Poverty during crisis

Evaluating the impact of the economic crisis on poverty and social exclusion in Bulgaria

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Chapter 1: Introduction

Perceiving the crisis. The crisis in charts and numbers.

The Bulgarian economy was seriously affected by the crisis. The recession started with some delay after the start of the recession in the major EU economies, but will probably last longer, and the exit from it will be protracted. After the significant growth of Bulgarian economy during the period between 2000 and 2008 of around 6 percent, according to the National Statistical Institute (NSI), clear signs appeared during the last quarter of 2008 that the economic crisis had reached Bulgaria too. Signals suggesting the presence of problems started to surface with respect to the main economic indicators. In 2009, the magnitude of the slowdown of the Bulgarian economy surpassed many of the pessimistic projections. The decline of GDP worsened from 4.9 percent in the second quarter to 5.4 percent in the third and to 5.9 percent in the fourth quarter. The average annual decline in 2009 was 5 percent. The downturn of the Bulgarian economy continued during the first quarter of 2010 as well. With -4 percent, Bulgaria has seen the second largest decline in the EU after Latvia. The other countries, which have recorded sizable declines also during the first quarter of 2010, are Romania, Lithuania and Estonia.

In order to obtain a clearer picture of the evolution of the crisis, we need to consider a wider range of macroeconomic indicators, including the indicators that measure the volume of output in the national economy.

Gross value added (GVA), which is a much more direct indicator for the volume of output than gross domestic product (GDP), seems to have been much more resistant to the crisis, at least until the end of the second quarter of 2009. This discrepancy is probably due to the impact of the adjustment measures and especially to that of net taxes (VAT, customs and excise duties minus government subsidies). However, when considering the crisis, the dynamics of these indicators are much more interesting. Both total GVA and GVA in the economy have the appearance of a seasonal time series with a non-cyclical trend.

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2 Ibid.
3 The time series published by the NSI is not long enough in order to show the long-term cyclical character due to crises such as the current one. The 1996-1997 crisis is absent from the time series because the earliest published data are for 2000, while the appearance of the cyclical effect of the current crisis will only be clearly seen after the data show the final termination of the crisis.
<table>
<thead>
<tr>
<th>Quarter</th>
<th>Total GVA (in thous. BGN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 Q1</td>
<td>4,000,000</td>
</tr>
<tr>
<td>2000 Q3</td>
<td>6,000,000</td>
</tr>
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<td>20,000,000</td>
</tr>
<tr>
<td>2004 Q3</td>
<td>22,000,000</td>
</tr>
<tr>
<td>2005 Q1</td>
<td>24,000,000</td>
</tr>
<tr>
<td>2005 Q3</td>
<td>26,000,000</td>
</tr>
<tr>
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</tr>
<tr>
<td>2006 Q3</td>
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</tr>
<tr>
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<td>36,000,000</td>
</tr>
<tr>
<td>2008 Q3</td>
<td>38,000,000</td>
</tr>
<tr>
<td>2009 Q1</td>
<td>40,000,000</td>
</tr>
</tbody>
</table>

The chart, which shows the development of GVA in industry, is a similar one.

In both cases, the increasing instability (or volatility) of growth is clearly highlighted by the time series of data; this volatility is evidenced by the increasing amplitude of seasonal fluctuations. Although the crisis had not yet been seen clearly in the seasonal average GVA indicators during the second quarter of 2009, indications suggesting that the time series was becoming unstable existed as early as 2006. In spite of the fact that it is not possible here to
put forward hard evidence in favour of this assertion, it can be argued that this volatility is linked to the "ballooning" of certain sectors of the economy as a result of the economic growth policies pursued. The second conclusion, which can be drawn from these time series, is much more evident. Formulated in a completely neutral way, it would sound as follows: "For quite some time now (at least since 2006), something has been happening in the Bulgarian economy that should have deserved more attention on behalf of the Government". There have been certain signs of an "excessive pressing of the speed pedal" and overheating. From this point, one could go a step further, arriving to the conclusion that the crisis should not be considered to be entirely imported from the outside. To say the very least, preconditions for a serious vulnerability to external shocks, such as the global crisis, had been created within the Bulgarian economy. The most probable scenario, however, is that we have created our own local sources of instability, the "turbulence" of which was only accelerated and amplified by the global "economic storm". The macroeconomic policies that generate this type of vulnerability to crises are the same that bring about detrimental social effects and that reduce the efficiency of the automatic stabilizers.

The above assertion is corroborated by the physical volume indices for industrial output, where a clear decline has been observed since the third quarter of 2007. These indices monitor output growth rates in comparison with the analogous period of the previous year. When they move towards zero, the indices show a "slowing acceleration", while if they fall below zero, the indices enter the zone of absolute decline. In this sense, they are much "more sensitive" and more appropriate to be used for early warning purposes than the indicators for the absolute volume of production. Nevertheless, as of the end of 2007, it had not been possible to foresee the future development of the situation solely on the basis of the time series of data. The only thing that had been clear was that some instability had emerged within the system. Combining this with the data concerning the early symptoms of the financial and economic crisis in other countries, one could have concluded that unfavourable processes within the economy were beginning to develop.

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4 This view is shared by some economists. For example, Georgiev, Rumen (2009), “A Systematic Approach Towards the Risk from External Financial Imbalances in the Bulgarian Economy”, Economic Thought, Year XXIV (5), 85-104. p. 85 ... “The present day uncertainty related to the economic crisis, cannot and must be considered caused by external factors only”.

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Labour productivity is also falling. Since the beginning of 2009, for the first time in a long time, the amount of GDP per man-hour worked (one of the indicators for labour productivity) has been declining in comparison with the previous year. This may be due to the release of highly qualified personnel, or to the fact that the working hours of the remaining staff are not fully utilized, which is a signal for impending new layoffs.

According to data of the Open Society Institute and of the World Bank (“Early Warning System”, 2010), almost 4 percent of the households have had cases where their members in employment have been forced by the employers to go out on unpaid leave during the last 14 months. An indicative fact for the escalation of the crisis is that out of all those who were forced to use unpaid leave, only 10 percent did so within the period from January to June 2009; their share for the period June-December 2009 increased to 46 percent, while 44 percent of all those who were forcibly placed on unpaid leave over the past 14 months were concentrated just within the first two months of 2010.

There are similar data for the households where employed people have been transferred from full-time to part-time work - approximately 3 percent of the households, out of which 12 percent were transferred to part-time work during the first six months of 2009, 50 percent were transferred in the second half of 2009, and 38 percent are concentrated within the period January-February 2010. As a matter of course, the reduced working hours or the unpaid leave in these households are linked to drastic reductions in their household budgets. Taking into consideration the fact that 77 percent of the households state that they have no savings, and another 10 percent would be able to survive for one or two months only, if they relied exclusively on their savings, it is clear that many households affected even by those more benign forms of the crisis on the labour market (compared to unemployment) are facing a serious risk of income erosion and reduced quality of life.

Foreign direct investment, which was responsible for much of the growth in the Bulgarian economy, has been in decline since the first quarter of 2008.

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5 Meanwhile, the decision to restrict the use of paid annual leave due for previous calendar years up to 31 December 2011 made under the conditions of a continued crisis may even worsen the data related to this indicator; thus the decision for amendments and additions to the Labour Code will have an additional procyclical effect.
One of the fundamental elements of the crisis is the shrinkage of the construction output index to 74.3 percent in October 2009 when compared to October 2008. The number of newly built housing units of all sizes and areas declines after an almost exponential growth in 2008.

Index of construction output (2005 = 100)

The housing construction process takes a relatively long time even in a situation of market euphoria, with rising demand and prices. Therefore, the housing market is likely to react with some delay after the occurrence of the crisis signals. The investment decisions for the housing construction completed in 2008 had been made in previous years.
In the services sector, the slowdown of growth followed the same pattern as that in the sector of industry, but with a certain delay. There were signs already in the second quarter of 2008 that the seasonal growth would be lower than usual. The process was exacerbated during the seasonal slippage at the beginning of the year, after which growth in the sector was never restored in practice. The services sector, particularly the subsectors with strong seasonal fluctuations, such as the tourism sector, has an important social buffer role to play, providing seasonal income for a part of the economically and socially vulnerable populations.
The agricultural sector has seen rapid changes in the index of production compared to the previous year. The year of 2008 was a good one for agriculture after a bad 2007, which probably has had a certain moderating effect on the growth of poverty in the aftermath of the crisis.

Over the last decade, economic growth and reduced unemployment have led to a steady growth of average wages. There were indications during the first half of 2009 that growth in the private sector was slowing, while in the public sector there was a decrease in wages.
When one takes a closer look at the monthly data for 2008 and the first half of 2009, the fluctuations of wages in the public sector and the start of a stagnation in private sector wages become visible more clearly, as it should have been expected in the case of a growing number of unemployed (shown on the right scale of the chart below).
Finally, when analyzing the main macroeconomic indicators, one should pay special attention to seasonality. On the one hand, the escalating seasonal fluctuations can be an important signal of an emerging instability. Nevertheless, what is more important is that many highly vulnerable categories of employed people, including a substantial proportion of those who work in the informal economy, rely on seasonal employment in order to generate a major part of their annual income. Thus, they "smooth" their consumption during the months of decline, which would otherwise involve serious deprivation with respect to the satisfaction of their basic needs.

The first quarter of the year is the time when many of the sectors with a seasonal component in the dynamics of employment witness the most pronounced decline in the number of employees. Agriculture and forestry are typical examples. In this sector, the second and the third quarters are strong in terms of economic activity and employment, while the autumn and the winter half of the year (the fourth and the first quarters) is weak.

The seasonal factor in agriculture for the period 2005Q4-2009Q3 is shown on the table below in a breakdown by quarters.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Seasonal Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>0.866878</td>
</tr>
<tr>
<td>Q2</td>
<td>1.160215</td>
</tr>
<tr>
<td>Q3</td>
<td>1.156800</td>
</tr>
<tr>
<td>Q4</td>
<td>0.859499</td>
</tr>
</tbody>
</table>

Table 1
The exponentially smoothed trend of employment in agriculture shows that there were no visible problems as of the end of 2008 and even by the first half of 2009: employment continued growing, but a certain slowdown of growth was observed. Last but not least, agriculture under crisis conditions could become the last refuge for households that lose their income from employment in other sectors of the economy. This case concerns small-scale production for personal needs, or the so-called subsistence farming, which is one of the symptoms of poverty and the last defence against extreme poverty. In an attempt to cope with their reduced income and in response to the crisis, 5.7 percent of the households in Bulgaria have increased their agricultural output intended for their own consumption or for sale (“Early Warning System”, Open Society Institute and World Bank, 2010). These important poverty-related aspects of the ongoing processes in the labour market cannot be adequately analysed on the basis of macroeconomic data. It is therefore necessary to analyse the available current information - disaggregated by various indicators at the micro level - concerning the income and the consumption of individuals and households.

**Viewpoints towards the crisis: the crisis through the eyes of Bulgarian experts and analysts**

For the purposes of this analysis, the Open Society Institute (OSI - Sofia) conducted surveys, interviews and focus groups with experts from the administration, the nongovernmental sector and independent analysts. Eight individual interviews were carried out and three focus groups were organized: one focus group with NGOs involved in social issues, mainly with providers of social services, one with analytical centres (think tanks) and one focus group with police inspectors. Representatives of three non-governmental organizations representing the Roma minority completed specifically developed questionnaires with questions related to the crisis. The focus group with the providers of social services aimed to document the experiences of these organizations with work in the field, where the impact of the crisis on the most vulnerable groups – the clients of the various social services - can be directly “felt” and its development can be prognosticated in a way that can not be achieved through other types of analyses. Furthermore, we had the expectation that these NGOs will share with us some valuable observations about the strategies for dealing with the crisis among the most vulnerable groups and communities. The focus group with think-tank representatives (macroeconomists) was intended to summarize their opinions concerning the sources of the crisis, the channels for its propagation, its macroeconomic effects and its impact on households, as well as their eventual forecasts related to the development of the crisis in 2010 and 2011. Some of these macroeconomic issues are not directly related to the topic of poverty, but are very important for understanding the evolution of the crisis and thus are significant for the projection of its social impacts and for recommending social policy measures that are pertinent in terms of time and scope. The focus group with the police inspectors was organized to discuss the effects of the crisis on crime and the citizens' perception of insecurity, since data from the omnibus studies of OSI-Sofia showed that these effects should not be underestimated. The NGO respondents representing the Roma community were asked the same questions that were put before the focus groups with NGOs providing social services. The expectation was to get an idea about the mechanisms through which the crisis penetrates the Roma communities and about their particular vulnerabilities. All categories of surveyed and interviewed representatives of institutions, organizations and independent analysts are referred to hereinafter in the text by common designation “experts” or “Bulgarian experts”. They all have specific viewpoints and perceptions of the crisis that are based on their professional experience in their particular spheres of work.

One of the assertions related to the transfer of the crisis to Eastern Europe is that this happens through the “credit crunch”, which has been most apparent in Eastern Europe.
“In the western countries, measures were undertaken and the central banks decided to avoid this crunch. There is no opportunity to pursue monetary policies here, therefore, the banks just increased their interest rates and tightened lending. Businesses must now pay higher interest rates, which narrows the market again.” (GG)

The common belief of the analysts interviewed is that the crisis in Bulgaria has been largely brought in from abroad. The decline of foreign investment has been specifically singled out as a paramount “vehicle” of the transfer of the crisis to Bulgaria. In parallel with this, there has been a constant decline of exports and imports, of the country's economic activity in general, of consumption, domestic investment, government revenue and expenditure, all of which has been occurring almost simultaneously or with an insignificant delay (RA). The causation relationships here cannot be reliably established, therefore, it is difficult to determine whether the matter concerns a chain reaction or whether independent processes take place simultaneously.

