.0%	75.0%
	Working in a private company	31.6%	68.4%
	Working in one's own company	20.0%	80.0%
	Other kinds of work	20.0%	80.0%
Place of residence	Village	43.3%	56.7%
	Town	38.5%	61.5%
	Regional centre	32.9%	67.1%
	Sofia	20.5%	79.5%
Total		34.5%	65.5%

Prior to accepting work abroad, 81% of people would consult relatives and friends, 59% would take advice from a specialized firm, 39% from the Employment Agency, and 28% would also look in the Internet.

With regard to the choice of country where they would look for work, a significant proportion - 85% - would seek employment in an EU country. Only 1% would prefer a non-EU country. 10% have no preference and 5% have not decided.

34% of the people in the target group surveyed speak the language of the country in which they would seek employment. At the same time, two-thirds (66%) of them would seek work without knowing the language.

42% of the people speak English, 21% speak German, 5% speak Turkish, and 3% speak Russian. The

proportion of people who do not have a spoken command of any language is significant (36%).

Motives and attitudes to returning to or staying in Bulgaria

Among the reasons mentioned for returning to Bulgaria the highest proportion cited the necessity and the commitment to care for a person close to them (40% of the persons surveyed). A little more than a third - 36% - indicated a peaceful life, 21% - a better quality of life in Bulgaria, and 18% - the opportunity to start a business in Bulgaria. 22% of the people said they would not return to Bulgaria, of whom 44% are people aged 18-30, and another 30% are between 31 and 40 years old; 72% are men; 62% have secondary education. 11% cannot say what the reason would be for returning to Bulgaria.

According to 38% of the people in the target group surveyed, they would be motivated not to look for work abroad if they received a salary between 1,001 and 2,000 leva, 36% - a salary between 2,001 and 3,000 leva, 14% - up to 1,000 leva, and 10% 3,001 leva or more. The share (1%) of people who claimed that there is no salary that would motivate them not to look for a job abroad is negligible. It is interesting to note that 56% of graduates would be motivated not to seek work abroad if they received a salary between 2,001 and 3,000 BGN per month; 54% of the citizens of Sofia are of the same opinion. Getting a salary between 1,001 and 2,000 levs would motivate 41% of people with secondary education not to seek employment abroad. 47% of people aged 51-64 and 43% of those aged 41-50 would be motivated not to seek employment abroad if they received a salary of between BGN 1,001 and BGN 2,000. Such a salary would motivate 43% of the people in villages and 36% of the young people between 18 and 30 years of age.

To the question **“What would keep you in Bulgaria?”** the people surveyed put an increase in income in the country as the primary factor - 90%. Next among the reasons mentioned came relatives and friends (70%), better healthcare (34%), nature (26%), career opportunities (17%), better education (15%), and willingness to work for their country (3%). Only 2% of people said that nothing could keep them in Bulgaria.

61% of the people in the target group would enrol in courses for additional qualifications or refresher qualifications to stay in Bulgaria and not seek employment abroad. These are 64% of men, 56% of women, 52% of graduates, 63% of people with secondary education, 62% of unemployed, and 67% of residents of small towns.

MAIN FINDINGS AND CONCLUSIONS OF THE SOCIOLOGICAL STUDY

In conclusion, it can be summarized that:

- **23% of the people surveyed are considering temporarily or permanently seeking work abroad;**

- **54% of people of working age (18-64 years) who do not have illnesses preventing them from working and who have experience of working abroad are considering seeking work again outside the borders of Bulgaria;**
- **The main reasons that motivate people to consider looking for work abroad are: higher wages (95%), a better social system (50%), and better health (40%);**
- **32% of people considering looking for work abroad plan to work abroad for 5 years or more;**
- **65% of people considering looking for a job abroad say that, if they started work abroad, they would soon aim to get their families closer to themselves. It must not be overlooked that 74% of the people who intend to stay abroad for more than 10 years and 60% of those who intend to stay abroad forever also plan to take their families with them;**
- **85% of those intending to look for work abroad would seek work in an EU country;**
- **71% of those intending to look for work abroad declare that they would prefer permanent work abroad;**
- **40% of those surveyed, who intend to seek work abroad indicate that they would return to Bulgaria to look after a relative;**
- **74% of those intending to work abroad declare that a salary between BGN 1001 and BGN 3000 would motivate them not to seek work abroad;**
- **90% of the people surveyed, who intend to look for work abroad, state that raising the salary in Bulgaria would keep them in Bulgaria.**

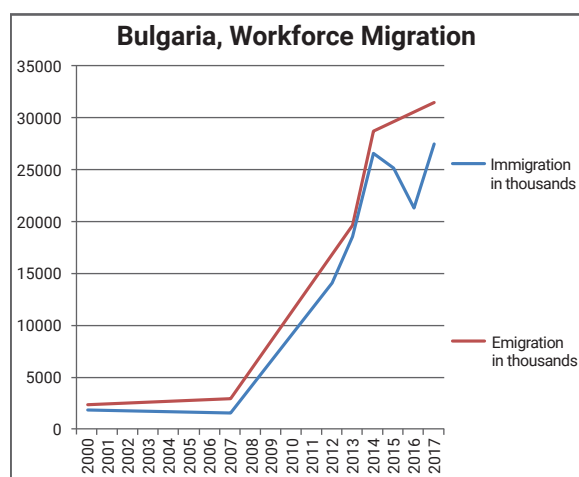
According to NSI data as of December 31, 2017, the total population of Bulgaria aged 18-64 was 4,375,931. According to data from the representative sample for this target group, 23% of them intend to look for work abroad, or approximately 1,006,464 persons.

