European Commission
The Fifth Framework Programme

Competitive Pressure and its Social Consequences in the European Union Member States and in Associated Countries (COMPPRESS, HPSE-CT-2002-00149)

Workpackage No. 4

The effect of competitive pressure on income distribution and social policy; public perception, attitudes and norms

Deliverable No. 13

Income and social policies with relation to competitive pressure

Workpackage responsible: Manuela Sofia Stănculescu

Team:

Bulgaria: Silvyia Nikolova[1]

Hungary: Viktoria Galla[2]

Romania: Manuela Sofia Stănculescu and Radu Gheorghiu[3]

Slovenia: Mitja Čok, Tine Stanovnik and Franc Kuzmin[4]

December 2004

[1] Centre for Economic and Strategic Research, Sofia
[2] Institute of Economics, Hungarian Academy of Sciences, Budapest
[3] Institute for Study of the Quality of Life and Institute for World Economy, Bucharest
[4] Mitja Čok and Tine Stanovnik are with the Faculty of Economics, Franc Kuzmin is with the Institute for Economic Research, Ljubljana.

Executive Summary

The research question addressed in Deliverable D13 refers to the main changes in income and social policies in relation to the increasing competitive pressure in four countries – Bulgaria, Hungary, Romania and Slovenia. The analysis is based on time-series (1988/89-2001/02) derive from a large variety of statistical sources.

By 1990, all Eastern European countries were already in a decline. After 1990, all countries in transition experienced at least two years of continuous GDP decline. Even prior to the 1990s, the Slovene economy was strongly exposed to market conditions. However, the economy did pick up after only two years of negative growth rates. Since 1993, Hungary has posted positive economic growth, whereas Bulgaria and Romania faced subsequent drop of the real GDP during 1996-1997, and 1997-1999 respectively. Recovery started only in 1998 in Bulgaria and in 2000 in Romania.

After 1990, three COMPPRESS countries have faced population decline. Between 1989 and 2003 the Bulgarian population lost more than 1.14 million persons, Hungary about 447 thousand, and Romania lost about 1.34 million persons. By contrast, Slovenian population remained rather constant. The main cause of population decline was the dramatic decrease of fertility, but also the external migration in Romania and Bulgaria.

The population structure by age has considerably changed. The proportion in total population of the working-age category has slightly increased, the proportion of children has continuously decreased, whereas the share of elderly has grown. Consequently, while the youth dependency ratio diminished, the 'grey dependency' increased considerable. The ageing process was in 2003 most accentuated in Bulgaria, medium in Slovenia and Hungary, and relatively reduced in Romania.

Increasing competitive pressure after 1990 resulted in all four countries in more unemployed, more pensioners, less employment, particularly less employees (wage or salary earners).

However, Romania appears to concentrate more and deeper negative effects: there is a substantial lower share of wage-earners and each of them should support 1.4 pensioners (in 2003) plus children and other inactive persons. In addition most of the self-employed are in fact 'disguised unemployed' surviving by doing subsistence agriculture on small plots.

Bulgaria is in a better position compared to Romania yet it is characterized by high unemployment, high share of pensioners, and to a large extent its self-employment is a coping strategy for the unskilled.

The Hungarian and particularly the Slovenian economy has done better, recovered sooner, have better educated young people, and in relative terms are 'work-rich'.

In Slovenia after the initial shock of the early 1990s the proportion of people aged 15-59 in paid jobs grew, reaching a stable level at about 70% after 1998. In Hungary, the rise in employment occurred only after 1998, while in Bulgaria and Romania after the drop in early 1990s the share of employed in the population aged 15-59 remained rather constant.

Structural adjustments in the transition period changed substantially the employment structure by sectors. In the entire region there is recorded a shift from manufacturing to services. Agriculture was hardest hit by the transformation-related crisis. As a consequence of the liquidation of agricultural cooperatives the number of agricultural earners fell dramatically in most former socialist countries. By contrast, particularly in Romania, despite the overwhelming fall in agricultural production, the employment in agriculture grew substantially.

The increased number of private enterprises and the self-employed is a result of the general shift from manufacturing to services. In Romania, unlike in the other three

countries, the major shift from manufacturing to agriculture resulted in much higher shares of self-employment and unpaid family workers in total employment.

In all countries, most of the individual private entrepreneurs are sole traders. Their number rose up in the first years of transition and varied afterward. However, their share in employment is very low in Romania, almost two times lower than in Bulgaria, three times lower than in Hungary and more than five times smaller compared to Slovenia.

Due to the opportunities of employment in agriculture, in Romania, unemployment is low and it is specific to urban areas. By contrast, in Bulgaria rural unemployment is consistently double than in urban areas. Thus, while the Romanian rural people are registered in statistics as employed (self-employed or unpaid family workers) in agriculture, in Bulgaria rural people are registered as unemployed.