Two main channels have been said to be responsible for the transfer of the crisis from abroad - these are the trade channel (less demand for Bulgarian goods due to the shrinkage of foreign consumption and the respective reduction of exports from Bulgaria) and the financial channel (decreased capital inflows in the form of foreign investments and loans). In addition to these, there may be another channel – “an intangible or a psychological one” - the fear of the crisis, affecting negatively mainly the banks that are now more restrained with respect to the granting of loans. (MI)

Among the internal sources of the crisis, some “mistakes” related to investment decisions are quoted for two sectors of the economy: construction and tourism. According to the respective economists, the matter concerns mistakes that would have led sooner or later to an internal crisis, but the sharp drop in demand has accelerated the deepening of the problems in Bulgaria; thus, the externally induced problems in these two sectors have been superimposed on the internal problems and have exacerbated them. (MI)

The stock exchanges have also been mentioned as a crisis propagation channel – the problems prevailing on the stock exchanges have lead to a restricted access to finance for the businesses, to lower investment and growth, and have had an adverse impact on unemployment. On top of this, a negative impact is superimposed along the line of the banks' bad loans. Finally, there is the contribution of the state budget – “... the contraction in spending has led to a severe shrinkage of the domestic market, with a negative impact on business activities and employment ” (GG). The budget equilibrium has also been quoted by other economists as a key indicator for the crisis. (MI)

Some analysts even try to trace the development of the crisis from its main sources through its propagation channels. 2007 is referred to as the crisis year for the stock exchanges, October 2008 is said to be the month when the transference of the crisis to the real economy began, while unemployment went on the rise in March-April 2009. The strongest contraction with the most devastating effect on the economy has been observed since November 2009 and, according to the experts' estimations, it will probably continue until about March or April 2010. (RS)

“The crisis will be felt most severely in 2010, when all social protection options will be exhausted and the people will really fall into long-term unemployment or their material status will fall due to a reduction of income.” (RS)

The municipal experts come forward with similar expectations: the experts of the Municipality of Plovdiv indicate March 2010 as the month when the bottom will be reached (PLV). However, there are expert projections that are much more pessimistic. According to them, even the best-case scenario consists in exiting from the crisis in two or three years from now
- under the condition, however, that the European economy starts recovering soon. The worst-case scenario envisages several years of stagnation and a gradual exit from the crisis afterwards only. (GG)

After the initial shock, the deepening crisis has led to the discontinuation of ongoing investment projects and to an even deeper decline of exports. According to this scheme for the development of the crisis, it is only at the current stage that pressure begins to be shifted towards the financial sector as a secondary effect resulting from the bad loans, the lack of working capital funds, and the insolvency of otherwise viable businesses, leading to new bankruptcies. (MI)

Some of the macroeconomists (those with liberal economic views) believe that we have presently reached the bottom or that we are at a stage just before reaching it. The peak of the crisis will be seen when the banks begin “collecting their debts in earnest”. (MI) However, if no outside impulse arrives to push us out of the crisis, the mechanism described above can be triggered with great force, initiating a series of bankruptcies in the real sector, which can transmit instability to the financial sector. The external impulse that is expected to boost the Bulgarian economy is the eventual resumed growth in the EU, where our main markets are located. This should quickly lead to increased export opportunities and to an improvement of “the general psychological climate”. As a result of this, the banks should be more willing to engage in lending, which should in its turn revitalise tourism and there should be no further deterioration. (MI)

According to the macroeconomists, the signals for the start of exiting from the crisis will come first from the labour market, where there will be a net increase of jobs - less closures and more openings (MI). In the opinion of the local authorities, the beginning of the end of the crisis will be manifested in terms of increased investment within the municipalities and in reduced unemployment – i.e., the signals will again come from the labour market, the businesses and the investors. According to the local experts, the reduction of unemployment will go hand in hand with the emergence of new businesses (MoP). Together with the level of unemployment, the need for social services will also be reduced. (X)

The attenuation of the crisis will be felt also through the achievement of good results in the revenue part of the State Budget. (RAZ)

Other signs for an exit from the crisis will come from the relationships between the municipal budgets and the Central State Budget. The positive signals will be the provision of more money for capital expenditures, the increased funds for social spending, and the increased infrastructural resources. (PLV)

**Perspectives for an exit from the crisis. Attempts to predict the unpredictable**

The question as to the moment when the crisis in Bulgaria will end is undoubtedly dependent on the question when the major EU economies will exit from the crisis. Most likely, this will happen in Bulgaria with some time lag, for which different estimates have been put forward, the most pessimistic ones extending to several years. Another question of no lesser importance relates to the identity of the driving factors for the economy of Bulgaria after the crisis. For a long time, the speculative money coming from abroad to be invested in real estate was compensating the problems with the trade deficit of Bulgaria. Now that the flow of such funds has dried up, probably for quite some time, it is unclear what can replace them.

The forecasts of *Consensus Economics* are based on the monthly polling of 180 leading East European economic and financial analysts in order to obtain their assessment for a range of variables, including GDP growth, inflation, foreign trade, interest rates and currency
exchange rates\(^6\). In January 2010, the *Consensus Forecasts* projections for Bulgaria were for a growth of 0 percent in 2010 and a 2.4 percent growth in 2011. The forecasts for 2010 deteriorated in the last quarter of 2009 from 0.4 percent in September to -0.01 percent in October, November and December\(^7\). The forecasts for most countries from Central and Eastern Europe began to improve in October and November, or at the latest in December of last year. Although uncertain at first, certain signs of revival for some of the world's leading economies began to appear during the last quarter of 2009. The most pessimistic assessment for Bulgaria is provided by the Economic Policy Institute - the only Bulgarian think-tank involved in the study. Their projection consists in a 2 percent decline in 2010 and in a 1.5 percent decline in 2011\(^8\). With respect to the very important macroeconomic indicator of household consumption, the average expectations of the analysts are for a growth of 0.1 percent in 2010 and 1.6 percent in 2011, while the most pessimistic forecasts for 2010 and 2011 are those of UniCredit Bank: -4.1 percent and -0.7 percent respectively. The expectations for 2010 with respect to the other important indicators are for a 2 percent decline of gross capital formation (the most pessimistic forecast envisages a decline of 14 percent); a 0.5 percent decline of industrial production (the most pessimistic forecast envisages a 5.5 percent shrinkage); moderate inflation (2.5 percent) and a fiscal deficit at 0.6 percent of GDP. Nobody predicts a budget deficit in excess of 3 percent of GDP. Most probably this optimism is due less to the favourable outlook for the economy and the State Budget revenues (such optimism is not apparent in the prognostication for the remaining indicators) than to the Government's stubbornly declared intention to maintain a balanced budget regardless of the costs. The policies aimed at an increased government spending and deficit generation are supported by the IMF and the European Commission as a lesser evil when compared to recession (Ganchev, 2009, 40).

The macroeconomic policy currently pursued by the Government exacerbates the risks of a slow and protracted exit of Bulgaria from the crisis, even if the signals for a revival of the U.S. economy and the leading EU economies are not misleading. But even if Bulgaria is to achieve some decent rates of economic growth within two or three years, as envisaged by the projections of the European Commission, the dismantling of some basic mechanisms, which reduce the risk of social exclusion, remains worrying. These are the same mechanisms, which can ensure the achievement of a more equitable apportionment of economic development benefits, greater economic and social stability, and fewer "balloons" within the economy. Without these mechanisms, Bulgaria will not be able to catch up with the leading EU countries in terms of length and quality of life, education and innovation, and in satisfaction from life, regardless of economic ups and downs.

**Chapter 2: Channels for the transmission of the crisis**

This chapter analyzes the channels for the "social" transmission of the crisis, i.e., the channels through which the crisis brings about negative social effects for society as a whole, and, in particular, the channels through which the crisis affects the vulnerable groups. The macroeconomic mechanisms for the propagation of the crisis, which are often referred to by the same term, were discussed in the previous section.

In an empirical aspect, the channels for the transmission of the crisis can be seen in the effects of the crisis. This does not preclude the presence of preliminary hypotheses or even of a comprehensive theory of the way in which the crisis affects households, how it

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\(^7\) Ibid., p. 2.

\(^8\) Ibid., p. 14.
influences their incomes and consumption, what is its impact on the access to public services and on the level and depth of poverty.

According to the respondents of the surveys and the Bulgarian experts interviewed by us, the effects of the crisis are seen throughout the economy, the labour market, the social sphere, in education and health care. Quite naturally, the various categories of respondents place the main emphasis on different implications of the crisis according to their own values, activities and professional experience.

The economists draw attention to the crisis' implications for the disposable income of households. One of these assertions is that the credit crunch has led to a reduced ability of the households to consume now at the expense of future consumption constraints through the use of borrowed funds.

"We see an impact on disposable income. You are only as rich as you spend. If you spend less because of the credit crunch, you are impoverished." (MI)

In a growing economy, obtaining borrowed funds is possible under conditions that are relatively easy to meet; this allows the households to "smooth" their consumption levels in times of specific hardships or to accumulate savings during boom periods. The use of a loan represents a promise to return what has been consumed now during a certain future period of time, since almost everyone's expectations in a growing economy are that the future periods will always be better than the present one. These expectations, of course, are not always justified and once in a while certain events occur (such as the current crisis), which undermine them. When such a thing happens, the easy provision of credit is finished and you are again as rich as you can earn in the long term, and not as rich as you can spend now. Moreover, the situation for a part of the vulnerable households is additionally complicated, because the risk of an income reduction in a crisis situation increases, while the price of obtained payable credits continues to be a burden, which may become even heavier.

The Open Society Institute and the World Bank’s Early Warning System 2010 study shows that nearly 30 percent of the households in Bulgaria have to repay at least one type of loan charged with interest. Over the past 12 months, 11 percent of these households have found themselves in a complete inability to service their loans. Almost 40 percent of the households, which currently have consumer loan or credit card obligations, owe more than two payments in arrears. The proportion of delayed payments under mortgage loans is also high - in excess of 27 percent - while every seventh household with a mortgage loan has been in a complete inability to cover the mortgage servicing costs.

The conservative approach of the banks makes things difficult for the businesses too, while from the point of view of the households, it is much more difficult today to take advantage of a loan and convert it into some kind of consumption. The increased risk perception forces the households even to start saving, despite the crisis (MI). This is an assertion accepted even by economists with more socially oriented views who speak of a "voluntary restraining of expenses on a psychological basis" in order to avoid the eventual risks (GG). Nevertheless, this is based on aggregated data, which do not provide any information about the specific problems of the vulnerable households.

The free market advocates among the economists view critically public planning and prioritization, including those related to EU funds. According to them, the EU has created "mini-balloons", such as the small dairies and the rural hotels. Many people relied also on the

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9 For example, over 50 percent of households surveyed in the study of the Open Society Institute and World Bank Early Warning System "in 2010 reported that compared with the monthly mortgage payment for 12 months before the beginning of 2010 contribution them is higher."
lavish spending of the budget surpluses. However it may be, these are internal errors and would have happened regardless of the market crisis. (MI)

According to these economists, another such example consists in the renewable energy sources, where enormous investments have been made “that are beginning to exceed the country's capacity”. (MI)

“The connection [of investments in renewable energy] with poverty is that such investment redirects the available capital. The Government is also responsible, because it enticed people to believe that their energy will be bought at preferential prices. Instead of investing in the real production economy, some people appear to have thrown their money at the wind. Specifically with respect to poverty, it should be pointed out that these projects are built in rural and poor areas.” (MI)

The analysis of available data for Bulgaria and the findings of studies in other countries clearly show that the labour market is the main channel for the transmission of the social crisis. The indicators, which respond immediately to a crisis, are the economic activity rate, the employment rate and the unemployment rate. The crisis affects the access to the labour market through the mechanisms of reduced consumption, a decline in the volume of orders and the formation of excess production capacity, including human resources. This scheme drives companies to cut staff, reduce working hours, and in some cases leads to bankruptcy.

According to data from the national representative surveys Open Bus II and Open Bus III of the Open Society Institute – Sofia, the share of job losers among the surveyed adults has increased from 6.8 percent to 10.9 percent just during the period March - October 2009. The data from a representative survey of the Open Society Institute and the World Bank’s Early Warning System for 2010 show a continued rise of unemployment during the first two months of 2010, albeit at a slower pace, while the number of people having lost their jobs over the past 12 months has grown by another 1.1 percent. According to the NSI, the rise of unemployment between the first and the fourth quarter of 2009 has been from 6.4 percent to 7.9 percent, with highest values for the 15 to 34 age group.

In addition to the directly observable impact on employment and unemployment, the crisis exerts its influence also through the shortening of working hours and the reduced wages (EA). The reduction of pay is reflected in the structure of household income. According to official statistical data (NSI), the share of wages in the total gross income of households declined by 4.9 percent between January 2008 and the end of 2009. These effects have also been clearly shown by the results of the study of the Open Society Institute and the World Bank’s Early Warning System, 2010.

According to data of the study, the last 14 months have witnessed pay reductions for at least one employed person in about 9 percent of the households, while 28 percent of the decreased pay cases have occurred just within the last two months of this period (January-February 2010).