5. Econometric study of the links between workforce migration and the basic parameters of the economic development of Bulgaria

Migration of the workforce after 2000

Migration of the workforce, and in particular the emigration of young people from the country, is seen as a serious problem related to the reduction of the number of people employed in the economy, the decrease in the population in the country, the deterioration of the parameters of the pension system, the shortage of qualified staff, etc. (see Chart № 1).

Chart № 1

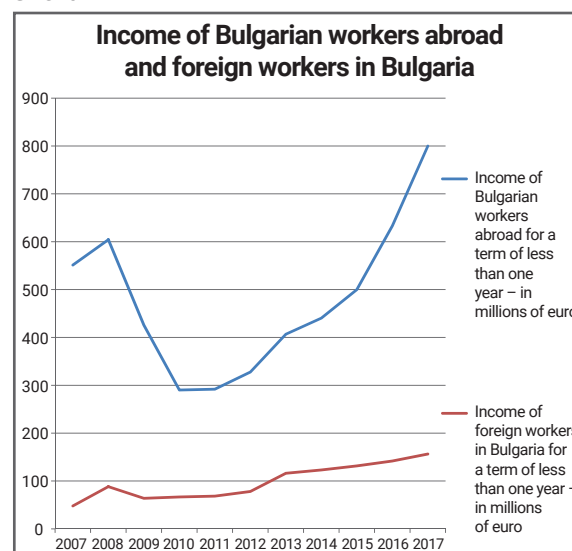


Source: NSI; authors' calculations

The positive effects, such as the transfer of resources from abroad (see Chart № 2 on Income of Bulgarian Workers Abroad and Foreigners in Bulgaria), the improvement of the quality of the human capital that could return in the future, and the possible investment of resources on the part of emigrants and immigrants are, in most cases, not taken into account. As a rule, what is also not taken into account includes the contribution of workers' immigration to the expansion of labour supply, the coverage of labour market shortages and the stabilization of the country's economic development, regardless of the fact that labour inflows and outflows are almost the same, with the prospects that, in the foreseeable future, immigration will exceed emigration - as shown in Chart № 1, if the Corporate Commercial Bank crisis in 2014

had not led to a temporary change in the trend, that would probably be a fact. The increasing role of immigration is also taken into account by the National Strategy of the Republic of Bulgaria on Migration and Integration (2008-2015).

Chart № 2

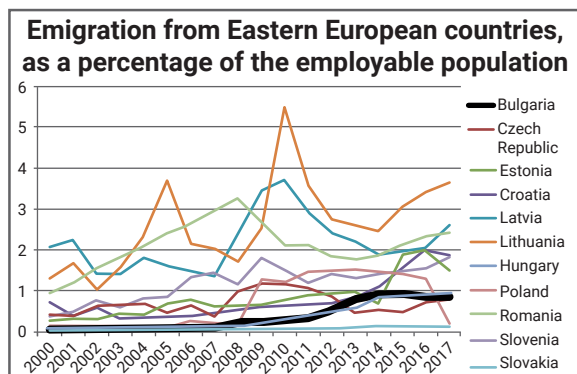


Source: BNB

The analysis of the impact of emigration and immigration on the workforce and vice-versa, the relationship between these processes and the dynamics of the main parameters of the Bulgarian economy is generally one-sided and outside the context of analogous processes in the EU. Since 2007, Bulgaria has been part of an economic community in which free movement of labour is a fundamental principle. In addition, the European Union is surrounded by countries where salary and income are typically lower than those in the community we belong to. This creates the potential for emigration of workers to the core of the EU, given the persisting large difference in wages and income between Bulgaria and "old" Europe, as well as immigration to Bulgaria as an EU member state.

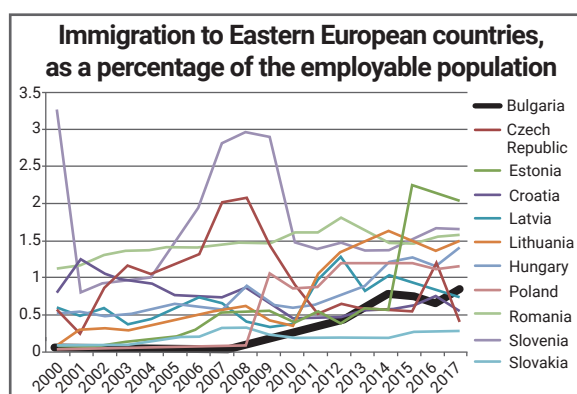
Paradoxically, the processes of labour migration between Bulgaria and the rest of the world are relatively weak compared to other post-communist countries, despite the sensational comments typical of the Bulgarian press, and despite the fact that the average wage in our country is the lowest in the EU. We can be assured of this in Chart № 3 and Chart № 4.