Labour adjustment occurred differently in the four countries:

- Bulgaria – 'severe transition': During the entire period it has been characterized by high unemployment (at least in European terms) and sharp and long lasting real wage decline (up to a maximum decline with 58% in 1996).
- Romania – 'delayed transition': its better 'statistical look' compared to Bulgaria is deceitful. Firstly because next to the unemployment rate one should consider the extremely high rate of 'disguised unemployment': agricultural self-employed and unpaid family workers in working age, concentrated in the Romanian rural areas. Secondly, the relatively small decline of real wage registered between 1990 and 1995 is a result of the 'reparatory' policy' in the first years of transition (1990 and 1991) and of the delayed structural reforms for the rest of the period. Furthermore, the rise of real wage in 1996 is mainly the effect of a whole series of populist measures implemented in an electoral year. By contrast, the sharp real wage decline in 1997/98 mirrors the structural reforms implemented during 1997-2000, which 'cleaned' the economy and the banking system and have constituted the basis of the present growth. Thus, Romania makes a good example for countries with delayed reforms.
- Hungary and Slovenia – 'soft transition': except for the first years after 1990, although both real wages and employment declined, they varied afterwards but in comparative terms have registered low-medium drop.

Whereas the average wage is highly influenced by the competitive pressure on the market, the average pension is more the outcome of the social and income policy provided by the State despite the fact that pensions are mainly consequence of the persons' work history and their age. By comparing the evolutions of the real pensions and of real wages one observes that although the trends have comparable shapes, in real terms the pensions lost more and have recovered slower than wages. As result, the average pension, at least in Bulgaria and Romania, is nearly the minimum wage level.

Gradualism, consensus seeking and pragmatism are the terms that would probably best describe the approach taken by Slovenia in coping with changing economic and social conditions. This is particularly valid for income policy and social policy.

The Hungarian state has drastically shifted from a paternalist approach ('populist' according to Milanovic, 1998) in the first years of transition (1988-1994) to a liberal one, which promoted a more and more restrictive policy after 1995 by tightening the eligibility criteria and lowering the benefits. Thus, the social policy in Hungary after 1995 has not compensated any more the loss of income.

The Bulgarian State focused on unemployment reduction during the entire period due to the very high unemployment rate in the European context. The approach is, however, an active one encouraging people to train and retrain, to find a job, to open a business and not to becoming dependent on the state. During the '90s the system was profoundly reformed. Social assistance was also linked to the unemployment policy with the risk of low coverage of the poor. Most benefits decline considerable in real terms so that social

policies did not fulfil its main function of protecting people in front of transition hardship. In addition, the expenditures for both education and health diminished considerable. Nevertheless, one should keep in mind that compared to Slovenia and Hungary, Bulgarian economy faced a much deeper and longer recession so that the state resources for social policies were much smaller.

In Romania the recession was somewhat 'lighter' than in Bulgaria but the economy started to recover later due to delayed reforms, the 'disguised unemployed' is very high, and the poverty incidence is much higher. Income policy has been highly distorted, tax burden is among the highest in Europe, for many years employment policy was dominantly passive, and investment in education was kept low or even diminished. However, as result of the solid economic reforms after 1996 and of the reformation of the social assistance system after 2001 some improvements are registered. As the budgetary resources increased the public expenditures on health has also been raised. The current social protection system is widespread and contributes substantially to poverty reduction, a large share of the impact being due to pensions.

Hungary and Slovenia were 'populist' during the transition recession. After output decline reversed and the GDP reached the 1990 base, the two countries did no longer react at the decrease of both wage and non-wage income. This fact indicates that the economic development has already reached the large majority of the population. The very low poverty rates of Hungary and Slovenia are evidences in this sense. As the functional market developed and strengthen, the two countries stopped to protect population, reduced the social effort and targeted assistance to the most disadvantaged.

In contrast, Bulgaria and Romania effort to protect population fluctuated as their national outputs did. However, in the second half of the '90s, these countries no longer compensate for lost wages but for the decline in non-wage income, especially the equivalent of agricultural products obtained within households, which is largely connected with the poor population. The underdeveloped and vulnerable non-wage incomes represent the major challenge for Bulgaria and Romania in the final phase of transition because these incomes are not related to market, to property income and to sustainable self-employment as in Slovenia and Hungary but are related to large pool of transition 'losers', mainly unemployed and underemployed.

Content

Introduction

COMPPRESS research project is expected to contribute to a better understanding of the dynamics of competitive pressure both on the enterprise level and the household one in four Central and East European countries: Bulgaria, Hungary, Romania and Slovenia.

The work package 4 (WP4) is focused at the household level. We do not have yet the exact definition of competitive pressure in household sector, but we pay attention to the factors that affect the general household standard of living and the household perception of the market and of the socio-economic situation of competitive pressure.

In transition, when the households have to adjust to a new and market situation, competitive pressure contains, at least, two elements: transition pressure and market pressure (more complex as the country join[5] the European Union). In early '90s, in a new and mostly transition pressure situation, in the Eastern European countries the decline in economic output was accompanied by decline of the real incomes, growing inequality of income, expenditure and assets, and the development of poverty and unemployment. As the market develops and as the candidate country comes closer to the EU accession, the market pressure overcomes the transition pressure. The economies are recovering and, correlated, the real incomes and employment begin to have a growing trend. Still poverty, growing inequality, and unemployment remain major issues.

Deliverable D6 (December 2003) analysed the development of poverty that causes decrease of competitiveness and lower adjusting ability. In this deliverable (D13) we deal with dynamics of incomes due to increase competitive pressure but also due to changes in social policies. The second critical contributor to poverty - growing inequality - and unemployment are discussed in other WP4 deliverables, namely D14, respectively D15.