Reduced wages under crisis conditions contribute to a further rise of the poverty level among the employed in Bulgaria, and that level has been high enough, even without additional factors. According to NSI data (Laeken Indicators, 2007-2009), the proportion of working poor increased by 0.7 percent, from 5 percent to 5.7 percent during the period 2007 - 2009. Accordingly, the proportion of working poor within the group of the poor in general also increased - from 16.6 percent in 2008 to 18.2 percent in 2009. Therefore, because of the reduced wages, the crisis has increased - albeit marginally - the probability that employed people may fall into the group of the poor.

A confirmation of the unfavourable position of Bulgaria with respect to this indicator is provided by Round 4 of the European Social Survey, according to which Bulgaria has the highest share of respondents - among the surveyed EU member-states, Russia and Turkey - who believe that more than 50 out of every 100 people of the working age population do not
have sufficient funds to meet their basic needs. The only country to return worse results for this indicator is Ukraine. Over 20 percent of the employed people in Bulgaria state that they have very serious difficulties in coping with the situation with their current incomes, while another 40 percent say that they experience certain difficulties.

More than 6 percent of the respondents in the study of the Open Society Institute and the World Bank's Early Warning System 2010 reported a serious delay or postponement in the payment of wages over the past 12 months. Delays in payments have increased during the second half of 2009 but they reached their peak at the end of the period. Almost one-half of all the people affected by this negative effect say that it happened in January and February 2010. Approximately 1.2 percent of the households have a person that has been employed during the last 12 months but has not received the agreed and due payment, or that his/her temporary employment contract has not been renewed. The persons who have been working overtime in nearly 2 percent of the households state that they have not received their overtime compensations, while for one-half of them this has happened exclusively during the first two months of 2010.

Entrepreneurship (especially small-scale entrepreneurship) has been strongly affected by the crisis, as companies are forced to cease their operations (RAZ). Over 3 percent of the households observed within the survey have experienced a reduced demand for the products and services produced by the small family businesses or by the self-employed persons in the household. One percent of the households have also been confronted with delayed or stopped payments to the family business or to the self-employed within the household. According to the experts from some municipalities, the search for livelihood opportunities intensifies migration, especially from small towns and villages to the large cities and abroad. The prevailing pace of the exodus of young able-bodied and employable people is worrisome and disturbing, since it threatens the future of small towns and villages. (RAZ)

Overall, approximately 18 percent of the households surveyed during the last 12 months have been affected by at least one of the effects of the crisis - loss of job, delayed, suspended or reduced payment of wages, failure to renew an employment contract or to honour the obligations under such a contract, transfer to part-time working hours or to forced unpaid leave, overtime work without additional pay, interrupted payment of social assistance benefits or pensions and reduced demand, delayed or suspended payments to family businesses and self-employed, and bankruptcy of family businesses or reduced rental income. This proportion is higher for some of the more vulnerable groups, while for one of the groups – the Roma - it exceeds 20 percent.

In the field of social assistance, a reduction of social spending has been recorded, as recognized by an expert from the Employment Agency (EA). The nongovernmental organizations engaged in the provision of social services also stress that the funds allocated by the Central State Budget for such services have declined. Charity work and donations are also shrinking, while new recipients are trying to obtain social services (SOC). According to NSI data, the number of recipients of social services (including services delivered by social services providers listed in the register of providers of social services for the Agency for Social Assistance) has grown by 19.7 percent just within the period 2007 – 2008. It should be pointed out that, in parallel with this, there have been personnel cutbacks in the institutions, which provide important social services: in the State Agency for Child Protection (SACP) alone, the number of personnel on the payroll list has been reduced by 27 percent from late 2006 to early 2010.  

The contraction of human resources has an additional negative impact also on the quality and coverage of services. The socially oriented NGOs remain understaffed because of the increased workload and the low pay (SOC). In view of the reduced staff, the providers of

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10 Official SACP response to a request by UNICEF - Bulgaria from 19.02.2010
social services and the NGOs are overwhelmed with work and no longer have the time to train their personnel or to improve their qualification. (SOC)

The composition of the social services package was restructured during the crisis because of the budget constraints and the changing focus of demand. There are also the new needs arising for social services related to crisis intervention, while other services are being dropped out, such as the psychological and emotional support and the entire family ancillary services for the prevention of school dropout. The focus moves from general well-being to physical survival. There has been a boom for the placement of adults in institutions because their families have no money for healthcare, and in the cases where adequate healthcare is not available for everyone, priority is given to the children. The need for shelters and soup kitchens increased (SOC). Demand for social kitchen services among some low-income groups of pensioners also increased (SOC). At the end of 2009, the Council of Ministers issued a decision on the funding of public soup kitchens on behalf of the Social Assistance Fund - an opportunity envisaged by the Social Assistance Act. Approximately BGN 1.85 million have been earmarked for the support of 11,000 people in 126 municipalities¹¹. The average allocation per person is BGN 150, which includes all costs related to the funded projects. This suggests that probably one meal per day and per person has been secured for 1 or 2 months (taking into account the possible economies of scale). In fact, that program existed also before the crisis and 50 to 60 similar projects used to be funded annually by it. Currently the number of funded projects has been doubled, but this would hardly be sufficient to satisfy the increased needs, especially against the background of cuts in the programs for active labour market measures, which have left many more people (several tens of thousands) without any income.

Besides, there are non-standard forecasts concerning the demographic effects of the crisis. Some people say that the crisis is quite likely to have a positive effect on the birth rate, because it would be more profitable for the companies to let their employees go on leave for child rearing, so that the cost of otherwise forced downtime would be paid by the social security budget, rather than by the company itself. (RS) In this context, the rearing of a child may become the only alternative to a layoff without the immediate prospects of finding a job. However, the NSI data on the Laeken indicators for the period 2007 - 2009 show that the crisis is much more likely to have a negative effect on the birth rate, since the presence of children in the family increases the risk of poverty. Children represent a group, which is particularly vulnerable to poverty during the crisis. Children in the age group 0-15 accounted for 12 percent of the population in 2009, but the proportion of children among the poor is as high as 17.4 percent. Just a year earlier, these proportions were at the level of 12.8 percent of the entire population and respectively 15.2 percent of all the poor in the country. In 2009, two age groups within the population – pensioners and young people in the age group 16-24 - occupied almost equal shares both in the total population and in the group of the poor, while the share of the children in the age group 0-15 is by the 5.4 percent higher among the poor than their share in the total population. All remaining age groups occupy higher shares in the total population than in the group of the poor.

Poverty affects the children also in their capacity of members of households, whose life under the conditions of a crisis is getting worse. The households with children in 2007 represented 49.4 percent of all households, but their share among poor households is 53.7 percent. However, the share of households with at least one child among the poor households in 2009 was almost the same - 52.8 percent, while this year the households with children are already by 4.5 percent less, or 45.9 percent of all households.

The data of the Open Society Institute and the World Bank Early Warning System 2010 study confirm that poverty among households with children is considerably more widespread (in

excess of 27 percent) than among households without children (20 percent). The poverty vulnerability among families with two or more children is particularly pronounced, while 3 out of every 4 families with three or more children are poor.

Proportion of the poor among households with different numbers of children (aged 0-17)

Poverty among families without children and with one child is slightly lower than the national average; poverty among families with two children also does not differ significantly from the average, while the level of poverty in households with 3 or more children is three times higher than the average.

Proportion of the poor among households with different numbers of children (aged 0-6)

The same situation is observed in households with children under the age of 6. Households without children and households with one child have a poverty rate around the national average, while households with two or more children are much more likely to fall into poverty (the members of approximately every third household with children under the age of 6 live below the poverty line). In the case of the Roma people, poverty among households with two or more children reaches 69 percent, while the poverty rate among households without children is significantly lower - 44 percent - albeit well above the national average.
Some experts are particularly alarmed by the implications of the crisis in the sphere of health and education, although this is also the sphere with the most pronounced scarcity of reliable data. In general, it has been indicated that an increased “dropout from the healthcare system” (SOC) is being observed, i.e., people are losing their health insurance rights because of a failure to pay the health insurance contributions due. According to the demoscopic survey of the Open Society Institute and World Bank Early Warning System in 2010, the proportion of people without health insurance rights during the period February 2009 - February 2010 has grown by about 1 percent, i.e., from 7 percent to 8 percent. According to data of the National Health Insurance Fund (NHIF), the number of Bulgarians without a health insurance in 2008 has been just under 1 million (965,023 persons) or 12.7 percent. In the autumn of 2009, the Minister of Healthcare Bozhidar Nanev announced during a press conference that there were 1,200,000 people without a health insurance, that is, about 20 percent more than previously thought. The lack of funds for the payment of the health insurance contributions is forcing some households to give up visits both to in-patient and outpatient healthcare facilities or to pay the high free market prices when the use of health services becomes unavoidable. The 2010 “Early Warning System” reported that approximately 1.7 percent of the cases of obtaining loans are related to the necessity to pay the cost of healthcare. More than 13 percent of the respondents say that they have postponed or completely given up a medical examination in case of illness during the past 12 months, while 11.5 percent say that they have postponed or missed screening tests. As a result of all these unfavourable factors during the last 12 crisis months, over 22 percent of the respondents report that their health has deteriorated (72 percent say that their health status has remained unchanged and more than 5 percent claim to have improved their health status).

This in turn reduces the revenues of the health care system, initiating a vicious circle, which has the potential to degrade considerably the health status of the population as a whole. (RAZ) The crisis has worsened the situation of small schools in the villages. The delegated budgets are not sufficient to cover the schools' normal expenditures. (RAZ) Dropping out of school emerges as a major and growing problem: in future times, programs for the socialization of the dropout children will be needed. (SOC) Deplorably, there is no single expert to entertain even the hope that such programs may be developed during the crisis. This is quite understandable, given the clear signals emitted on behalf of the Government that education will not receive additional support during the crisis. Unfortunately, dropping out of school - both at the aggregate and the micro level - is a process difficult to reverse. In parallel with this, the crisis leads to the accelerated closure of schools and, more recently, also of hospitals, although the two processes are presented publicly as a rational policy focused on the optimization and the efficient use of resources. The number of mainstream, special and vocational schools during the period 2007 - 2009 has decreased by over 12 percent, while the most prominent change is in the number of mainstream schools, which were reduced by 350 or by more than 14 percent.

"Migration due to economic reasons depopulates the villages and the schools are closed. Within one year, more than 30 children from Kardam have gone abroad together with their parents. How can we preserve the school?" (MoP)

Children of the Roma families and of families from rural areas, where the fathers have travelled abroad to make their living, drop out of school in order to help with the work of the family. The school dropout phenomenon is also seen with families whose income is reduced

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12 “Здравноосигурените и здравното осигуряване в България” [The uninsured and health insurance in Bulgaria], p. 91, Open Society Institute, Sofia 2009
and who have no money for school supplies and transportation. (SOC) More than 2 percent of the households in the 2010 Early Warning System study of the Open Society Institute and the World Bank say that, as a result of the loss of income or because of other economic difficulties, some children within the household have been prevented from going to kindergartens or schools and universities. According to other [respondents] 1.8 percent of the households’ members have ceased to attend vocational training and qualification courses, and 9.6 percent admit that they have significantly reduced the incidental expenditures for education, such as transportation, school textbooks and materials. More than 5.4 percent of the cases of obtaining loans are related to the necessity to cover shortfalls in household finances for education. Nevertheless, the problem with accelerating school dropout actually commenced before the onset of the crisis and there are serious indications that it is the result of the massive school network optimization. According to NSI data, an annual average of 28,000 schoolchildren per year have been dropping out of school during the last decade.

With the advancement of the crisis, the budget constraints become the main channel of transmission of the effects of the crisis, and not only to the poor, but also to businesses and the entire economy. There are indications for the delay of payments on behalf of the State in all sectors, although the following example is part of the statements of respondents who are experts in the public administration.

“Nothing has been received from the funds requested by the directorates... The necessary activities have not been carried out because of the lack of money... For me this is the hardest part of the crisis... The crisis shortens the time schedules and we need to make decisions quickly... Until now, there have been discussions and further discussions, we have been producing projections and plans, but there is no solution in view... So far, there has never been such a case - an entire month of delay for the payment to the doctors, or at least it has not been known publicly... This is a real crisis. (MoH)

The real effect of this approach to the balancing of the budget - namely, the transfer of the burden to all first level spending units for budget appropriations and hence to all contractors, service users and program beneficiaries - consists in the perpetuation of the crisis and in the deepening of its social implications.

Chapter 3: Vulnerability of people and households to the crisis

One of the aspects of vulnerability is the identification of the actual coverage of the groups of people who are affected by the crisis. The question is whether, on the one hand, the crisis affects only those who were vulnerable also before the crisis, making their poverty deeper or erecting higher barriers in front of their access to public services, or, on the other hand, that the crisis affects as well some middle class people who are losing their income and social status, and are temporarly exposed at the risk of poverty or even - in the worst case scenario - that they may fall permanently into the ranks of the poor. Crisis vulnerability is a function not only of the consumption of an average household, but also of the alterations in consumption that occur as a result of the crisis, especially when such alterations lead to a fall below the poverty line.

Unfortunately, the framework of social statistics (with the exception of employment - the area where it overlaps with economic development statistics) is not quite suited for the purposes of a quick analysis. Therefore, much less is known about the “real time” social effects of the economic crisis than about the processes in the banking and financial sector and about the economy as a whole. The social sphere practically lacks entirely the regular quarterly or even monthly publication of key indicators like those that are available for the other sectors. The delay in the availability of social indicators is one year at least. Thus, the last published indicators date from 2008, when Bulgaria was still “on the verge of the crisis.”
Another problem with the publication of social statistics in Bulgaria is that crisis vulnerability is quite specific with respect to the different types of households. Therefore, the analysis of the crisis requires a very detailed disaggregation of the data. The NSI publishes average household data, which also show the progression of the crisis, but some disaggregated data would allow an analysis of the differentiated impact of the crisis. The possible dimensions of the analysis should include the various income groups subdivided by quintiles or deciles, by place of residence, by size of locality or region, or according to the specific place of residence within the given locality. Special attention should be paid to the minorities, among which the Roma people are particularly vulnerable.