Chart № 3



Source: Eurostat, authors' calculations

Chart № 4



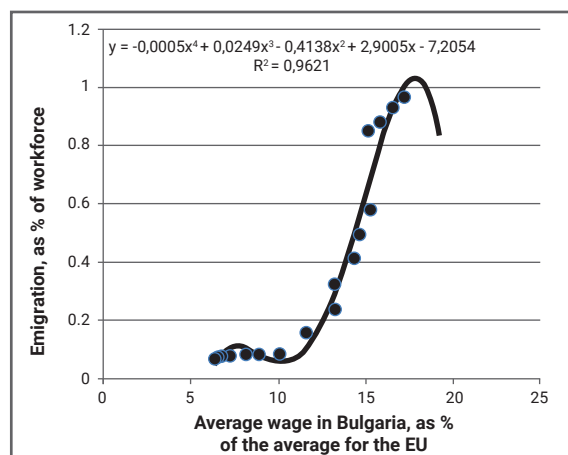
Source: Eurostat, authors' calculations

As can be seen from the data in the graphs, Bulgaria, with the exception of Slovakia, is practically the last among the new EU Member States as a share of international workforce migration in the employable population of the country. Just like emigration, immigration remains below 1% of our workforce, while in Lithuania, for example, emigration exceeds 5% in certain years, while immigration in most of the countries in consideration is between 1% and 2% per year. In other words, the Bulgarian labour market continues to be relatively isolated from the processes that are happening between Eastern and Western Europe.

Before we proceed to a more systematic study of the processes related to the international labour migration in Bulgaria, we will pay attention to two important trends - the connection between emigration and the relative average wage in Bulgaria (Chart № 5) and the dependence between

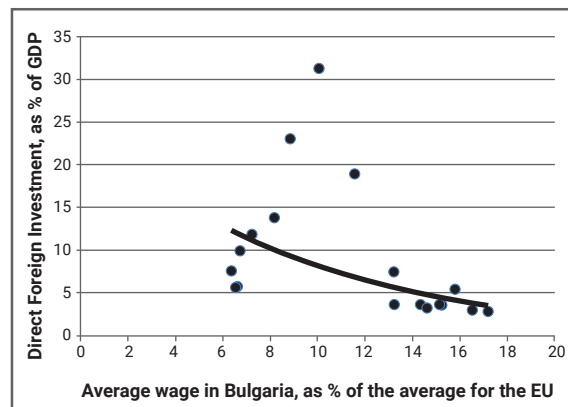
relative wage and foreign investment (Chart № 6). These links are important because the difference in labour cost is, by definition, the most important factor determining the international migration of workers and low wages have long been considered a major attraction for foreign investment.

Chart № 5



According to Eurostat data

Chart № 6



According to Eurostat data

Chart № 5 shows emigration as a non-linear function of wages. As can be seen, in the selected mathematical form (fourth degree polynomial), after a certain level, the rise in wages leads to a reduction in emigration. When selecting another type of mathematical relationship, however, this effect may not occur. This means that more sophisticated econometric techniques are needed to explain the relationship between wages, emigration and other variables that reflect important processes in the economy.

Chart № 6 illustrates the relationship between direct foreign investment and relative wage. The relationship is negative, i.e. wage growth has a negative impact on investment, but with two peculiarities. First, the impact is relatively weak, and secondly, with an increase in pay, the impact on investment decreases. In other words, not so much the cost of the workforce, but increasingly the overall economic context, affects foreign investment.

Methodology of econometric research

As a basis for econometric analysis, the approach of Gindra Kasnauskienė and Loreta Vėbraité (2013) was used. These authors use a model that includes labour migration, unemployment, wages and GDP, based on a structured vector model with error correction and a linear regression model. Unlike this research, our study includes additional variables such as labour productivity and foreign direct investment. In addition, our model uses emigration and immigration as separate variables. Vector autoregression and cointegration are also applied. Another feature of the current study is the use of panel data involving all Eastern European EU member states. The purpose of these modifications is to take into account the impact of factors specific to Eastern European countries and Bulgaria in particular, and also to highlight the differences and similarities between the migration processes in our country and the other post-communist countries.

The data used are from Eurostat, with the missing values being generated by interpolation. The variables analysed are macroeconomic, unlike the microeconomic approach used in other studies (see, for example, Giesing and Laurentsyeve, 2016). In many cases, migration studies are geared to the impact of this effect on the labour market (Gaston and Nelson, 2001). In the framework of the current study, the emphasis is on both the impact of migration on the main macroeconomic variables, including the labour market, and vice versa, on the impact of macroeconomic processes on labour migration. The aim is to systematise direct and backward links with a view to formulating recommendations for economic policy.

From the point of view of this study, it is of particular importance to reveal the dependencies that

exist between labour productivity and wages. This is because the comparative level of pay is a fundamental motivating factor in terms of labour migration. For its part, in the long term, the relative wage level depends on the ratio of labour productivity between the respective country and other countries.