In this paper the main trends in incomes and earnings refer to the four COMPPRESS countries. The analysis is based on time-series (1988/89-2001/02) derive from a large variety of statistical sources as the macro-data of Statistical Yearbooks, data of registered unemployment and Labour Force Surveys. Also we use research results of previous studies, EUROSTAT statistics, and comparative time-series from the UNICEF *Innocenti Social Monitor* (2004).

Changes of social policies in relation to competitive pressure are identified based on the national official documents and various official data provided by the institutions such as Hungarian Pension Institution, Romanian National Agency for Employment, Romanian Ministry of Labour, Social Solidarity and Family, Slovenian Ministry of Economic Affairs or Slovenian Ministry of Finance.

The organization of the report is as follows. Chapter 1 analyses, in a comparative manner, the main tendencies in: a) number and ratio of active and inactive population, b) average income and earnings. Chapter 2 presents a general assessment of the income and social policies and their effectiveness in counterbalancing the transition to market negative effects over the population incomes. Additionally, chapter 2 includes the four COMPPRESS country studies (analysis of the processes and legislative background) on income policies, pension systems and other social policies.

[5] Slovenia and Hungary became members of the European Union in 2004. Bulgaria and Romania are scheduled to join the EU in 2007.

1 Main tendencies in the key features of incomes

1.1 National income dynamic

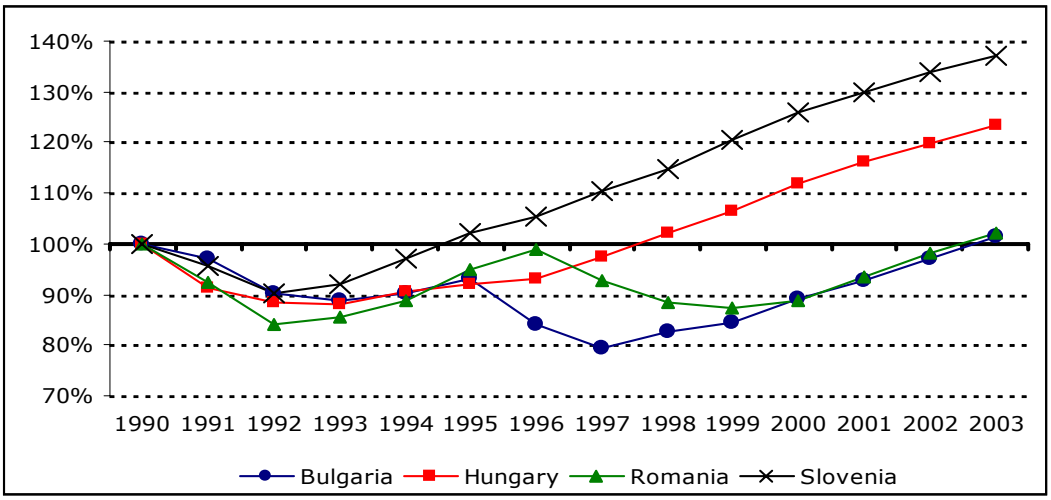
By 1990, all Eastern European countries were already in a decline. After 1990, all countries in transition experienced a depression (at least two years of continuous GDP decline) for at least three consecutive years; for five years (as Romania, 1988-1992), or for six years (as Hungary, 1988-1993 and Slovenia, 1987-1992).

Even prior to the 1990s, the Slovene economy was strongly exposed to market conditions. The shock and quite brief drop in output and incomes, which occurred in the early 1990s was therefore more a result of dramatic political changes - the disintegration of Yugoslavia - and economic changes - the abrupt loss of the large internal Yugoslav market. A number of enterprises with strong sales to other republics of the Yugoslav federation were not capable of instantaneous adaptation and shift to the European market. However, the economy did pick up after only two years of negative growth rates.

Since 1993, Hungary has posted positive economic growth, whereas Bulgaria and Romania faced subsequent drop of the real GDP during 1996-1997, and 1997-1999 respectively. Recovery started only in 1998 in Bulgaria and in 2000 in Romania.

Figure 1.1 pictures the real GDP trends. While Slovenia was above the 1990 base level as soon as in 1995, the Hungarian GDP recovered in 1997/98, and Romania and Bulgaria seem to overcome the transition depression only in 2003.

Figure 1. 1 Real GDP (1990=100%)



Source: Computations based on UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 91. Table EBRD (2003); 2003 preliminary data.