Finally, with respect to the requirements addressed to social policy by the theory of vulnerability, it is important to point out that poverty is a risk against which no direct insurance exists (although some affordable types of insurance policies may significantly reduce the poverty risk). Therefore, the proper assessment of the specific vulnerability of individuals and households is the only alternative to the standard risk assessment, while the social transfers are the only alternative to insurance against poverty.

The European Commission expects unemployment in the EU to reach 10 percent in 2010\textsuperscript{14}. In Bulgaria, the Minister of Labour and Social Policy shared similar projections as early as the end of 2009, asserting in some statements that unemployment would “reach 10 percent already by the end of 2009” while at the same time maintaining in other statements that it “will not exceed 10 percent”\textsuperscript{15}. At the final count, in the draft budget for 2010, the Government opted for an estimated unemployment rate of 9.5 percent at the end of 2009 and of 11.4 percent in 2010. The trade unions are far more pessimistically minded, with forecasts within the range of 14 to 15 percent for 2010 and with a special emphasis on the discouraged unemployed who have long been completely forgotten in employment policies. Those are the people who - for whatever reason - have stopped looking for a job (for example, because they do not believe they can find it), and whose numbers can be assumed to increase considerably during the crisis. The scarce resources earmarked for the promotion of employment in 2010 will not reach them.

The nominal amount of unemployment benefits has increased 3.37 times, but their weight in household budgets is almost totally insignificant - an average of BGN 4.31 per household and per month. We may use for comparison the social assistance benefits (excluding family allowances for children) that were reduced last year by 6 percent and averaged BGN 14.06 per household in August 2009. By the end of 2008, the average consumption of basic food products did not show any immediate consequences of the crisis, but diet is one of the last places where we should expect the crisis to penetrate, and then this should only happen after the depletion of all other buffers. However, the 2010 Early Warning System study of the Open Society Institute and the World Bank showed that 8.9 percent of the households in 2009 were forced to buy food products and basic goods “on tick”. This does not mean that there is no differentiated effect of the crisis on nutrition and that the extremely vulnerable individuals and communities have not been forced to limit their consumption of food or switch to cheaper food with inferior nutrition values. A clear indicator for the effect of the crisis on nutrition is the degree of reduction in the proportion of cash expenditure for food in the budgets of the vulnerable households. While according to NSI data the decline in cash expenditure for food in the structure of household budgets for all households during the period January 2008 - December 2009 was 1.5 percent, for households with 3 or more

\textsuperscript{14} Commission of the European Communities (4.3.2009), 15
children taken alone this contraction is over 4 times higher, i.e., 6.2 percent. Under the crisis conditions, these households have increased the consumption of bread at the expense of milk and some vegetables, when compared to other households.

The magnitude and the direction of change in incomes and consumption can be investigated through comparing data from the demoscopic Eurobarometer studies, the Open Bus Survey of OSI-Sofia, “Effects of the crisis” of OSI-Sofia and the World Bank. The Eurobarometer survey of October 200916 (the fieldwork was done in July 2009) shows that Bulgaria stands pretty badly in the crisis when seen on the background of the other member states. According to almost all indicators, Bulgaria is among the countries worst affected by the crisis. Bulgarians come forward with very pessimistic assessments of the proportion of the poor in the country, which are similar to those of Romania and Hungary, but in addition, Bulgarians consider that this proportion has increased strongly over the past 12 months. Bulgarians are among the EU citizens who consider that it has become more difficult to afford childcare and long-term care for the elderly and sick family members. 77 percent of Bulgarians believe that next year they will not be able to cope with an unexpected expenditure of € 1,000. Less than one-quarter of the Bulgarians say that they can deal seamlessly with their current bills and pay the installments for their loans. Regarding the next 12 months, the Bulgarians have been overtaken in pessimism by nine other countries, including the Baltic countries, Hungary, Ireland and neighbouring Greece, which are among the countries most severely affected by the crisis.

The two studies on the subjective perceptions concerning the crisis suggest that the circle of the affected may not be limited to the poorest only, if by “the poorest” we mean the lowest 20 percent of the income scale. Such an approach is quite justified also because of the fact that this is exactly the proportion of people in Bulgaria in 2007 who were below the 70 percent of the median income line - those are the poor and the people who are dangerously near the poverty line. (According to NSI data [Laaken indicators 2007–2009], their share within the total population increased by 1.5 percent from 21.1 percent to 22.6 percent during the period 2007-2009).

The subjective perceptions about the risks of the crisis are actually very indicative of its magnitude and scope. Indeed, those who feel insecure about their jobs are potentially falling below the poverty line. The results of Round 4 of the European Social Survey indicate that more than one-third of the Bulgarians believe it likely or even very likely to lose their jobs over the next 12 months. Across the entire study, having covered almost all EU member states plus the Russian Federation, Ukraine, Turkey and Croatia, the only country that is in front of Bulgaria with respect to this negative indicator is its south-eastern neighbour.

In 2007, the proportion of those who lived in deep poverty (with less than 50 percent of the median income) was 7 percent, while that of the poor (those living with less than 60 percent of the median income) was 14.1 percent. In 2008, the latter proportion rose to 14.4 percent and reached 14.7 percent in 2009. This level of poverty is lower than the average for the EU-27, but has been on the increase during the last three years and this trend is not likely to stop. In general, the new member states still have lower levels of relative poverty than the old ones because of the still surviving “egalitarian” legacy of the past. The exception consists in the Baltic countries that paid the inevitable social price with their macroeconomic policies aimed at the maximum "pumping up" of the economy, and that are now among the worst placed countries with regard to poverty in the EU together with the UK and with some Mediterranean countries with traditionally high poverty rates.

As it could have been expected, poverty rates in general witnessed a certain increase during the crisis. During the period 2007 - 2009, the level of poverty in Bulgaria has been rising uniformly by 0.3 percent per year and reached 14.7 percent from 14.1 percent.

Traditionally, a huge role in lowering the level of poverty in Bulgaria has been played by pensions, since they are the most significant kind of social transfers. The NSI review of household budgets shows that the pension income of households has increased by 28 percent in nominal terms between August 2008 and August 2009. Pensions in Bulgaria are of great importance for the reduction of the poverty risk. If pensions did not exist, the number of the poor would be 20 percent higher. Nevertheless, the role of pensions in reducing poverty during the crisis declines: In 2008, the proportion of people living below the poverty line after the transfer of pensions has risen by 1.1 percent, after which this pace slowed down and reached 0.1 percent during the period 2008 – 2009.

**Poverty level rise after the transfer of pensions, 2007 –2009, %**

It should be noted that the trend for all other social transfers to have an extremely low impact on the poverty level during the crisis continues and even intensifies. The impact of these transfers on the reduction of poverty increased marginally in 2008, but began to decline again in 2009, when the crisis continued to deepen.

**Reduction of the poverty risk as a result of the social transfers (excluding pensions), 2007 –2009 (%)**
This fact is significant in demonstrating not only the limited effectiveness of social transfers in combating poverty during the crisis, but also that this effectiveness is a diminishing one. As a result of the policies, which consist in providing inadequate social assistance benefits or supplements that are not received by the most needy, as little as under 4 percent of the households are able to rise above the poverty line.

The insufficient degree of adequacy of the social transfers is witnessed also by the attitudes shown in their respect, as registered by the European Social Survey - Round 4, carried out in the spring of 2009. Out of 28 European countries surveyed (including Turkey, Ukraine and Russia), Bulgaria is among the top three countries (after Hungary and Latvia), whose citizens share the view that social transfers and services are rather unlikely to prevent the wide propagation of poverty. Over two-thirds of Bulgarians believe that many people with particularly low incomes receive smaller benefits than what they are entitled to. According to this indicator, Bulgaria ranks second only after Portugal from among the EU member states. Thus, Bulgaria appears among the few European countries (including the Russian Federation), where most citizens believe that social transfers and services are rather an inefficient tool for addressing poverty. Bulgaria is the only EU member state covered by the survey, where more than one-half of the surveyed citizens respond that social benefits and services are so small that they do not constitute a serious burden on the economy. At the same time, seven out of eight Bulgarians are categorical that the country does not have sufficient resources to provide support for the people in need and this proportion is the highest one among all EU member states surveyed.

A more alarming fact, however, is that the rise in poverty rates before the crisis was very uneven for the different social groups, disproportionately afflicting precisely the particular groups, which can be assumed to be the most vulnerable ones in times of a crisis – the self-employed and the economically inactive. In the case of the economically inactive, this result - the increase of poverty from 15.5 percent to 19.9 percent just in 2008 when compared to 2007 - is definitely the result of a purposeful policy aimed at limiting the coverage of the guaranteed minimum income schemes (the monthly social benefits). In the case of the self-employed, where poverty rates are traditionally low, even if quite fluctuating, an increase

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17 Bulgaria is among the top four EU member states (together with Hungary, Great Britain, Greece and Cyprus) included in the European Social Survey - Round 4, where over two-thirds of the adults believe that many people are able to receive social assistance benefits and services without deserving them.
from 5.9 percent to 10 percent was also experienced in 2008 compared to 2007. This may be
due to the fact that the ranks of the self-employed were filled up statistically by some people
who had left the social assistance system, but who were unable to generate an adequate
income without external support. In general, during periods of economic shocks (let us call
them "force-majeure situations") or shocks induced by political means, self-employment
becomes a safe harbour for many people who drop out of the ranks of those with permanent
employment contracts. Therefore, targeting certain incentives to them may prove to be an
appropriate anti-crisis social policy.

The NSI data also contain indications that social networking and solidarity cannot replace
support on behalf of the public sector during a crisis; the amounts of regular transfers from
other households have contracted almost 2.5 times from January 2008 until the end of 2009.
This is confirmed also by the respondents' answers to the 2010 Early Warning System
Survey of the Open Society Institute and the World Bank. The data show a decrease in the
cases of regular inter-household transfers. Over the past 12 months, 6.3 percent of the
households have stopped or reduced the assistance previously provided to relatives and
friends. During the crisis, there are no sufficient resources to maintain the transfers between
households, because the increased risk makes everybody more cautious. In fact, the
slowdown of growth in Bulgaria is dramatic, which is clearly visible in the rapid changes in
the estimates of the expected decline for 2009 and 2010. For example, in the spring of 2009,
the European Commission still used to forecast a decline of 1.6 percent for the economy of
Bulgaria. It is expected that the current crisis will have a lasting impact on the growth
potential of many of the newest EU member states, including Bulgaria18, although the current
expectations do not visualise such a dramatic decline as the one in the Baltic States19.

The experts interviewed by the Open Society Institute - Sofia enumerated a wide range of
groups vulnerable to the crisis. Those mentioned at the first place include the long-term
unemployed and the people on social assistance (EA, SOC), and the people with low
incomes (SACP). Some of these people have been in the same situation before the crisis,
but now their chances of addressing successfully their problems have declined dramatically
because of the closure of many different channels, which used to generate means of
subsistence, including social programs, transfers between households, informal loans from
relatives and friends, shopping for basic necessities with deferred payment, etc.

With regard to the direct effects /of the crisis/ on employment and unemployment among the
separate groups, a very wide range of expert opinions and assumptions has been
expressed.

Mention has been made of various age-dependent groups with supposedly increased
vulnerability to the processes of contraction of demand for workforce on the labour market.
An expert from the Employment Agency stated that young workers are the first to remain
without a job, because in times of crisis the employers prefer the older workers - "they are
more flexible with respect to the requirements, they are more likely to make concessions;
they are more disciplined" (EA, MoH). This view is supported by observations on
unemployment in the EU, which give grounds to speak of "the extremely unsustainable
nature of youth employment, which is obviously most vulnerable in case of external shocks
on the labour market"20. According to independent economists, the first group to be laid-off
consists of the people at pre-retirement age, who will not be hired afterwards. (MI). There is

20 Белева, Искра (2009). Европейски политики за противодействие на кризата в заетостта. Икономическа
Thought (6), 28-47, 31.]
no contradiction between these two opinions, because it is quite possible for both the youngest and the oldest participants in the labour market to be equally vulnerable, when compared to those of middle age.

The views of the different experts on the distribution of the risk of unemployment depending on the qualifications of the employees are very similar. According to most experts, the most vulnerable category seems to consist of ordinary workers in small and medium-sized enterprises, a large part of which has been closed; that social group has been impoverished dramatically (RAZ). The economists believe that the people most affected are those with average and lower qualification (GG), as well as the low-income groups with inadequate skills who have lost their jobs without being able to find new jobs - simple construction workers, workers made redundant by the Kremikovtsi steel plant and others. (RS)

“The crisis reduces the chances of employment - employers are looking for job applicants willing to work according to the “two in one” or “three in one” principle. Unskilled people are hired last”. (EA)

Experts of the Employment Agency indicate that in addition some highly qualified people from among the export-oriented firms have been affected, where orders from abroad have plunged down. (EA)

There is almost no disagreement among the experts that significant variations in the risk of unemployment will exist in a territorial aspect and across the various sectors, although the experts differ in their relative assessments and emphases. An expert from the Employment Agency has mentioned “a dramatic increase of unemployment in the field resulting from mass redundancies in some regions”. (EA)

One of the viewpoints of the economic analysts is that the crisis has least affected those companies (and, respectively, the individuals who work there), which are closest to the final consumers in the production chain (the households), especially the companies that produce essential goods, for example, the food industry firms.