There are two approaches to the relationship between labour productivity and wages. According to neoclassical theory, wages ought to grow in proportion to labour productivity and expected inflation, so as not to increase unit production costs and reduce the competitiveness of the producers (see, for example, Meager and Speckesser, 2011). The Alternative Keynesian approach, known as the efficiency wage, postulates that companies are interested in paying salary at equilibrium market level to increase productivity and reduce costs, with the best historical example being that of Henry Ford, with his salary of \$5 a day (Bradley, 2007).

Proceeding from these two concepts, suggesting different strategies at micro and macro levels, the study uses such econometric tools, and in particular vector autoregression, to test the validity of neoclassical and Neo-Keynesian hypotheses in the specific conditions of Bulgaria.

Another task of the survey is to attempt to anticipate labour migration from and to Bulgaria and to justify adequate policies in the field of income, taxation, foreign investment, regulation of the labour market, etc.

Panel survey of the migration of the workforce in Eastern Europe

A detailed panel study of the relationship between the underlying macroeconomic indicators of countries in Eastern Europe and emigration is presented in Appendix 2. The purpose of panel research is to highlight trends and patterns typical of countries as a group.

The main target variable is the emigration of the labour force, measured as a proportion of the working population. It turns out that emigration is subject to the statistically significant impact of the following variables: unemployment, gross

domestic product, wages and labour productivity. Paradoxically, unemployment does not have an influence in the direction of accelerating the leakage of labour, rather it slows it down. Another paradoxical point is that salary is positively correlated with emigration, i.e. neither does rising wages limit the leakage of labour from Eastern European countries as a whole. However, this does not apply to Bulgaria, where other rules are valid. The probable cause is the macroeconomic model. Bulgaria is the only country in the EU with a currency board. This macroeconomic mechanism prevents counter-cyclical regulation aimed at maintaining full employment. In other Eastern European countries, fiscal and monetary policies can be used to curb unemployment in times of recession, and therefore emigration is not affected to such an extent by cyclical and price factors, but it depends on long-term structural trends.

At the same time, growth of GDP has a steady negative impact on emigration, i.e. economic growth helps create new jobs that are an alternative to emigration. In the same way, this also affects labour productivity, i.e. technological progress has also slowed the drain of the workforce from Eastern Europe.

For its part, labour force emigration only negatively impacts on the dynamics of GDP. In this way, the main interrelations between emigration and macroeconomic indicators in Eastern Europe are economic growth and technological development. The influence of wages on economic growth is negative, which partly explains why wage growth accelerates the leakage of the workforce.

Macroeconomic dependencies in the field of labour migration to Eastern Europe are no less interesting. The links are significantly different from those related to emigration.

Immigration dynamics, unemployment, economic growth, wages and labour productivity have an impact on the dynamics of immigration. Unemployment limits the flow of immigrants, which is natural, unlike in the case of emigration. A rise in labour productivity affects labour force import needs negatively as well, which is also within the realms of what should be expected. Wages and

gross domestic product have a positive influence on the immigration flow, i.e. high pay and economic development are the factors that attract workforce.

For its part, immigration also has its backwash effect. Firstly, it helps to lower wages. Secondly, it has a positive impact on labour productivity. The bottom line is that both influences reflect positively on economic growth.

Econometric study of the macroeconomic dependencies related to the international migration of labour force in Bulgaria

Emigration

The econometric study related to the emigration and immigration of the labour force in Bulgaria is set out in detail in Appendix 4.

The following variables are influenced by emigration in Bulgaria: foreign direct investment, GDP, labour productivity, wages and unemployment.

The strongest negative, i.e. inversely proportionate, effect of emigration is on wages. Unlike in the panel survey, which reflects the situation in Eastern European countries as a whole, wages, measured as a proportion of the EU average, correlate negatively with emigration, i.e. the increase in real wages limits the outflow of labour. If in other Eastern European countries we can talk about serious long-term linking with the productive structures of the developed Western European economies and the existence of elements of interdependence and interchangeability of the labour force, in Bulgaria the main motivation is payment, and respectively the effect of the law of the only price – in conditions of competition and free movement of production factors, there is a tendency to equalise product prices and production factors.

In this situation, the emigration-wage relationship is a two-way one, with emigration contributing to wage increase in this perspective. In this case, we observe a pattern that we can call a paradox of wage economy. The paradox is that the backwash effect of emigration on wages is about 4 times stronger than the impact of wages on emigration.

In other words, if we slow down wage increases, we will accelerate emigration, with the labour shortage being offset by an even greater increase.

In addition, the study shows that other factors that limit emigration are as follows: GDP, foreign direct investment and labour productivity, with foreign direct investment being the variable with the strongest restrictive effect on emigration. Another emigration-limiting correlation that we discover from the regression equation is the impact of GDP dynamics - that is, economic growth slows the leakage of the labour force. The link between labour productivity and emigration is inversely proportional.

Unlike other Eastern European countries, we find that high unemployment causes an acceleration of the labour force drain. Emigration is something like an "option" to deal with high levels of unemployment. Through this mechanism a balance in the labour market is achieved as excessive supply of labour is reduced. This means that the low levels of unemployment that we have observed in Bulgaria in recent years are related not so much to the creation of new jobs in the country as to the draining of the labour force. We emphasize that this is not typical of other Eastern European countries.