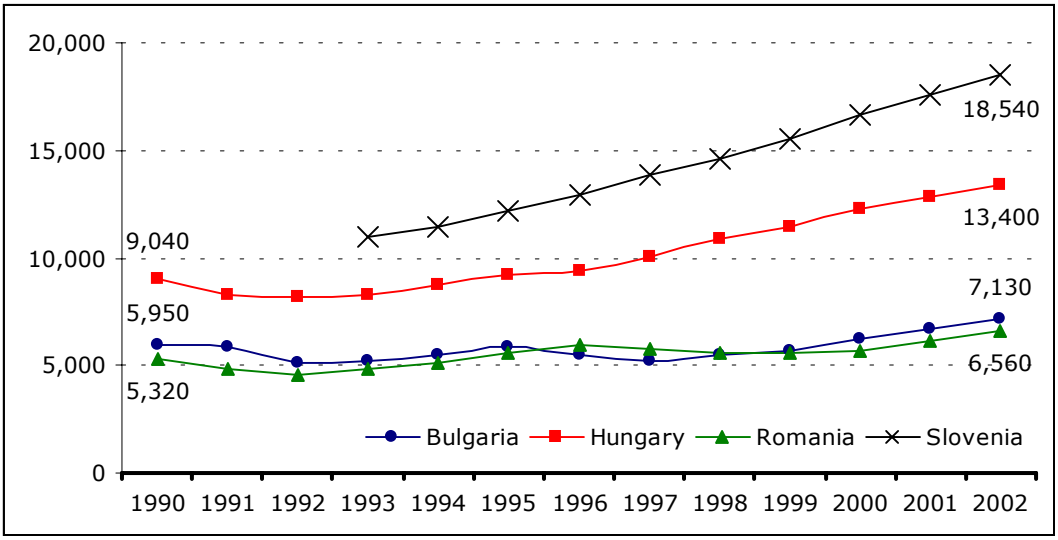
Beginning with the late '90s all countries of Central and Eastern Europe and the Commonwealth of Independent States have enjoyed economic growth.

In Slovenia and Hungary (as in all other CE countries that joined the European Union in May 2004) slight changes in GDP between 1989 and 1998 (by +5 percent in Slovenia, -3 percent in Hungary) was followed by an elevated increase by 16, respectively 19 percent between 1998 and 2002. Thus, their economies have performed best in the region, with growth from the mid-1990s compensating for early transition shocks. By contrast, the early transition shocks resulted in larger declines in national income between 1989 and 1998 in Bulgaria and Romania (by 27, respectively 20 percent relative to 1989) were not

fully compensated by the increase by 23, respectively 9 percent in GDP between 1998 and 2002.

Consequently, during the entire period, Slovenia and Hungary have had a gross national income per capita (PPP) consistently higher than all other countries in the region, while Bulgaria and Romania are some way behind, holding intermediate positions within the region. (Figure 1.2)

Figure 1. 2 GDP per capita (dollars per year in PPPs)



Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 92. Table World Bank (2004).

As an indicator of monetary stabilization, inflation was reduced to single-digit levels by 1996 in Slovenia, respectively 2000 in Bulgaria and Hungary, while in Romania two-digit was present during the entire period, reaching its minimum, 14.5, in 2003.

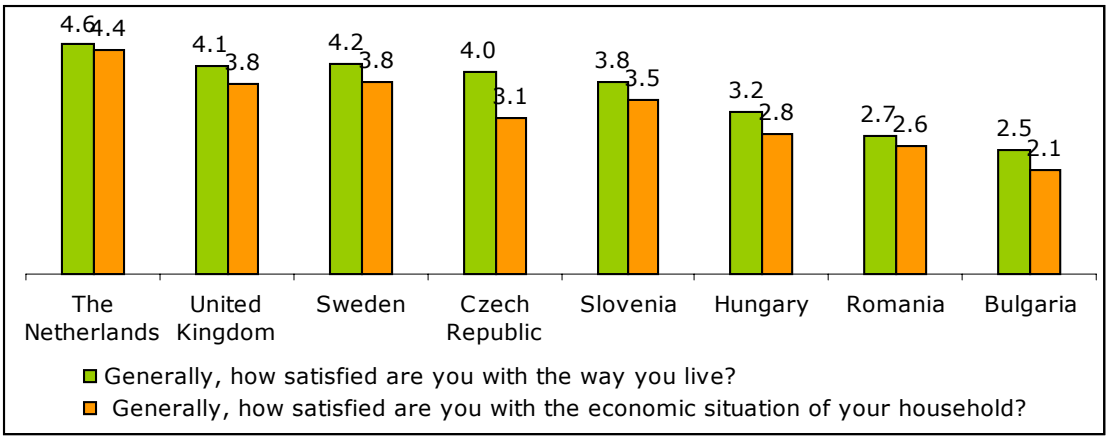
The richer the country, the happier the inhabitants, is a statistical rule demonstrated by a large number of authors[6]. This can be rephrased for the countries in transition as follows: the longer and deeper the transition shock, the unhappier the people.

The increasing competitive pressure shapes people perceptions with respect to the way they live, respectively their standard of living. Huge output decline, inflation, and job loss expanded on longer period result in higher proportions of dissatisfied population. Accordingly, Slovenians declare significantly more satisfied with the way they live and with their households' economic standard life than Hungarians; Hungarians report themselves much less satisfied compared to the Czechs, the Slovenians or the Western Europeans but more satisfied than Romanians and Bulgarians who are the unhappiest in the eight studied societies. Figure 1.3 shows the happiness gap between the four COMPPRESS countries based on recent comparative data (HWF[7], 2001).

[6] See for instance Diener et al., 1995, Haring et al., 1984, Veenhoven, 1994.

[7] The research project *Households, Work and Flexibility* (HWF) was coordinated by Claire Wallace (Institute for Advanced Studies, Vienna) and was funded by the European Commission under the Fifth Framework Programme contract no. HPSE-1999-00030. Within the HWF project, a survey was conducted in the spring of 2001 using face-to-face interviews or telephone interviews (nationally representative samples). Eight countries (Western EU countries and a range of Eastern European candidate countries) were chosen so that to be illustrative of different policy approaches to work flexibilisation and the work-family balance. For more information on the HWF questionnaire and survey and for detailed descriptions of the HWF survey in respective countries see Wallace (2003).