Where businesses are close to the consumer, the crisis is minimal or very gently felt. For those who are further away, the crisis is more severe. For people who work in a bread factory, everything is OK; things are fine as well for people who work in grocery stores. There is no absolute symmetry. There is a sectoral disparity. (MI)

According to an MLSP expert, the people who work in manufacturing are among the most affected because of the significant redundancies in this sector (MLSP). Another category of particularly affected workers are those with average skills employed in industry and agriculture, transport and construction, “who lose massively their jobs and remain out of the social security systems". (GG) Other economists also pinpoint the "low-skilled people in construction and tourism, where the crisis in Bulgaria began” (MI), while one municipal expert mentioned the financial and insurance intermediaries because of the contraction of the business activity in this sector of the economy. (RAZ) It should be borne in mind that during the boom in lending and the growth of insurance, many people worked indeed as small financial and insurance intermediaries, generally with modest and unstable incomes. Some part of this activity belongs to the informal economy. In the research on particular case studies related to the crisis, OSI-Sofia interviewed some people in the Stolipinovo neighbourhood of the City of Plovdiv who used to provide consultations to a microcrediting institution concerning the solvency of the borrowers and undertook to use their authority within the community to remind the borrowers about the due monthly installments. In return, these intermediaries received informally a small percentage of the amounts collected.
Another mentioned vulnerable group consists of the temporarily employed people, especially when the work has a seasonal character (X, POP). As the analysis of the employment data shows, seasonality is typical mainly for employment in agriculture and tourism. The serious vulnerability of people in temporary employment is reflected in the analysis of employment data from other EU countries. Temporary employment is highly unstable from the perspective of the inadequate legal protection offered by it. This is perhaps also “the most cyclically oriented component of employment”. \(21\)

Probably the larger part of these analyses is correct and the most adequate conclusion is that the crisis has had a widespread impact on the labour market, having left almost nobody intact. One must distinguish, however, between those who fall into desperate need as a result of the crisis, and those who have simply lost something or failed to obtain some benefits because of the crisis without falling into poverty and a restricted access to services. Such is, for example, the case with "the middle-income families who were able to afford obtaining credits before, but cannot do this any longer - the banks do not grant loans." (MI) For some of them, the crisis may have had a very serious impact in terms of the magnitude of consumption shrinkage, but not in terms of falling into extreme forms of deprivation. (MI)

Therefore, it is very important to analyze also other cross-sections of the vulnerability associated with certain types of individual deprivation or with a certain structure of the households.

Such a specific vulnerability is observed in illiterate people, people with chronic diseases and disabilities, particularly the people with mental disabilities (EA, MEYS) - all of them have their access to social services reduced. (SOC) The minorities, especially the Roma people, are another vulnerable group (ROM, PLV). The descriptions of the situation on behalf of local experts in municipalities with significant Roma populations are particularly eloquent.

Another part of the most vulnerable resort to finding livelihood in the trash cans. There are also those who survive through petty theft. Many parents leave for work abroad (PLV)

Life has become much more severe for the unskilled, uneducated and long-term unemployed people in the neighbourhood of Stolipinovo in Plovdiv (PLV).

The list of the disadvantaged people who are most vulnerable to the crisis can be expanded through adding the pensioners (ROM, PLV), although no direct effect on their earnings has been observed, since pension benefits during the crisis are one of the stable and even growing sources of income. However, the crisis may have a very pronounced impact on the costs of living of the pensioners, not just because of direct inflationary pressures, but because of the closure and restricted accessibility of certain public services, particularly in the sphere of healthcare, as well as a result of the redistribution of the healthcare burden from public to private spending, for example, in the case of paying for medicinal products.

According to a successful generalization, “The crisis becomes visible in the poorest sections of society; it is seen most clearly among them. Many of the poorest remain unemployed and their economic situation deteriorates” (X). Overall, there has been a general consensus among the experts that the number of the poor is growing. However, some experts believe that only the depth and the nature of poverty will intensify, but that the proportion of the poor among the general population as a whole will remain the same.

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“It is possible that the relatively poor may become absolutely poor, but it is unlikely that the poverty rate should increase substantially. The crisis compresses the inequalities; it does not increase them. The rich become poorer. The poor, who are on benefits, continue to receive them. The number of unemployed rises, but “inequality” itself does not increase.” (RA)

The above assertion, of course, has few chances to find empirical confirmation during the current crisis, but it is worth being mentioned, because the use of relative poverty indicators allows the appearance of possible paradoxical effects, where the impoverishment of some middle-income and high-income groups may lead to a statistical reduction of poverty. This is due to the reduction in average and median income, which "elevates" some poor people above the new - and lower - poverty line. However, the number of the poor will most probably increase strongly, even according to the Eurostat relative poverty line, which is formally adopted in Bulgaria, because of the process of transition of people from the middle-income to the low-income group (GG). The NSI data concerning the Laeken indicators show that the proportion of the poor during the crisis year of 2009 exceeds by approximately 1 percent that of the preceding year 2008, regardless of whether the poverty line is at 40 percent, 50 percent or 70 percent of median income.

“The expectations are for poverty to deepen and for the number of the poor to increase” (RS). “Yes, the crisis increases inequalities. The number of the poorest and of those nearest to them is increasing and [their situation] becomes more difficult, while the people with higher incomes probably do not become fewer - even if their incomes do not increase - at the expense of the impoverishment of the socially vulnerable strata, so that the difference does grow.” (GG)

The NSI statistical data about the Laeken indicators confirms this view. Domestic income inequality (expressed by the ratio between the aggregate income of the top twenty percent (the richest, or S80) and the aggregate income of the bottom twenty percent (the poorest, or S20) shows a grave deepening of the gap between rich and poor from 2007 to 2008 and a slight further increase in 2009 in comparison with 2008.

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22 This shortcoming of the relative methods of poverty measurement was revealed by Francois Bourguignon during a lecture at the University of Sofia; Bourguignon F. (15.01.2009). Globalization and Poverty. Kapuscinski lectures: University of Sofia.
This is another sure indication that the poor are more affected by the crisis and that the rich pay a smaller social price for it.

Depending on the structure of the households, those who are considered as especially vulnerable to the crisis are the single women in rural areas, among whom poverty is particularly high (MLSP), and single parents among the long-term unemployed (MLSP).

However, households are subject also to other challenges related to their sources of income. Serious problems during the crisis are probably encountered by families who rely on transfers from abroad, but their relatives there remain without a job. Entire families remain without income because of the stopped transfers and begin to actively seek work (EA, SOC). The households with more than one child that pay rent for their accommodation may be confronted with rising rental costs in some places due to the shifting demand from buying homes to renting homes to live (SACP).

Many of the above-mentioned vulnerable groups are overlapping, providing justification to speak about the multiple or multidimensional vulnerability to the crisis. The crisis has drawn back into the ranks of the poor also people who had no longer been at risk of poverty (SOC). There may also be the problem of insufficient information - some part of those eligible for certain social programs do not know about them (MI). This is the contention of neo-liberal economists, but in the case of Bulgaria, the failure to submit an application is most often associated with the stigmatization and the total discouragement of the potential beneficiaries. Data about this exist also in the Open Society Institute study of poverty among the people without health insurance.

With regard to children, there are also certain specific types of vulnerability. First, it is stated that children from the small towns and villages, where the schools are unable to cope with their delegated budgets are put at an increased risk of dropping out of school (RAZ).

The emigration of parents abroad poses huge risks for the development of children who stay with relatives or sometimes remain completely homeless. This leads to an upsurge in the deviant behaviour cases, which are just a symptom only for a wide range of fundamental causes.
“Many parents leave the country in order to work abroad and their children perpetrate a large number of antisocial acts; there is no parental authority” (SOC).

There are increasing numbers of institutionalized children from single parent families or with parents who have lost their income. (SOC) These processes are combined with the decrease of resources devoted to psychological assistance (SOC). The NGOs representatives make the summarized comments that as a whole, the prevention of child abandonment (in institutions) has been transformed into “efforts to prevent the direct abandonment of the children on the street” (SOC).

The increased number of children in institutions has been established also by the Agency for Social Assistance (ASA), but according to the ASA, by the end of November 2009 this increase was low when compared to the same period in 2008 (from 2216 to 2282 children), and there was no justification to maintain that it had been caused by the crisis23. Nevertheless, it should be borne in mind that the ASA data do not include the children placed in institutions by virtue of the National Education Act. Generally, these children are not included in the official government reports concerning the institutionalized children. For many years now, this has been the subject of a contradiction between the official data for the institutionalization of children and the data of the NGOs.24

Some increase is discerned also in the number of children placed with relatives and in foster families. During the period from 1 January to 31 December 2008, the number of children placed with families of relatives and friends is 1193, while those placed in foster care are 87. During the same period in 2009, relatives and friends have housed 1,307 children, while foster families have taken 92 children. According to the ASA, this is “due rather to the policy of deinstitutionalization and to the changes in the Family Code, than to the impact of the economic crisis in the country”25.

There is a particular vulnerability about the children from large families, the single parent children, the children of the unemployed and most of all - the children of the recent job losers (SACP). These include households with children who were near the poverty line and are falling into poverty now. They want to, but cannot take care of their children, seeking social services and assistance, and - being unable to find them - place their children in institutions (SOC).

In addition to the risk to the children's education, the low incomes also multiply the risk of antisocial behaviour among minors (both below and above fourteen years of age), and increase violence against and among children (GG, RS). Since no easy return to growth can be expected, there probably will be many more children who will live in households with at least one parent out of work within the next 3 to 4 years or for a more prolonged period, due to the reduced number of jobs in the economy as a whole (RS).

The collective households and especially the children in institutions are particularly vulnerable to the crisis. Therefore, according to the SACP, care for the children in institutions should be a priority during the crisis. Children with disabilities, street children, and the children who are victims of violence and exploitation are also put into a more disadvantaged situation during the crisis. It is said with respect to these groups that “there is a move towards a unification of the policies” (SACP). However, the NGOs engaged in the social sphere share

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a strong concern that the people with disabilities who are placed in institutions or who receive community-based services suffer greatly from the crisis, because the public funds intended for them have been limited (SOC).

“I do not expect the crisis to affect the children as much through the social policies, than directly through the parents” (RS)

The next important issue for the analysis of the crisis implications is precisely the way in which the vulnerable groups are affected. Here many various different mechanisms and levels of impact can be mentioned.

According to a generalizing statement, “The crisis fundamentally deranges people’s lives and creates imbalances at all levels, which are felt stronger by the more vulnerable” (SACP).

Some of the long-term unemployed low-skilled workers in the informal economy are left without any support. According to experts of the MLSP, the labour offices have registered 120,000 persons without any entitlement to compensation (MLSP). This is a very large group of people without any source of income.

The crisis clearly shows the risks involved in the informal economy, which offers temporary benefits, but without employment contracts and without any social security. This people employed in this way are the first to be fired because they do not enjoy any legal or trade-union protection. For them, the crisis is felt immediately and without any buffers, because they cannot benefit from a transitional period, which could soften at least partially the shock of lost employment. (RS)

In a territorial breakdown, the crisis affects people through many channels. Besides, even before the beginning of the crisis, the life of people in the rural areas was not particularly good.

“On the whole, everybody in the villages lives a lousy life. There is no livelihood; the infrastructure is in a despairing situation” (MoP)

The crisis leads to a decline in the sphere of services; the people employed in establishments such as coffee shops and restaurants lose their jobs, consumption being reduced because of the crisis (MoP). Crime is also on the increase; some municipalities have already reported an increase of the theft statistics, which can also be attributed to the crisis (X). The decrease in the own municipal revenues in combination with the reduced transfers from the state budget multiplies the direct economic impact of the crisis (X).

One of the main methods used to reduce the impact of the crisis is the sell-out of the households’ available assets, which undercapitalises the given household and makes it even poorer. The vulnerability to the so-called idiosyncratic risks,26 i.e., the specific risks that do not affect other households, is seen most clearly in households that make their living through farming. Since weather conditions are a classic example for a system, which is unpredictable in the long-term, the impoverishment effect of uncertainty has been researched in greatest detail in the field of agricultural production.

As seen also from the analysis of the macroeconomic data and the available household data, the crisis will deepen in the first half of 2010, and what will happen afterwards depends on the complex forecasts regarding the type of the current economic crisis. The types of the

crises are often classified according to the shape of the time series of some fundamental indicators: that is, V-shaped, U-shaped, W-shaped or L-shaped. It is well known, moreover, that not all indicators are moving in parallel. It seems that the massive social effects of the crisis appear with some delay behind the movements of the macroeconomic indicators related to GVA and GDP. In this context, it is particularly important to see what will be the contribution of the policies aiming to alleviate the social impact of the “shock wave” of the crisis, whose full power has not yet been felt.

Unfortunately, throughout the main sectoral policies that are relevant to the social effects of the crisis, a clearly expressed pro-cyclical policy is visible in 2010. This policy is conceptually linked to the Government’s commitment to continue reducing the taxation and social security burden, although it is already among the lowest ones in the EU, and most importantly, among the most regressive ones.