Since wages are the main factor that influences emigration, the disclosure of the variables that determine salary itself is particularly important. Factors that have a statistically significant impact on wages are: foreign direct investment, GDP, labour productivity, emigration and unemployment. The variables that contribute to wage growth are foreign direct investment, GDP, unemployment, and labour productivity. The link between foreign direct investment and productivity is obvious - both factors reflect technological progress. The GDP-productivity-wage relation is within the so-called Verdoorn's law (Verdoorn, see in more detail Castiglione, 2011), which postulates that economic growth is accompanied by productivity growth proportional to the square root of GDP growth.

The results of the analysis of the links between the values surveyed show a marked correlation between the unemployment dynamics and the wage values. The interrelation is straightforward, i.e. an increase

in the unemployed population corresponds to an increase in salary. This is a consequence of the phenomenon typical of the period after the global financial crisis - when demand shrinks, firms tend to get rid of less productive and lower-paid workers, which leads to a rise in the proportion of high-paid workers, and respectively average wages.

Immigration

The following variables are influenced by immigration in Bulgaria: foreign direct investment and labour productivity. The impact is positive - the increased influx of investment and labour productivity increase labour supply to Bulgaria. This relationship is two-way because immigration also affects the abovementioned macroeconomic variables.

At the same time, immigration, for its part, has a negative impact on the increase in wages in Bulgaria.

We must mention that important new patterns are revealed in the research on immigration. In particular, the survey shows that wages are a factor that has a positive impact on labour productivity and foreign direct investment. This impact is strong, positive and sustainable as it retains its significant influence over all the time lags studied. The dependence noted confirms the validity of the Keynesian thesis of effective salary, i.e. that an increase in wages contributes to increasing labour productivity.

In addition to this, with a direct comparison between the weights of the coefficients, we can conclude that immigration has a significantly stronger impact on labour productivity than the inverse interdependence. In the dynamics of labour productivity and foreign direct investment we also record a positive two-way relationship.

Unemployment is a factor that has a negative impact on labour productivity and foreign direct investment. Looking at this fact, we can assess that unemployment has a sustained impact on wage and related process values. The relationship outlined above is identical to the one involved in emigration as a variable in the system, i.e. whether we evaluate the impact of emigration or immigration processes in Bulgaria, unemployment has an impact on wages.

Conclusions on Economic Policy

Income policy

In Bulgaria, unlike other post-communist EU Member States, wages are a major factor governing the international migration of the workforce. This is explained with three factors. First, the absence of close production links with the economies of the countries of “old” Europe and, as a consequence, insufficient synchronicity with the EU economic cycle. Second, the currency board mechanism, which prevents an active anti-cyclic policy towards maintaining full employment. Third, and perhaps most importantly, wages in Bulgaria are in the range of 17-18% of the EU average, as opposed to 35-45% for other countries, with only Romania around 20% being close to us.

Wages, measured as a proportion of the EU average, correlate negatively with emigration and positively with immigration. This means that a policy of accelerating wage increases can limit the draining of labour force and speed up the flow of workers to the country. The growth of wages in Bulgaria in recent years ranges from 6% to 9.5% per year (IMF, 2018), without having any negative impact on the growth and financial stability of the country.

The objections to the rapid increase in wages and the minimum wage come as a rule on the part of Bulgarian business. These are related to two main theses. First, the rise in wages is limited by labour productivity, and secondly, the increase in minimum wages leads to the blurring of boundaries between high and low incomes.

Our study allows a correction of these views. Firstly, with the comparatively exceptionally low remuneration in Bulgaria, the rise in wages is a stimulating factor for increasing labour productivity in line with the concept of effective wages. Apart from this, the slowdown in wage growth has led to an acceleration in the outflow of labour, which results in an even greater shortage of labour and pressure to raise wages.

The second argument does not correspond to reality either, as Bulgaria is constantly among the countries with the highest income inequality in the EU.

In this situation, **we can recommend an orientation towards sustainable growth in earnings to the extent of 8-10% annually, until the level of payment reaches for example 30% of the EU average.** This will boost the economy and labour productivity, and it will lead to an end to the trend of population decline due to labour migration. Even if the current trends of a relatively rapid increase in nominal incomes continue, and the economy is not set back due to a crisis like that of the Corporate Commercial Bank or a global financial crisis, in the next 3-4 years, the number of workers entering Bulgaria will exceed the number of those who leave.

Taxation of income

Income taxation also has an impact on the real income of those who are employed and therefore on the processes of migration.

If we limit income tax, we need to pay attention to the following points. In Bulgaria, there is so-called flat or even income taxation without a minimum tax threshold. In this situation, the impact of taxation on international labour migration must be completely different for workers in the high and low-income brackets.