Figure 1. 3 Satisfaction with life and satisfaction with economic situation of the household, eight European countries, 2001 (mean values by country)



Data: HWF Dataset, 2001.
Notes: Data for the Netherlands and Hungary are weighted. Both questions have a five-point scale, between 1 – "very dissatisfied" and 5 – "very satisfied". Differences between mean values are statistically significant, according to an analysis of variance (p=.000) using Tukey's-b post-hoc test. Total valid N = 10,092 cases, respectively 10,074 cases.

However, the massive dislocations associated with transition to market economy have had huge social costs in the entire region: job destroyed, lower incomes, higher inequality, and, consequently, greater poverty. As economies declined in the early 1990s, both levels of employment and real wages fell. When the economic growth picked up, whereas real wage has increased, rise in employment followed suit only in few countries in the region.

1.2 Active and inactive population

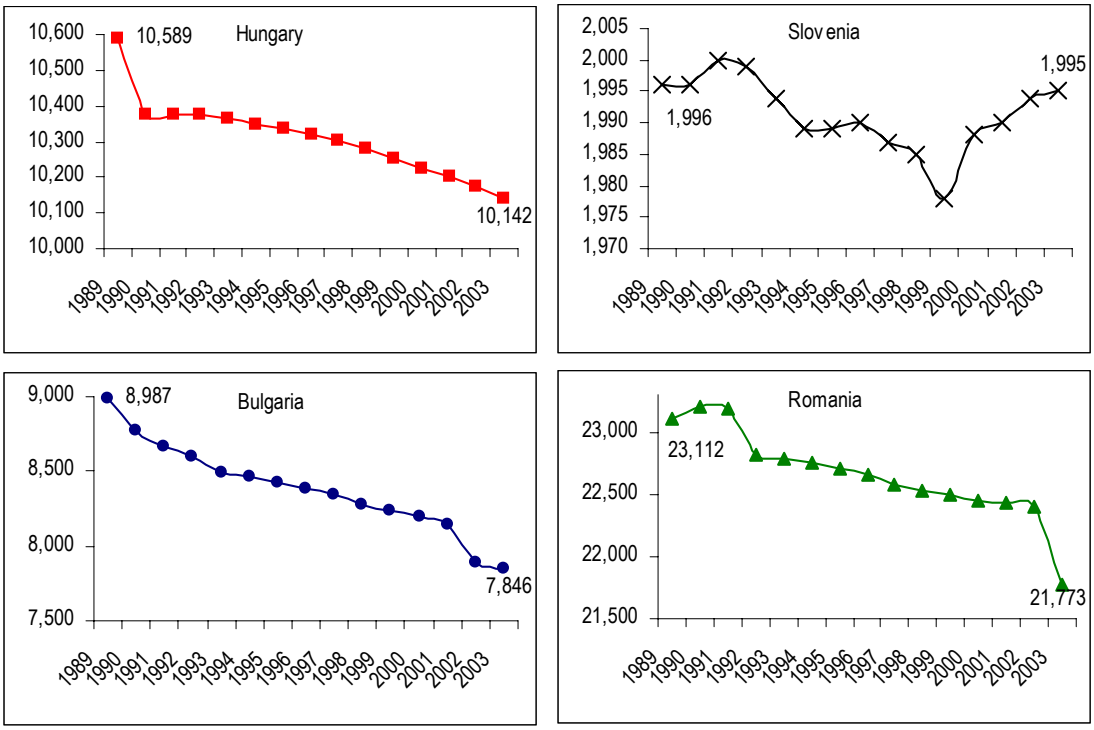
This subchapter describes the main developments in population and economic activity in the four COMPPRESS countries.

Total population

After 1990, three COMPPRESS countries have faced population decline. Between 1989 and 2003 the Bulgarian population lost more than 1.14 million persons, Hungary about 447 thousand, and Romania lost about 1.34 million persons. By contrast, Slovenian population remained rather constant. (Figure 1.4 and Table A1 in Annex) The main cause of population decline was the dramatic decrease of fertility, but also the external migration[8] in Romania and Bulgaria.

[8] Official data do not include the informal emigrants left temporary to work abroad that for example in Romania are estimated, to more than 1 million persons in 2004. Net external migration in Hungary and Slovenia has been positive.