In early 2009, there were certain indications of an impending counter-cyclical governmental intervention, consisting not only in the intrinsic triggering of the automatic stabilizers, but also implemented through targeted social intervention. In other words, there were indications that the Government not only intended to allocate the additional budgetary resources required to cover the payments to the growing number of beneficiaries of unemployment benefits, employment programs and basic social assistance benefits, but that it was disposed also to increase the amount of payments to the separate individuals and households. The following table summarizes these commitments.
### Data on the growth of social transfers in 2009 compared to 2008

<table>
<thead>
<tr>
<th>Income / transfer</th>
<th>Increase</th>
<th>From date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum wages</td>
<td>9.1%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td>Guaranteed minimum income</td>
<td>18.2%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td>Monthly allowances for children</td>
<td>40.0%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td>Monthly income threshold for determining eligibility for family allowances for children</td>
<td>16.7%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td>Minimum and maximum amount of unemployment benefits</td>
<td>20.0%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td>Benefits for the rearing of children up to the age of 2</td>
<td>9.1%</td>
<td>1.01.2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.01.2009 (10.0%)</td>
</tr>
<tr>
<td>Minimum insured pensions</td>
<td>19.9%</td>
<td>1.07.2009 (9.0%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.01.2009 (10.0%)</td>
</tr>
<tr>
<td>Non-insured pensions</td>
<td>19.9%</td>
<td>1.07.2009 (9.0%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.04.2009 (approx.10.0%)</td>
</tr>
<tr>
<td>Insured pensions (without the minimal ones)</td>
<td>19.9%</td>
<td>1.07.2009 (9.0%)</td>
</tr>
</tbody>
</table>

Source: Bulgarian Government response to an EC questionnaire concerning the social impact of the crisis, September 2009

**Table 2**

It should be borne in mind that the increase in many of the social payments came after a long period of stagnation and then only after a deliberate restriction of the access to certain key social programs, the coverage of which in Bulgaria was too narrow even before that. In spite of this, instead of placing the emphasis on the real problem – the exclusion of people and households that need to be beneficiaries of the programs – the focus was shifted to the fictitious problem of the access to the programs of people who are not in need\(^{27}\).

Fully in line with the expectations, the monthly number of social assistance beneficiaries has been gradually increasing, albeit at a relatively slow pace at present, while the likely explanation for this [slow pace] is the policy limiting the period of benefit eligibility to 18 and, subsequently, to 12 months. The following table shows the increase in the number of beneficiaries of monthly benefits for the period August - November 2009.

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\(^{27}\) This concerns the mythical recipients of social assistance benefits, who supposedly park their Mercedes limousines in front of the Social Assistance Directorates, and who played a prominent role in the rhetoric of the current and of the previous ministers of labour and social policy.
The number of individual heating benefits for the winter of 2009 has not shown any substantial increase either. During the heating season 2008–2009, support has been provided to 256,763 persons and families, while during the 2009-2010 winter, heating benefits were granted to 259,395 individuals and families.

The basic parameters of the social transfers established in the planned budget for 2009 provide grounds to verbalise about a counter-cyclical policy. In reality, however, all first level spending units for budget appropriations finished the year with 90 percent of the planned allocations. According to the analysis of the MLSP itself, “the budget limitation to 90 percent of the funds earmarked for the active policy measures in 2009 (BGN 171 million) caused a reduction in the number of persons included in employment and training. With a budget of BGN 65 million, one cannot counteract in a significant way the worsening situation on the labour market, the increased number of unemployed, and the reduction in employment.” A typical example of the freezing of important social benefits in the midst of the crisis is the guaranteed minimum income, which was raised in early 2009, but is envisaged to remain unchanged for a long time according to the revised estimates for 2010-2012. The same applies also to the child benefits. This means that virtually all types of social payments will be kept unchanged until the end of 2012.

In 2010, the MLSP plans to use “non-financial mechanisms” in order to counter the rising unemployment, namely, a social dialogue and an adaptation of the legislative framework. It is unclear how the social dialogue should be able to compensate for the dramatic reduction in the commitments of the State in the social policy sphere, given the fact that businesses are experiencing serious difficulties. Under the conditions of a budgeting, which is not adequate to the current commitments of the State in the social sphere, “the adaptation of the legislative framework” can only be an euphemism for legislatively limiting the access to unemployment benefits and social assistance benefits.

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29 Ibid., p. 5-6
As shown in the attached table [above], the coverage of labour market programs and measures declined dramatically in 2009. More than 60,000 persons will be dropped out of the programs, while on top of it, this happens under the conditions of rising unemployment. The funds earmarked for active labour market policies decreased over 2.5 times, even if we take into account that only 90 percent of the budget were actually spent in 2009.

The ASA has the expectation that the average monthly number of assisted individuals and families will be 42,350. The projected average monthly number of assisted individuals and families for 2010 is 62,600. A considerable part of the increase in the number of people assisted by monthly benefits according to Article 9 of the Law on Social Assistance will be due to the amendments to Article 12 of the same law, namely, the removal of the 12-month limitation of the continuous social support for persons and families at working age. The ASA estimates with respect to the increase in the natural indicators for the period 2011-2012 are for a monthly average increase of about 35,000 to 40,000 individuals and families. As an additional factor, the rising unemployment rate must also be taken into account. However, it is not clear how these estimates can be aligned with the amounts and the natural indicators set out in the State Budget Act for 2010, and with the budget projections for the next two years.

Source: MLSP
As seen from the State Budget Act for 2010, for the average monthly number of 62,600 beneficiaries of monthly social assistance benefits, the planned funds envisage 25,367 beneficiaries. There will be significant reductions also for the other types of assistance. Thousands of individuals and households will be deprived of assistance, if the planned 2010 budget has to be executed. However, the most dramatic decrease is envisaged for the earmarked benefits for people with disabilities. At present, it is not clear how the State intends to refuse the provision of these benefits, considering that they are all legislatively regulated. The only possible explanation can consist in upcoming legislative changes in the direction of tightening the eligibility criteria.

An expert from the Ministry of Healthcare explains best these expectations, suggesting that those particularly affected by the crisis “will be the people without incomes, who somehow managed to cling somewhere in the municipal programs before the crisis, but the limitation of funds will not allow this to happen anymore” (MoH).

Chapter 4: Vulnerability to the crisis from the viewpoint of communities

Rural area poverty has various dimensions in terms of crisis vulnerability. Due to their greater dependence on public service delivery, the rural areas are more vulnerable to shrinkages in public expenditure. Against the backdrop of the expected cuts in the state budget-supported sphere, this vulnerability raises the most serious concerns. The Government chose the moment of the crisis to start the reform with the hospital network rationalization - a reform, whose main motive does not appear to be public health, but the balancing of the budget. According to local experts, the closure of municipal hospitals also “will inevitably worsen the health status of the population” (MoP). An expert from the Ministry of Healthcare shares his hope that “the crisis will be a catalyst for reform in healthcare” (MoH), without specifying the reform aspects involved. Meanwhile, changes in the organization of healthcare were started indeed. The effect of streamlining the network of healthcare facilities still cannot be fully assessed, but it is certain that the pursuit of this reform in times of crisis poses major risks, while there is no indication that those risks have been given serious consideration.

Over the past two school years, there has been an alarmingly sharp decline in enrollment rates, particularly in the primary schools, but also in lower secondary education. This trend is on track to erase the painfully and slowly reached improvement of performance over the past 15 years. In addition, Bulgaria can be pushed even further away from two of the specific objectives of the Millennium Development Goals - achieving universal primary education and having at least 85 percent of the children complete lower secondary education. Before the start of the school network optimization, the first objective was practically achieved and we were very close to the achievement of the second one. Now we risk falling behind many developing countries that have the ambition and the real chance to attain these two objectives in 2015.
Chart 12

What are the mechanisms behind this increased school dropout? Some research on school dropout data for 2006 and 2007 carried out by Pierre Mondon\textsuperscript{30} on commission of the UNICEF suggests that perhaps the rural schools are better adapted to retain at school the children from grades 1 to 4. There is nothing surprising here, since the role of the distance from home to school in reducing the non-attendance risk for the youngest pupils has been demonstrated by numerous studies in different countries.

Number of primary schools according to their I1 indicators for 2006

The Government's approach to the crisis makes it virtually impossible to invest in programs addressed at reducing school dropout. Last year, schools and other budget-supported sectors received only 90 percent of the envisaged funds. For the first time in 2009, relatively high uniform funding standards were established for the different groups of municipalities after the several years of budgetary pressure policies (with very low standards), whose aim consisted in accelerating the closure of small schools and the rapid payback of the reform in terms of budget economies. However, these funds were not received and, therefore, school education was turned back to a condition, which makes problematic even the funding of the schools' running costs, let alone mentioning the need to bridge the gap in the long-term deleveraging of a system with antiquated and energy inefficient buildings, in need of new equipment and learning materials.

The distribution of the municipalities into four groups with a different uniform funding standard also seems suboptimal and needs revision. Especially the third and the fourth groups, which comprise many of the smaller and poorer municipalities with low population densities and smaller schools, are extremely non-homogeneous.

According to the interviews carried out by the Open Society Institute – Sofia, the reduced need for social services and the decline of unemployment will be the main indicators, which would signal the end of the crisis to the municipal experts. This is indeed a good choice of indicators for the beginning of the crisis' end. Unfortunately, given the current pro-cyclical response of the Government's employment programs, unemployment benefits, social assistance benefits and funding of education and health, these positive signals are unlikely to occur as soon and as clearly as we hope.

Chapter 5: Conclusions and Recommendations

The most apparent feature of the Bulgarian approach to the crisis is the lack of a public policy of fiscal and monetary incentives known as Keynesian by the name of the prominent British economist of the first half of the 20th century. The Keynesian policy to stimulate demand in times of crisis relies on strong fiscal incentives, mainly in the form of government expenditure. This counter-cyclical demand on behalf of the public sector should, in theory, provide an impetus for the revitalization of the economy. Without going into details relating to the theory and the approaches for the provision of public incentives for demand, when we consider things from the point of view of social integration, it is important to point out that one part of the Keynesian prescription for a counter-cyclical policy is linked to the increased funding of various social programs, including direct transfers to the poorest, because such transfers, as opposed to reducing taxes, are immediately transformed into demand. In fact, the increase in the global budget of programs for the unemployed and of the social programs during a crisis happens automatically, because the number of their users goes up. Therefore, in theory they act as an automatic stabilizer. This effect can be further enhanced by increasing the amounts of the benefits - a measure that encourages consumption. Poor households are unable to postpone their consumption; therefore, their marginal propensity to consume tends to unity.

Let us recall some of the measures proposed in the European Economic Recovery Plan that would have a very rapid and direct effect on the incomes of the vulnerable groups during the crisis:

- Temporarily increased transfers to the unemployed or low income households, or a temporary lengthening of the duration of unemployment benefit;
- Intensive retraining of the workforce on the labour market; targeting the support of employment programs at the most vulnerable groups;
- Ensure that public authorities pay invoices, including to SMEs, for supplies and services within one month.  

The more recent documents from 2009 regarding the first results of the European Economic Recovery Plan contemplate the restoration of the budget deficits at levels “consistent with the need to ensure long-term sustainability of public finances as soon as economic conditions allow”\(^{33}\). This is a clear signal that no one expects balanced budgets during the crisis itself, moreover that the establishment of such an objective is contrary to almost all the lessons learned from previous cyclical crises. Furthermore, it is stressed that the rationale of the Stability Pact is to safeguard the long-term sustainability of public finances, and not to insist on balancing the budget during each separate year.

The counter-cyclical macroeconomic response to the crisis proposed in the European Economic Recovery Plan did not find any reflection in the Bulgarian program for dealing with the crisis, other than at the declarative level. The Bulgarian government, unlike virtually all other governments in the EU and unlike the U.S. government, does not rely on public incentives in order to boost the economy. Usually, when we consider economic decisions, we talk about a compromise between efficiency and fairness, but the bottom of the economic cycle is precisely the time when both objectives can easily be conciliated. An opposite point of view is based on the rational expectations theory, which states that the focus should not be placed on the fundamental macroeconomic indicators, but on investor sentiment. Everyone is free to interpret that sentiment in any desired way and, accordingly, to recommend the economic policies any one wants. Bulgaria, as a small open economy, is more dependent on investors; therefore, all other considerations must supposedly be eliminated as quickly as possible. In this connection, Paul Krugman notes: “However, because crises can be self-fulfilling events, sound economic policy is not sufficient to gain market confidence; one must cater to the perceptions, the prejudices, and the whims of the market. Or, rather, one must cater to what one hopes will be the perceptions of the market”.\(^{34}\) Thus, economic policy ends up in becoming "an exercise in amateur psychology. The perceived need to play the confidence game supersedes the normal concerns of economic policy. It sounds pretty crazy, and really it is just that.”\(^{35}\)

In Bulgaria, there will be no fiscal incentives in 2010: neither in the form of public investment, nor in the form of income support for the poorest. The only exception is the reduction of social security contributions by a further 2 percent, which will result in an even greater transfer from the Central State Budget to the already unsustainable pension system and, respectively, in reduced resources for the provision of fiscal incentives. This is precisely one of the measures, which Bulgaria, unlike other countries with higher social security contributions and with relatively more stable pension systems, should not have applied.

\(^{35}\) Ibid.
Moreover, the important recommendation for this measure was to be directed mainly to the
low-income group in order to encourage the recruitment of low-skilled workers who are
among the most vulnerable. The European Economic Recovery Plan summarizes the result
of many years of theoretical arguments and empirical studies of crises, which inarguably tip
the scales in favour of the cost incentives: "In general, discretionary public spending is
considered to have a stronger positive impact on demand in the short-run compared with tax
cuts. This is because some consumers may prefer to save rather than spend, unless the tax
cuts are limited in time".  