Let us start with low income. With the current almost full employment, Bulgarian business relies on the influx of cheap labour, mainly from the post-Soviet economic space. Unfortunately, in the Bulgarian flat tax variant, which does not include a tax-exempt minimum threshold, with the same nominal salary, a worker who has chosen Bulgaria as a workplace is guaranteed a smaller disposable income after paying taxes. This is so because all other EU member states, including those post-communist countries that apply a flat tax, provide for a very serious non-taxable minimum threshold. For the same reason, Bulgarian workers looking for higher incomes in “old” Europe in reality enjoy lower taxation despite the high taxation rates of more substantial incomes in the countries where our emigrants are settling. Thus, **the flat-rate variant applied in Bulgaria in practice reduces the competitiveness of the country at low incomes.**

It must be expected, however, that the high-income situation is the opposite. And this is the case. The upper bracket, i.e. the maximum taxation on high income in Western European countries is far higher, often around 4-5 times higher than in Bulgaria. This is a serious advantage that could potentially help to overcome the grave situation with the shortage of highly qualified labour force in Bulgaria, not only by attracting Bulgarians working abroad but also highly qualified specialists from all over the world. In parallel with this, low taxation of high incomes should keep highly qualified staff in the internal market. However, both trends do not exist, apart from some exceptions.

The first main reason is the mentality of the private and state business in Bulgaria. According to reports from the World Economic Forum, Bulgaria is practically the last in the world regarding the ability to attract and retain talented, highly trained specialists. This is related to the specific nature of Bulgarian capitalism, which can be characterized as being based on informal attitudes, or crony capitalism, in which personal contacts play a decisive role, as opposed to talent and abilities, which fade into the background.

Apart from this, the generation of a real demand for highly qualified specialists implies the existence of an efficient high-tech sector. The existence of high-tech potential depends, on the other hand, on providing adequate financing (venture capital, investment banks, developed capital market, state funds, access to EU structural funds, EIB resources, EIF, the Juncker plan, etc.), state policy in the field of education, science and research, the existence of clusters that unite businesses, universities and the financial sector, the creation of free industrial zones, business incubators, the state of the justice system, the efficiency of public administration, etc. All of these are areas where our country is not just lagging behind, it is often in last place in the EU.

The bottom line is that we can conclude that **the presence of comparative advantages in the area of taxation is not in itself significant if the overall context of the socio-economic conditions for doing business is not sufficiently stimulating.** However, a common strategy to support high-tech

business could turn flat taxation into a competitive advantage in the high-tech field in the foreseeable future, although in the longer term the evolution of the tax system should rather be in the direction of moderately progressive tax rates.

Foreign investment

A study shows that foreign direct investment has a strong impact on labour productivity and therefore on labour income, respectively on labour emigration and immigration.

As mentioned above, our study suggests a policy of accelerated income growth, plus the introduction of a non-taxable minimum.

Potentially, this could have a counterproductive effect on economic growth and foreign investment. However, the survey shows that, at the current level of payment, the further increase in earnings has practically no impact on foreign investment. On the other hand, high incomes have an impact on labour supply, both in terms of delaying emigration and also in attracting foreign workers. Increased purchasing power and the expansion of the internal market also have a positive impact on the attracting of foreign direct investment.

Raising incomes has a limited negative impact on GDP growth in the short-term, but in the perspective of the current analysis, expanding demand and increasing labour productivity have a far more positive impact.

Therefore, a policy of stimulating foreign direct investment will have a strong positive effect on labour productivity, incomes, reducing emigration and stimulating labour immigration.

Unfortunately, in recent years, foreign direct investment has declined. The reasons for this are mainly related to the institutional climate, inadequate funding and the unsatisfactory functioning of the justice system.

What is necessary is a comprehensive policy for attracting foreign investment, with an emphasis on specific strategic investors in the high-tech sector

with a view to integrating the Bulgarian economy into the high levels of global chains of value creation.

Administrative regulation of labour migration

Given Bulgaria's participation in the free movement of labour force in the EU, Bulgaria depends mainly on its own regulations in the area of the immigration of workers.

For now the main goals are in the sphere of attracting low-paid and low-skilled workers. Taxation in Bulgaria, however, works contrary to this objective.

With regard to highly qualified specialists the main problem is the slow and highly bureaucratic procedures. Bulgaria, which offers particularly favourable conditions in the area of high incomes, should ease the administrative restrictions for attracting highly qualified workers and in attracting immigrants with significant capital. This must be an element of a **common policy of accelerated development of the high-tech sector and the attraction of foreign direct investment.**

6. Expected effects of current changes in legislation at European Union level related to labour mobility - posted workers, transport workers, coordination of social systems, etc.

At present there are a number of processes in the European Union aimed at curbing domestic labour migration. These processes have come about because of the changing political climate, the rise of nationalist and protectionist rhetoric, or simply the desire of the EC to close opportunities for circumventing the law. Regardless of the reasons, the expected effect is the restriction of cross-border labour migration, especially when it is carried out from countries with lower wages to those where they are higher.

One of the changes that was finalized during the Bulgarian Presidency of the Council of the European Union in the first half of 2018 is the change in the **Posting of Workers Directive**. This happened after strong pressure on the part of the Netherlands, Germany and France, which claimed that in

practice the posting of workers bypassed the rules of the local labour market, as long-term workers in the country concerned were hired by a company in another Member State and their employment relations were determined by the country of origin and not by the country in which they worked.