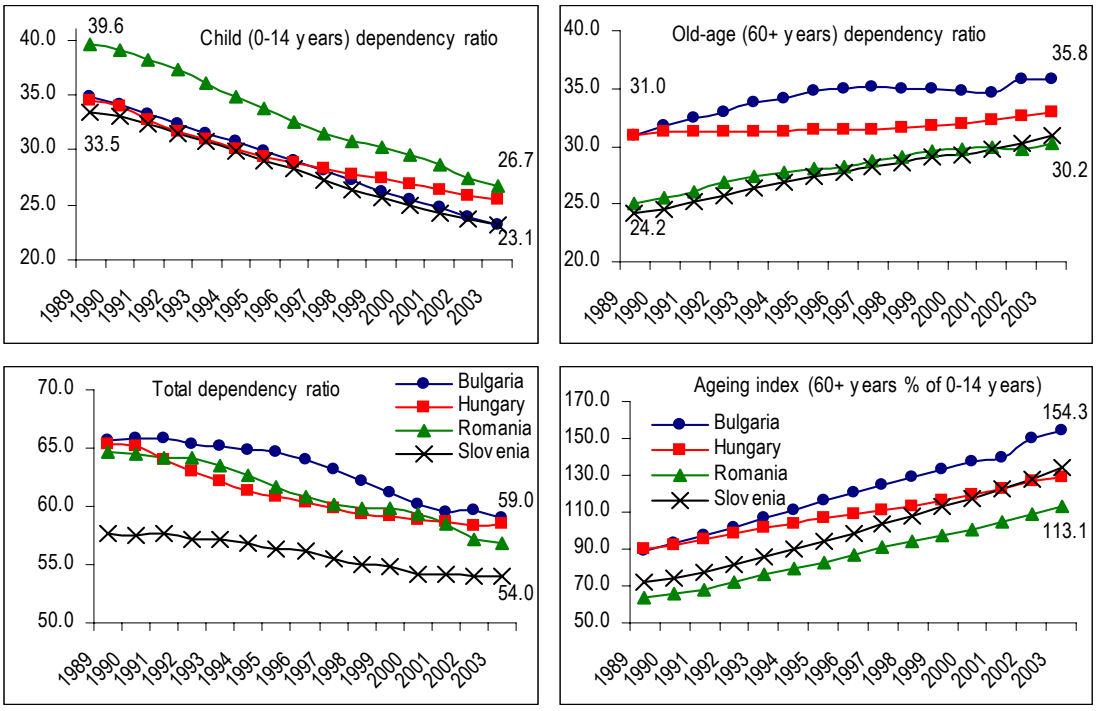
Figure 1. 4 Total population (beginning-of-year, thousand persons)



Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 56.

Note: Data refer to stable population. Data based on Census: 2001 in Bulgaria, 1990 in Hungary, 2002 in Romania, and 1991 in Slovenia.

Figure 1. 5 Dependency ratio (as percent of population aged 15-59)



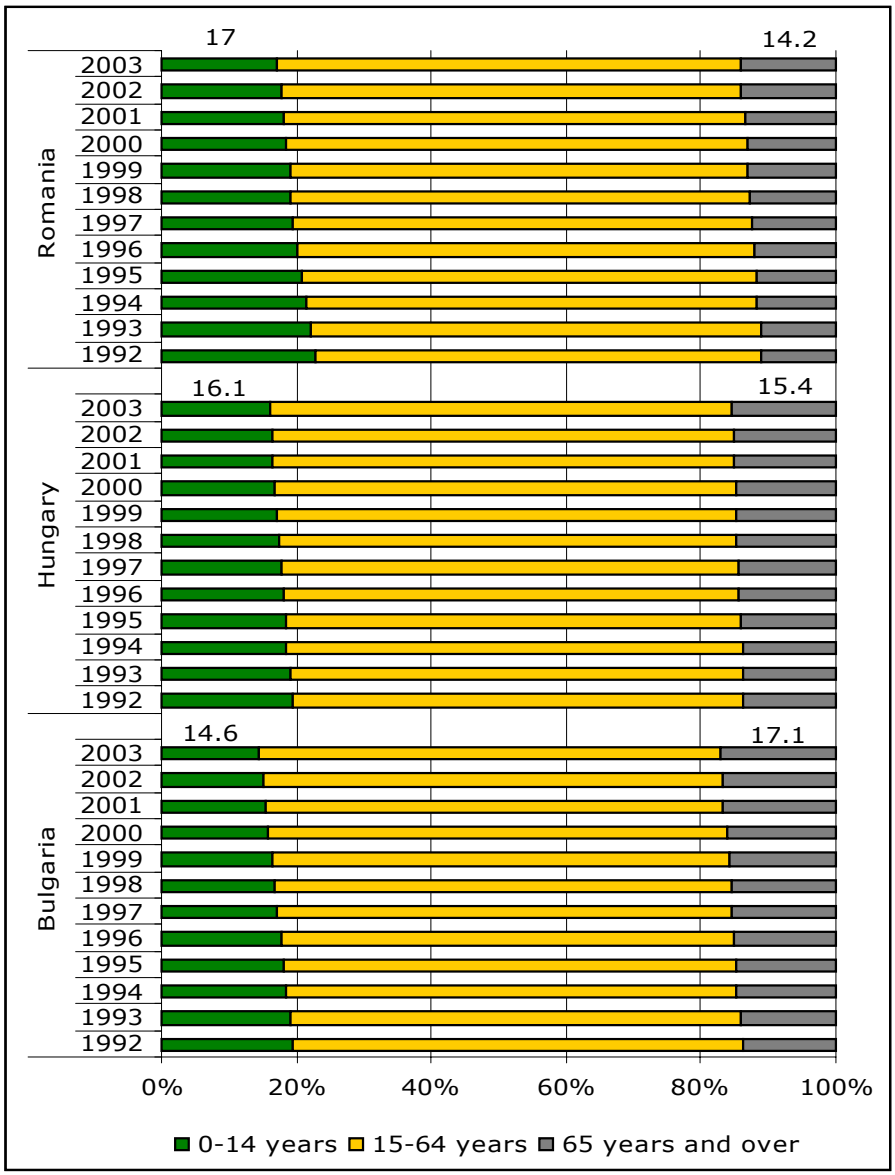
Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 57-58.

Note: Total dependency ratio = population 60+ years plus children 0-14 as percent of population 15-59.