The labour market is among the major channels for the transmission of the macroeconomic
effects of the crisis to the households through the increase of unemployment and of the
reduced, delayed or unpaid wages. Therefore, the deployment of special incentives on this
market is a particularly important task during the crisis. Reducing the redistribution role of
the fiscal policy through the introduction of flat taxation and through relieving the tax and social
security burden on the high-income groups does not help the economy during a crisis. In an
economy where the business cycle has not gone, the flat income tax, in addition to its
negative social consequences, has also a clearly negative economic impact. It acts pro-
cyclically by "pumping" the economy during the economic boom and by exacerbating the
decline during the crisis. In a crisis, the flat tax does not provide any incentives for the
economy, because the rich no longer invest the additional money, nor do they spend it, but
save it; however, the link between savings and investment is broken and that unproductive
money is kept in the reserves of a prudent bank.

Income support has been completely marginalized in the plans for 2010, while such support
in 2009 was received only by the pensioners. The economically inactive groups at working
age did not receive anything, although in recent years they have become the victims of a
penalizing policy because of the reduced duration of social assistance benefits, which was
intended to force them out on the labour market. This policy was condemned by the
European Committee of Social Rights of the Council of Europe as contradictory to the
European Social Charter. The reason for this is that Bulgaria has failed to meet its
obligations to ensure the right of anyone who has no sufficient income to benefit from the
social assistance provided by the State. Not surprisingly, according to data from Round 4 of
the European Social Survey, Bulgaria is the leading EU member state where the standard of
living of the economically inactive population is defined to be the worst. While in countries
such as Belgium, Holland, Great Britain, Denmark, Switzerland and Cyprus the prevalent
attitude is that the standard of living of the inactive population is average or good, more than
97 percent of the respondents in Bulgaria believe that the inactive live a miserable life. In
spite of that ruling, the limitation for the use of social assistance benefits has not yet been
removed. Meanwhile, the European Commission recommended the extension of the period of
receipt of unemployment benefits and an increase of the guaranteed minimum income's
coverage and amount.

The budget deficits that exceed the limits of the Stability Pact are accepted by the EU without
undue concern with the exception of the most extreme cases of accumulation of
unmanageable long-term debt. This demonstrates the fact that a shared understanding
exists about the need to accept temporary compromises during the crisis. In principle, the
operation of the automatic stabilizers is expected to lead by itself to a deficit that cannot be
contained otherwise than by withholding legally guaranteed payments through introducing
changes in the movement of the framework, which regulates the payment of unemployment
benefits and the guaranteed minimum income. Moreover, during this crisis, the automatic
stabilizers respond much more strongly than during the declines in a normal economic cycle.

Communication from the Commission to the European Council, p.10
Apparently, however, the plan in Bulgaria consists precisely in “switching off” the automatic stabilizers or simply in refusing payment on grounds such as “there is no money”, or in changing the rules to the detriment of the most vulnerable.

The consideration of the crisis in macroeconomic terms is crucial for the handling of poverty. The vulnerability of certain social, professional and other groups to macroeconomic shocks is the subject of a growing number of analyses, which use data related to all more or less important crises since the Great Depression. It would be unfortunate if the lessons learned from these crises were not used for a more rapid economic recovery of Bulgaria.

In the name of the abstract goal of a fully balanced budget, many programs were cut down that could have served as a countercyclical springboard for a faster exit from the crisis. Among them, the most important ones were the employment promotion programs, some of which were innovative and contained encouraging signs that our country was finally going to say goodbye to the primitive employment policies, which only resulted in short-term statistical effects without sustainability and genuine investment in human capital. Our social programs were cut down significantly and in practice did not perform their functions even before the world began to speak about the financial and economic crisis. There are no indications that the crisis has changed anything in the attitudes of the Bulgarian government with regard to the poorest. As a matter of fact, reducing expenditures during a crisis also leads to a deficit due to the further contraction of consumption and the decline of revenues, but this is a deficit, which contains no incentives for the economy and which leads to a more protracted economic downturn.

With regard to the policies aimed at overcoming the crisis in Bulgaria, there is a broad agreement that no such policies exist, or that in the best case these policies are not working, although the arguments in support of this conclusion are very divergent.

At the macroeconomic level, according to some analysts, the envisaged measures were aimed at stimulating the economy, i.e., at achieving some long-term investment goals, namely, infrastructural projects that will either start very late in 2010 or will not start at all because of the political changes, for lack of funding or because of other obstacles. (RS)

In the opinion of municipal experts, currently there are no effective mechanisms at the municipal level for the protection of local people on behalf of the municipalities. (RAZ) This conclusion is fully consistent with what the theory of public finances tells us, namely, that the municipalities have much less opportunities than the State for the deficit funding of expenditures because of a number of restrictions in their access to credit in general and because of limitations with regard to the admissible amount of the loans. Municipal finances can only serve as a local level buffer for the crisis if the municipalities are supported by the State budget, which should absorb the entire burden of the budget deficit.

When the issue is raised as to what should be done during a crisis, the macroeconomic analysts unsurprisingly express different viewpoints according to their personal preferences towards certain economic doctrines, but the differences seem smaller in comparison with the pre-crisis period. Even the liberally minded macroeconomists - according to whom the policies must be aimed at generating income and prosperity rather than at the reduction of poverty - admit a certain role for the State during the current crisis. However, according to these economists, the measures should be focused on the economically active part of the population (MI), i.e., not on the poorest.

The State should not artificially deteriorate further the situation in the business sphere. The outlay of the promised money must not be deferred. At other times, the State might need to restrict its expenditures, but it is not the right moment now, when these expenditures have
been planned and are possible. They must be paid in order not to contribute to the extinction of companies that have managed to survive until now. (MI)

In addition, the State must create favourable conditions for the "switchover" of businesses to new areas, which should be able, through innovation, to bring about a faster growth in the future. (MI)

According to the alternative Neo-Keynesian prescription, Bulgaria “could have adopted the idea of having a larger deficit and avoiding such a reduction of expenditures, particularly of investment expenditure, especially now” (GG). The deficit could have been financed through a "reasonable agreement with the IMF". Such assistance would have stabilized the internal market and would have created favourable conditions for investment. Another option is to use the reserve, which supports the Currency Board, but this would create greater risks for the country’s financial stability. Of course, it is important also to accelerate the better absorption and use of EU funds. (GG) Other economists also share the idea of a larger deficit. The achievement of a good credit rating “against the backdrop of what is happening in the rest of Europe” has proven quite costly for our economy. (RS)

The State budget may assume some functions in support of the micro-firms and the small enterprises that face serious difficulties and where over 70 percent of Bulgarian employment is concentrated (RS). For example, through channelling funds to the banking system “in order to provide a gulp of air for the firms” (RS). This can achieve simultaneously strong economic and social effects.

With regard to the labour market measures, an Employment Agency expert believes that the few resources available on the secondary market are channelled to the most vulnerable groups (EA). This prioritization has been envisaged by the National Action Plan for Employment (NAPE). The implementation of the priorities necessitates the transfer of funds from one program to another: for example, in order to have enough money for the people with disabilities, as well as in order to secure adequate support funding from the HRD OP. Given the limited fiscal resources of the central state budget for the employment programs, the support funding has been planned in the amount of BGN 250 million (MLSP). Emergency schemes for youths and adults are also being developed:

- Payment of compensation in the form of scholarships granted to workers who have been transferred to part-time work in the affected enterprises, enabling the workers to learn new skills and thus prepare for “the easier times”;
- Voucher scheme for the providers of services for improved qualification and new skills training.

Interestingly, an expert from MLSP refers to the 12-month period for receiving social assistance benefits as to an anti-crisis measure for meeting “the budgetary constraints with respect to the guaranteed minimum income and the social transfers”.

However, after the ruling of the Council of Europe’s Committee of Social Rights issued in connection with the conclusion that the provision regarding the 12-month period for receiving benefits in the Social Assistance Act does not comply with the requirements of the European Social Charter, more people will receive the benefits, although there will be no increase. The number of assisted persons will increase on average by 4000-5000 people. (MLSP)

Overall, there is a consensus among the experts that a comprehensive anti-crisis policy has yet to be built.

All legislative acts, regulations and strategies need to be consolidated with a single common political document, which should be published as a decision of the Council of Ministers,
stating the requirements and the political will to do what needs to be done in order to neutralize the impact of the crisis. (SACP)

The role of the municipalities in the process of overcoming the effects of the crisis is stressed both by experts from the municipalities themselves, and by the NGO sector. The Roma NGOs emphasize in particular that they rely on programs for the reduction of unemployment, on new projects for the integration of the Roma community and an expansion of social services. (ROM) Of course, the implementation of such commitments, as pointed out by some municipal experts, requires the sustainability of state subsidies for the municipalities. (RAZ). In addition, the NGOs raised the issue about a new "multisectoral analysis of poverty" and the need to develop "short-term emergency programs and support measures". The State Budget for 2010 does not meet either of these expectations.

Most NGO representatives are convinced that "the funding authorities and programs do not react to the crisis". In their opinion, the Agency for Social Assistance has not implemented any anti-crisis measure except the municipal soup kitchens "which, however, do not represent an anti-crisis measure, but are a temporary relief action coming late and focused solely on nutrition". (SOC) This situation is best generalised in the following summary made by an expert from the nongovernmental sector:

*It is not clear what the priorities of the Government in the social sphere are and what is the direction in which they think. Everything has been frozen with the explanation "there is a crisis at present".* (SOC)

There are also experts, mainly from among the macroeconomists, who are protagonists of the opposite viewpoint. According to them, "a decline in poverty is possible, because the real purchasing power of pensioners has gone up quite a bit, given the zero inflation and the increase of pensions. The problem is not that we have not given money, but that we give money to the pensioners alone. We have paid a lot of money to the social security system, but it did not go to those who are most in need" (MI). Some individual experts from the organizations engaged in providing social services also share this view, considering that "it is necessary to analyze the needs and prioritize them". However, the opportunities for a reallocation of resources through prioritization under the conditions of such a restrictive budget are extremely limited, if any.

In the sphere of healthcare, the crisis coincided with the implementation of a policy for the rationalization of the hospital network. The model of the reform resembles the model used for reforms in education: not through direct administrative decisions, but through "market instruments", i.e., by means of restricting the funding of the basis of certain criteria defined in such a way that they are impossible to satisfy, in combination with low-cost standards (regardless of the method for determining the standard). It is well known that optimization reforms provide a certain economic dividend coming mainly from the economies of scale. In the longer term (but certainly not immediately and not by default), they may also lead to an increased quality of the service. However, their implementation involves major social risks that need to be softened in an appropriate manner; the required buffers should be ready by the time the reform is launched and should not be devised and put into operation in the form of "additional adjustment" and "calibration".

Overall, the approach to the crisis in Bulgaria has a clear pro-cyclical nature, including strong budgetary constraints and reduced funding for the basic employment promotion programs, the transfer payments and the subsidies for essential public services. Even if this approach was to work from the purely economic point of view, i.e., being able to restore relatively quickly the growth of the economy (while most empirical analyses suggest that this will not happen), this approach will have a high social cost. The risk is that Bulgaria may not only depart further away from the values and the practices of what (although somewhat
hypothetically) is called “the European Social Model”, but that the country will even be unable to attain the Millennium Development Goals, which within the EU should be taken rather for granted, than for an unachievable challenge.

In the sphere of school education, there is danger from a further reduction of the number of schools as a result of the additional reduction of the education budget in the aftermath of the crisis. Some communities rely on their ability to be flexible in the process of funding the school system within 20 percent of the unified cost standard. (MoP) This flexibility, however, has a redistributive role only and cannot compensate for the global shortage of funds at the level of municipal budgets, which emerged in 2010. Projects under the Human Resources Development Operational Program provide some additional opportunity for the support of small schools, but, according to the analysis of the municipal experts, “these measures are not sufficient and schools are being closed”. (MoP). While the need for structural reforms can be put forward as an argument in favour of the budget cuts in other areas with state-delegated activities, that argument cannot be valid in the sphere of school education, where in recent years a radical optimization took place with unprecedented (not only for Bulgaria) rates of contraction of the school network. UNICEF should draw the public attention to the danger of reducing the budget for education. It is also necessary to initiate a reassessment of the results of the school network optimization, because incorrect assessment leads to subsequent erroneous decisions.

MEYS experts share large-scale ideas for whole-day education for pupils from the I-IV grades and for the mandatory pre-school education with a clear idea to “retain longer at school the children from disadvantaged families, if they have no conditions to prepare at home.” (MEYS). The NGOs also call for “preventive measures for addressing early school dropout” and “programs providing assistance to the families to avoid becoming clients of the child protection services” (SOC). However, it is unclear how this type of very good ideas can be funded in 2010 - whether from the education budget or the social policy budget.

In light of the new school education reform ideas related to the introduction of whole-day schooling, it is becoming clear now that the presently existing school network cannot cope with the burden of the reduced age for compulsory pre-school education and the transition to the whole-day mode of schooling for primary school pupils (let alone the older students). The crisis should not be used as an argument for delaying these very important reforms, which will make school education more accessible, will reduce educational disparities and will assist the integration of children from the vulnerable groups.

Besides, the indebtedness of households increases. The problem of unpaid utility bills is coming back. The dynamics of the problem's development shows a clear connection to the crisis. The available evidence suggests that a far-reaching expansion is needed for the coverage of the heating benefits program and for the amount of the benefits themselves. The analysis of previous crises with the unpaid electricity and water bills shows that this problem is easily transformed from a problem of individual households into a problem of entire communities and has a number of long-term side effects. This is another argument in favour of a revision of the current social policy and particularly of the monthly benefits and the targeted payments for the socially disadvantaged households.