The change in the old 1996 directive introduced a limitation on the continuous posting of a worker of 12 months, with the possibility of extending this period to 18. Months. Employers are required to show separate from pay travel expenses, accommodation, food, the requirement being that the working conditions of posted workers should be in line with those adopted for the relevant branch or firm in the host country. These measures, which are to be enacted by national legislation by the middle of 2020, will limit iniquitous practices of circumvention of the law and labour exploitation, but will hardly significantly reduce the number of posted workers.

Another group working outside the country, which, however, is not reported in labour migration statistics, is **seasonal workers**. Many people from Bulgaria work abroad precisely this way, with the main countries of destination being Greece, Cyprus, Spain, Italy and France, but also Great Britain, Sweden and so on. Most of them work in agriculture and tourism. It is very difficult to determine the approximate number of Bulgarians who work as seasonal workers because they stay in the host country for only a few months, while most of the year is spent in Bulgaria. While in Bulgaria, many do not work, but nor do they register with the labour offices. According to estimates of the Ministry of Labour and Social Policy, only in Greece there are 70,000 - 80,000 seasonal workers from Bulgaria. In any case, seasonal workers are a significant group and, with appropriate government policy and business proposals, they can fill the acute deficit in tourism and agriculture respectively in Bulgaria.

We should also mention the group of **Bulgarian drivers who work abroad**, as more than 60,000 Bulgarian lorries operate abroad, according to data from the transport organizations. Here again, under pressure from Germany and France, there is a legislative initiative at European level to restrict the long-term provision of such services in order to open a

market for the national carriers of these countries. The initial proposal of the European Commission suggested a number of restrictions and difficulties to put many companies off doing such business. These proposals have not been endorsed by the European Parliament and a new proposal now needs to be made, but this development only postpones, rather than solving the problem of pressure to restructure this sector and the corresponding threat to Bulgarian transport companies.

Another restriction already accepted in some European countries without a common European policy is **to limit social payments for labour migrants**. As one of the theses of rising nationalism and populism is the so-called “social dumping”, many governments are under pressure and some of them, like the Netherlands, Austria and Germany, are starting to take measures to hinder the regime of registration as unemployed, reducing child benefits if children do not accompany their working parent and other similar measures. Such actions will probably not have a significant effect on people's decisions related to labour migration, but they will in any case contribute to reducing wage differentials.

As a general process, we can assess that there is a tendency in the EU to restrict a fully liberalized labour market and social services and payments related to immigration. This process will develop slowly and will probably not be very effective, as the free movement of labour resources is of lasting interest especially to those countries that impose restrictions. In this case, we see political rhetoric prevailing over economic logic, which should not be a long-term and profound process.

7. Measures to improve policies for regulating labour migration flows in Bulgaria, with a view to achieving macroeconomic results

Labour migration has a significant impact on the national economy of Bulgaria. The most visible impact in recent years has been the shortage of workforce in almost all spheres. Insufficient labour supply on one hand limits the growth of the economy, but on the other it leads to higher wages and

consequently higher final consumption, to innovation and investments in increased labour productivity. It is a problem that this happens automatically and chaotically. While some entrepreneurs can afford to find competitive advantages other than cheap labour, others - who are very small or working in very competitive markets - cannot afford it. The rapid growth of the average wage is not evenly spread, and it creates widening pay gaps due to the business sphere, the region in which the company produces, or the size of the company itself. This trend puts great pressure on small firms and limits their economic perimeter. In practice, the state does not intervene to reduce these deepening differences except by means of the minimal wage.

To a great extent, the current policy of the state of regulating cross-border movement of labour consists of no more than seeking a solution to the worst problem - the shortage of workers - and in the easiest way - through imports. This is happening under the pressure of business, which is also looking for short-term and cheap solutions. Unfortunately, this type of decisions makes little economic sense. They have no bearing on the long-term vision for the development of the economy. The desire of some employers for the process of issuing work visas to be speeded up, for the range of professions for which foreigners can be hired to be expanded, and for authorized quotas to be increased resolves current problems but is not lasting.

As has already been explained above, the economic effects of labour migration are in different directions and with a different sign. This suggests that **it is the government's job to develop a long-term vision regarding policy on this issue. The government must propose final goals and monitor the policies that lead to them.** Such a strategy must be stable, which means there is a relative consensus around it. It must be complex and integrate different measures, and be long-term in order to have a lasting effect on the economy. What elements should such a strategy contain?

First, let us consider wages as one of the main factors for emigration. In pay, we notice several anomalies - while the average wage growth

is quite high, as is the increase in the minimum wage, the disproportions in pay depending on the business, region, and the size of the company are enormous. In practice, while some companies grow very fast, others are not capable of paying higher wages. As a result, the grey sector, wage and social security hardship, business difficulties and bankruptcies are stimulated. Hence, an increase in pay is important, but there is a multifaceted impact on business at micro level. It is obvious that firms that work with lower-skilled workers and in poor regions have difficulty following the average growth of the minimum wage. What policy can help these employers? **By reducing the tax burden on lower wages by introducing a non-taxable minimum, for example. Such a measure will not only relieve employers, but also create more attractive conditions than in other countries to attract workers with lower pay.** Regional differentiation of the administratively determined wages is not advisable, as such regional measures would be more likely to create conditions for circumventing the law.