The population structure by age has considerably changed. According to the EUROSTAT data in Bulgaria, Hungary and Romania the proportion in total population of the working-age category (15-64 years) has slightly increased (from 66.3/66.9 to 68.5/68.8), the proportion of children (0-14 years) has continuously decreased, whereas the share of elderly (65 years and over) has grown. (Figure 1.6) In Slovenia, the working-age population stagnated from 1992 to 1995, then growing until 2004. According to various demographic projections it will begin to fall again, first slowly and then rapidly, while the number of children will continue to decline rapidly (Sicherl et al, 2002).

Consequently, while the youth dependency ratio diminished, the 'grey dependency' increased considerable. The ageing process was in 2003 most accentuated in Bulgaria, medium in Slovenia and Hungary, and relatively reduced in Romania. (Figure 1.5)

Figure 1. 6 Population by age categories, 1992-2003



Data: EUROSTAT, 2004.

These demographic tendencies are not necessarily induces by increased competitiveness. Decrease of the fertility rate has started in Hungary since 40 years ago. By contrast, in Romania the fertility rate drop steeply after 1989 but this was mainly the effect of the abolition of the coercive pro-natalist policy promoted during the communist regime.

The rise of elderly share in total population is in all countries concentrated among women because they have longer life expectancy at birth compared to men with 6.9 (Bulgaria) to 8.3 (Hungary) years (2002 data).

The ageing process has in all COMPPRESS countries effects on both labour market and income distribution that will be analysed in the next subchapters.

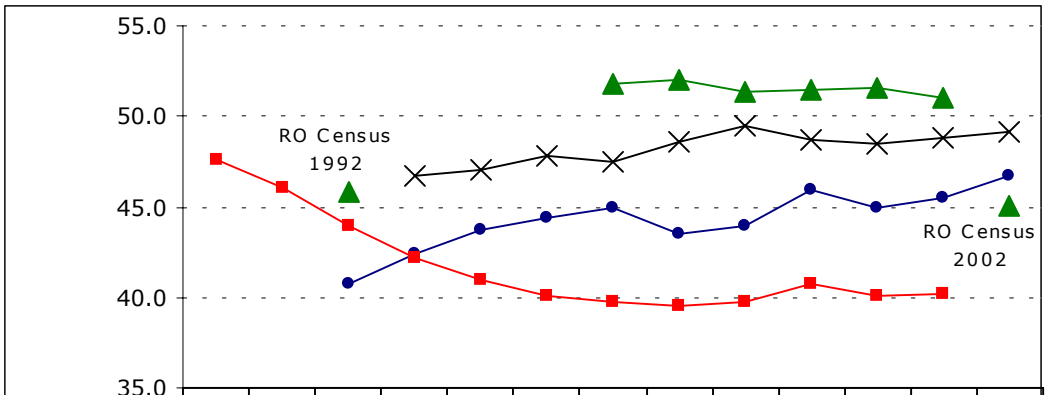
Economically active population

The economically active population includes employed and unemployed people of working age or above it.

Compared to the situation of the '80s the decline of hundred thousands (Slovenia) to million (Romania) persons in employment in the early '90s represented a great shock to societies that were used to a great security of permanent working places and substantial social benefits. Massive retirement at the beginning of 1990s and an increase in university enrolment contributed also to the reduction of the level of active population.

After 1993 the global activity rate (economically active persons as percentage of total population) has had different trends in the four COMPRESS countries. In Hungary the global activity rate diminished (by 7% point from 1990 till 2001), in Slovenia it slightly increased (by 2.5% point from 1993 until 2002), while in Bulgaria it increased more (by 6% point from 1992 till 2002). Regarding Romania, the time-series is not fully comparable[9]. However, by comparing the two Censuses (1992 and 2002) the global activity rate overall has remained constant at 45%.

Figure 1. 7 Global activity rate (employment and unemployment per cent in total population), 1990-2002



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria			40.7	42.4	43.8	44.4	45.0	43.5	44.0	46.0	45.0	45.5	46.7
Hungary	47.6	46.1	43.9	42.2	41.0	40.1	39.8	39.5	39.7	40.7	40.1	40.2	
Romania			45.9				51.8	52.1	51.4	51.4	51.6	51.0	45.0
Slovenia				46.7	47.1	47.9	47.5	48.6	49.5	48.7	48.4	48.8	49.2

Sources: Bulgarian Statistical Yearbook (various editions); The Hungarian Labour Market Review and Analysis, 2003-Institute of Economics-HAS; for 1996-2001 Romanian Labour Force Survey (RLFS) and 1992 Census and 2002 Census; Slovenian Statistical Yearbook (2003, 1999, 1994).

Note: Data for Romania come from sources not fully comparable. In 2002 the methodology of the RLFS has been changed in accordance to the 2002 Census.

In all COMPPRESS countries the share of the inactive population has exceeded the proportion of the economically active in total population, which has had direct impact on the social and the income policy of these countries.

[9] The Labour Force Survey has been implemented in Romania since 1995 (last semester).