It is necessary to introduce a radical change of the overall philosophy of social policies in Bulgaria in terms of the size and the coverage of social benefits, paying particular attention to the extremely restrictive eligibility criteria for access to the social programs. The currently existing social protection mechanisms are obviously unable to respond adequately to the challenges in times of a crisis. The increased poverty among families with children is a clear indication for the lack of a mechanism for their protection. This process is particularly visible among the large families with more than two children.
It is necessary to derive the maximum benefit from the EU Structural funds in order to successfully address the economic crisis. In some countries like Poland, the improved absorption of structural funds has been successfully used as an anti-crisis measure. Unfortunately, this is not easily doable in Bulgaria, since the absorption of structural funds also requires favourable macroeconomic policies and the use of the State Budget as a “lever of absorption” through buffering a part of the risks and bridging the usual delay in the transfer of the funds. In Bulgaria, the State not only provides no assistance to the beneficiaries through larger advance payments, state guaranteed loans and/or other instruments, but even does not transfer on time the amounts due within the advance payments under the structural funds made by the EU. This practice needs to be immediately discontinued. The new, simplified project reporting mechanisms approved by the European Commission and implemented experimentally in Poland and the Czech Republic need to be applied as soon as possible in Bulgaria too. In combination with a new macroeconomic policy conducive to the absorption of structural funds, these mechanisms can produce very good results.

Abbreviations used when quoting from interviews, questionnaires and group discussions:

EA - Employment Agency  
SACP - State Agency for Child Protection  
MoH - Ministry of Health  
MLSP - Ministry of Labour and Social Policy  
MEYS - Ministry of Education, Youth and Science  
RAZ - Razgrad Municipality  
MoP - Popovo Municipality  
PLV - Plovdiv Municipality  
X - Poll municipalities  
SOC - Discussion with social NGO and social service providers  
ROM - Discussion with Roma NGOs  
RA - Roumen Avramov  
MI - Discussion with macroeconomists  
GG - Gancho Ganchev  
RS - Ruslan Stefanov
ANNEX

Evaluating the impact of the economic crisis on poverty and social exclusion: effects of the crisis on public health and on the public healthcare system in Bulgaria

Anna-Marie Vilamovska

This section examines the expected effects of the current economic crisis on the health of the Bulgarian citizens, especially of those who have been exposed to multilayer poverty and vulnerability even before the crisis.

The first part of the section set out a series of hypotheses about the channels of influence through which the crisis may affect public health and the financial sustainability of the Bulgarian public health insurance system - as it exists in its present form. The second part of the section, using the available data concerning the various layers of vulnerability and poverty in Bulgaria, as well as the results of a series of structured interviews and focus groups with stakeholders, identifies the key population groups that may be more endangered by the health risks associated with the crisis. The third section examines the steps that have been made until now at the national and the municipal level in order to address the serious consequences of the crisis for these population groups. The section ends with our conclusions and recommendations on the ways to improve things through a medium-term program for disease prevention and for the improvement of public health.

1.1.1 Channels of impact of the crisis on health: initial assumptions

When considering the impact of the crisis on health, one must distinguish it from the obvious importance of poverty and vulnerability (whether temporary or permanent) for health in general. This difference is not always clearly visible, since the impact of the crisis is mixed with the already existing consequences of poverty and vulnerability. Without making this distinction, it would be impossible to formulate efficient policies in response to both the unique implications of the crisis, and to the health problems confronted by the poor. Therefore, we make an attempt in this section to distinguish the channels of impact of the economic crisis on health that function in parallel with and independently of the health problems associated with poverty and vulnerability in general.

The international economic crisis that currently affects Bulgaria can influence human health mainly through two channels: (1) the individual health behaviour models brought about by the reduction of incomes; and (2) the reduction of the individual rights to healthcare services provided by the National Health Insurance Fund (NHIF) due to the increasing number of people who do not pay health insurance contributions.

The individual health behavioural responses to the economic crisis are the first channel of influence, referred to above, which is triggered by a collapse of the total household income because of unemployment created by the crisis or because of work for lower pay and/or reduced remittances sent by family members who live permanently or temporarily abroad.
This channel of influence is likely to produce essentially two types of behaviour as a coping mechanism, which affects the health of Bulgarians\textsuperscript{38}:

- **Delay in seeking medical care.** It leads to an increased number of critically ill patients and gives rise to increased morbidity rates among the population in the medium term (due to the reduced opportunities for a successful treatment of the critically ill patients and the increased complication risks), as well as to increased mortality in the short term.

- **Incomplete observance of the prescribed medication regime.** Here the matter concerns either the incomplete compliance with the prescribed regime in terms of type of medication, frequency of administration and dosage, or the complete cessation of all treatment. This mechanism can lead to an overall deterioration of the health status and to increased morbidity in patients with chronic and acute conditions.

Such types of behaviour can be discerned also among the non-vulnerable groups, but they are likely to affect more frequently and more drastically the poor and the marginalized groups because they are already stricken by poverty or are at risk of poverty and vulnerable to it; therefore, they can suffer more because of unemployment or work for lower pay\textsuperscript{39}. The proportional decline in the overall financial situation of these households as a result of the loss of employment may be much greater than with the non-vulnerable groups.

The second type of health effects that may be expected because of the reduced income of the population include **nutritional problems** (due to the relatively lower cost of food, which is poor in micro-elements, such as the meals offered by fast food chains, and the trend for such food to replace the more expensive and healthy food types in view of the reduced incomes), as well as the **increased overall level of stress** (translated into increased proliferation and/or severity of destructive coping mechanisms, such as the use and abuse of alcohol). As in the case with the primary mechanism of responding to the crisis, these secondary coping mechanisms are more common among those who are poor or at risk of poverty - because of the increased relative sensitivity of poor households to income shocks and their more limited access to positive coping mechanisms. The effects of the primary and secondary mechanisms of responding to the crisis at the individual level vary in severity and prevalence among the different groups of poor and vulnerable people.

The second channel of influence of the crisis described above – **the reduction of the individual rights to health services provided by the NHIF because of the increasing numbers of uninsured persons** - is linked to the increased unemployment and the poorly paid jobs created by the crisis, to the inability to satisfy the eligibility criteria for receiving social assistance benefits and to the stigmatization associated with receiving social assistance benefits, which deters many people from applying. As a result, a growing group of temporarily and long-term unemployed or partially employed persons (such as seasonal farm workers, low-skilled workers from minority groups, etc.) will face a severely limited access to health services. The available research on the health status and behaviour of the uninsured people in 2007 shows that while before the crisis there were no significant differences between their self-declared health status compared to that of the health-insured people, the children who live in such families also suffer from a limited access to healthcare. This means that if the crisis continues for a long time, it could lead to more permanent health problems arising from the lack of timely and adequate care at an early age. Overall, the lack of access to healthcare among the uninsured adult population leads more often to deterioration in the above-mentioned primary and secondary types of behaviour and their consequences.

\textsuperscript{38} See Ivanova et al, 2009.

\textsuperscript{39} These groups often have low education and no skills, which makes their situation much more difficult with regard to finding a new job when if they lose their current employment
When related to the healthcare system, the two primary behaviour types associated with the effects of reduced income – renouncing medical care and giving up the use of prescribed medications - may cause destabilizing consequences for the NHIF, while the delay in seeking medical care will lead to an increasing number of critically ill patients who will seek healthcare. This phenomenon will increase even further the expenditures of NHIF, while the reduced execution of prescriptions and the lower reimbursement of healthcare costs will tend to decrease NHIF expenditures. The wide prevalence of the first phenomenon is very likely to give it more weight in comparison with the second one. The increased expenditures resulting from the second negative mechanism for individual coping with the crisis might be able to offset the decline in the volume and the coverage of existing social support and healthcare programs for the poor. In addition, the flow of revenues to the NHIF could decline as a result of rising unemployment. Therefore, we should expect an increasing gap between NHIF revenues and expenditures as a result of the crisis.

1.1.2 Key groups of the population that may be exposed to crisis-associated health risks

As the title of the section suggests, the economic crisis is expected to result in consequences, which will be much more severe for the health of those already exposed to multilayer poverty or vulnerability: due to the shrinkage of their income, such households are much more exposed to the danger of having their social and healthcare rights infringed because of the restructuring of public expenditure.

The adverse implications of the crisis on health are quite divergent in terms of prevalence and degree of seriousness, when considered in a breakdown by different groups of poor and vulnerable people. For example, previous analyses of poverty and vulnerability suggest that single parents, rural area residents, the working poor and the elderly are at an increased risk of poverty; therefore, they can be more seriously affected by certain health afflictions brought about by the crisis. The individuals and the households, who belong to some of these groups and live in small towns and villages located in remote and mountainous areas, will be confronted with specific health problems provoked by this crisis and with a restricted access to healthcare. Several studies (especially that of UNDP 2003) highlight the inadequacy of healthcare services in remote rural areas and the relatively poorer health status of the people in small towns and rural areas. The reduced access to healthcare is expressed more specifically in the following situations: general practitioners and family doctors who in fact are only available two days a week; non-existent emergency healthcare and hardly accessible inpatient care. The access of these patients to healthcare will deteriorate further as a result of the planned 31.3 percent reduction of the NHIF budget for 2010 (the projection is that this will result in 660,000 fewer hospitalizations and 50,000 fewer cases of referral to specialized care in 2010). Thus, poor people in rural areas may be exposed to greater risks of negative health consequences than those in urban areas and Sofia because of the probable delay in requesting and obtaining care and/or withdrawing from treatment within the context of an unchanged total demand for healthcare services and a reduced access to them. Therefore, these groups may suffer a higher degree of complications, as well as mortality, because of the delayed access to care or the incomplete execution of the prescribed treatment.

The expected increase in the number of unemployed and underemployed Bulgarians will increasingly lead to a further deterioration of the health implications for the population. According to a study of the Open Society Institute, the uninsured do not suffer from more serious health consequences, but some of them have been met with refusal when they have sought assistance. This is particularly worrying since it significantly reduces the access to healthcare for their children as well, which means that the children living with parents without health insurance may end up with inadequate vaccination and paediatric care, leading to adverse health consequences for them when grown up. The uninsured also have very low
requirements with regard to their own health - a factor, which could lead to delays in seeking care or in complying with the prescribed treatment. They also state to have no information and no desire to participate in social protection schemes aimed at an expansion of the healthcare coverage provided by the NHIF. This observation suggests that the load of uninsured patients, with which the NHIF may be confronted in the current economic crisis could be substantial, and that the mechanisms for the formulation of the policies should be reviewed in order to offset, at least partially, the cost of care for the uninsured. It is quite possible for such patients to seek emergency care after a long wait due to the lack of access to other types of health services, thereby increasing the load of the currently inadequate inpatient healthcare.

Roma children are another vulnerable group: from both the economic and the healthcare points of view, they are exposed to increased adverse consequences of the economic crisis affecting Bulgaria. They can be affected in two ways - because of the restricted volume of social programs and because of the reduced household incomes. A study on child health sponsored by UNICEF (Bradshaw and Holmes, 2008), shows that while not all poor children are Roma (they represent 28 percent of the poor Bulgarian children under the official poverty line of BGN 152 per month), the majority of Roma children are poor. In their case, the high degree of deprivation of healthy food (in addition to the avoidance of visiting a medical doctor because this requires money or time, or because of other obstacles) was already present in 2007, when the crisis started. Therefore, we can now expect a further deterioration of child health.

1.2. Conclusions and recommendations

As it was explained above, the economic crisis that is currently unfolding in Bulgaria can affect to a much greater extent the health of those already exposed to multiple poverty and vulnerability. It may also adversely affect the financial sustainability of the NHIF and of the Bulgarian public health system.

Two policy measures can be used by public health in order to reduce the negative effects on public health and the adverse financial consequences of the economic crisis:

- **Placing a greater emphasis on preventive healthcare** - including the formulation and implementation of programs aimed at counteracting the complex consequences of the economic crisis for those already living in poverty or those who are threatened by it, and at helping the people without health insurance to place a greater emphasis on their health.

- **Active work for improving healthcare** - placing the emphasis on the importance of non-interrupted health care, improved support for the people with chronic conditions with a view to reduce their complications, and achieving a better health status of the people in rural and remote areas.

In combination, these two policies can diminish both the rising incidence of disease and the general deterioration of the health status of Bulgarians in the aftermath of the crisis.

If consistently applied, these two policies will also contribute to the long-term financial stability of the Bulgarian healthcare system, which can be faced in the medium term with the growing needs of the aging Bulgarian population, leading to an increase in chronic and costly health problems and a continued increase of the prices of health services.

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Ivanova et al. also highlight the need to emphasize preventative care strategies at the healthcare system level as opposed to curative symptomatic strategies if the health of the nation is to be improved.
The currently discussed options for the reform of the healthcare system are aimed at improving the quality of services provided by the public health insurance system - including a more rigorous enforcement of real compliance with good practices, better co-ordination, more patient-oriented care, a stronger focus on preventive measures. It can be expected that the public finance reforms, that are planned and discussed at present with regard to the public healthcare system can mitigate the negative impact of the economic crisis, at least with respect to the people who are poor and vulnerable just temporarily. Even if well formulated and successfully implemented, these reforms will not be able to cope with the serious health problems of the permanently poor and vulnerable. They require a much broader aggregation of social and economic measures and policies for disease prevention. These measures must address the inadequate health literacy of the poor and vulnerable people and the factors affecting their access to public health services - such as the lack of physical access to care, lack of motivation or time to visit a doctor, lack of funds to pay for the prescribed medications and laboratory tests, or unhealthy lifestyles.

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