Secondly, a set of measures should be envisaged to encourage the combination of personal and professional commitments. Above all, this is reflected in the state's commitment to childcare - ensuring **guaranteed and free access to crèches and kindergartens** is a measure that applies in many EU countries. It is necessary to popularise and promote the practical application of the existing legislation on **flexible working time** and distance work. It is recommended that the range of social services such as the issuing of **home care vouchers**, as in France and Belgium, be extended by legislation. A broad, stable and guaranteed set of social services that allows concentration on professional activity and at the same time peace of mind with regard to home and family is one of the main pillars of attraction in the emigration of young families. If researchers argue that it is the norm for every third Bulgarian child to be born abroad, the reason for this can be found in social packages for young families, and especially their children, that exist in more developed countries in the EU. In this sense, investment in such services is of enormous importance for the decision of parents to emigrate, and for demographic processes which are extremely

negative for Bulgaria. Expansion of social services is related not only to public spending but also to the combination of budget funds and private investors. This suggests the development of a lively and efficient social economy. At present draft legislation prepared by the Ministry of Labour and Social Policy is being discussed. It will only be possible to judge the adequacy of this legislation by the speed with which the social economy will develop.

Increasing the package of social services available to young and working parents would be combined with the limitation of the social rights of Bulgarian workers in countries such as Austria and Germany, for example, where a reduction in childhood supplements is being discussed for when the child is not in emigration with their parents. Such measures will cool some of the interest in emigration and it depends only on the Bulgarian authorities whether they will benefit from this development and offer the young families an adequate social care system.

Third, there should be discussion in society and among social partners in particular on the necessary legislative changes that correspond to the changing nature of labour. There are many studies and papers on this issue, including the World Bank and the International Labour Organization, which assess that the nature of work changes very quickly from permanent long-term contracts to more individualism, project work, changing employers, and so on. A number of EU countries are already considering changing the foundations of labour legislation to take account of new developments and to ensure that workers have a balance between security and flexibility in labour relations. Bulgaria's delay in providing regulations in this respect will provide a new incentive for many young people to leave the country.

Fourth, it is very important for the retention of young people that there is wide and ubiquitous use of information and communication technologies - for liaison with state administration, training, trading and financial operations, etc. This suggests a radical change from a policy of introducing a number of e-services from the administration to a broad, comprehensive and deep penetration of

information and communication technologies in everyday life. This would save time, limit the perception of corruption, facilitate entrepreneurship, and give more opportunities to state bodies to do their job in the public interest. These processes are developing very rapidly in Europe and have the potential to become one of the main drivers of cross-border mobility.

Fifth, the state needs to expand and intensify the opportunities of emigrants to maintain contact in Bulgaria with families and institutions, and to attract different national initiatives. The purpose of this is to keep the bond of migrants as alive as possible to the motherland. Such a policy must be comprehensive and ubiquitous to have any effect. **It includes easy access to Bulgarian education, easy work with the administration, including from a distance, providing regular and adequate information on job vacancies, programs to promote entrepreneurship, and various other areas of public life.** The network and activity of schools and cultural institutes abroad should be expanded and mobilised. Particular attention should be paid to the development of programmes and packages for returning from emigration or immigration to the country. Particular attention should be paid to the **savings of Bulgarian emigrants.** Many of them are willing to invest these savings in the country and this attitude should be used to the maximum extent. There are a number of examples in the world that can be borrowed, such as issuing special, emigrant government securities, the proceeds of which are invested purposefully, or the creation of a state-owned investment fund to participate with share capital related to investments of Bulgarian emigrants in the country. The policy regarding the attraction of savings must guarantee investment logic, but its effect would go beyond purely financial dimensions. The effect is related to receiving all the benefits of emigration - transferring experience, motivation, generating financial resources, but also prerequisites for the return of the majority of emigrants or their descendants to Bulgaria on a permanent basis.

8. Conclusion

Cross-border labour migration is a natural process, which is to be expected, linked to the effective distribution and use of labour resources. This process creates certain benefits and inconveniences both for countries of origin and countries that attract labour migrants.

Despite the current trend in many EU countries at national or European level to introduce restrictions on labour migrants, this is not expected to be lasting and with a profound effect.

The Bulgarian economy, especially in a period of growth, is affected both by long-term labour migration and by that which is temporary - especially in the form of seasonal employment and posted workers, mainly in the transport sector.

In the short term, significant transfers of emigrants are beneficial to the Bulgarian economy and have a positive effect on the social sphere. In the long term, however, the Bulgarian state has an absolute interest in restricting labour emigration and even looking for a reversal of the trend because of the opportunity with experience, investment, and labour of the workers in the country to achieve high and sustainable economic growth.

State efforts to regulate the flow of labour resources should be in line with EU rules, with the ability of the economy to absorb skilled labour resources, and they should be with a long-term vision, and not based on individual measures and sporadic initiatives but on a comprehensive long-term and a complex strategy. This suggests a radically different approach from the current passive one.

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