Working age population

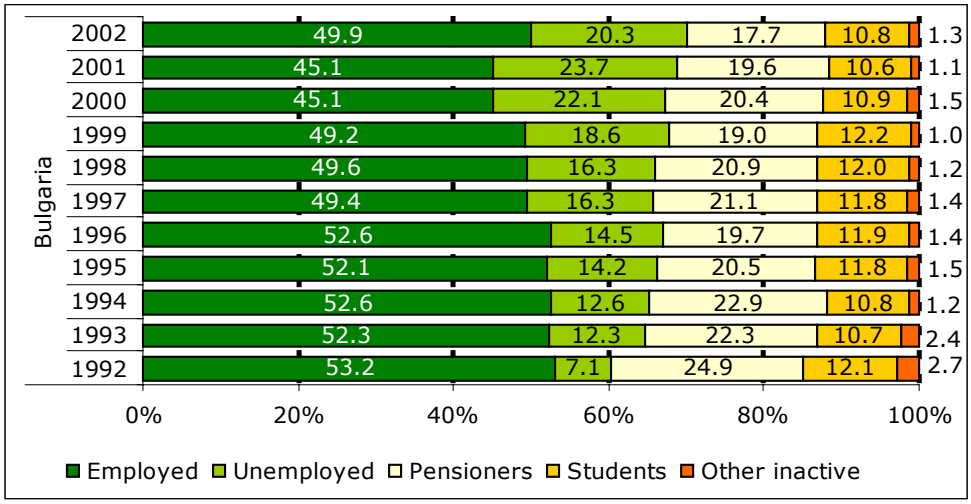
With respect to the working-age population (15-64 years), the labour force participation rate[10] diminished considerable in Hungary (from 77% in 1990 to 65% in 2001), Romania (from 82% in 1990 to 67% in 2001 and 63% in 2002), and Slovenia (nearly 80% in 1990 to nearly 70% in 2000). By contrast, the labour force participation rate increased in Bulgaria from 60% in 1992 to 70% in 2002.

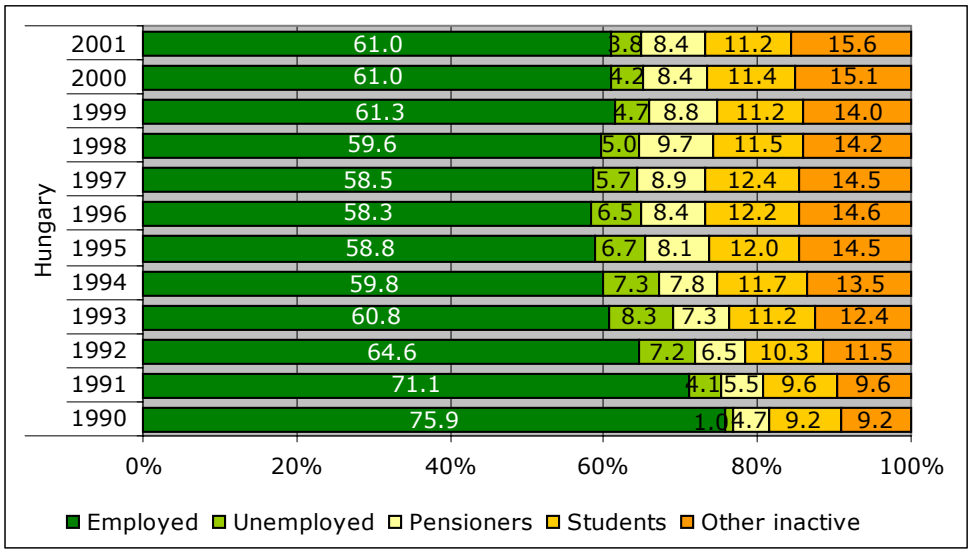
The structure of the working-age population has also significantly changed (Figure 1.8):

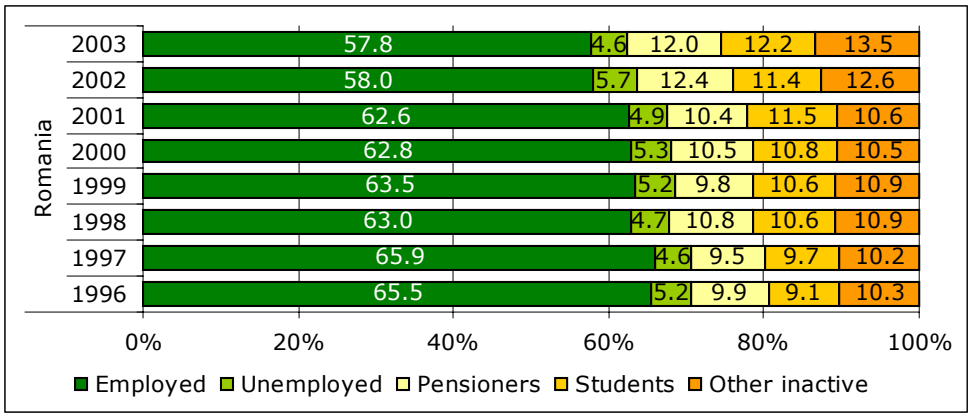
- employment had the following trends:
    - *decline till 2000 and very recent rise:* In Bulgaria from 53% of the working-age population in 1992 to 49% in 1997, respectively 45% in 2000. The employment rate of working-age population rose to 50% only in 2002.
    - *decline till 1996 and stable rise*: In Hungary from 75% in 1990 to 58% in 1996. Until 1999 it grew to 61% level where remained constant until 2001.
    - *constant decline*: In Romania from 82% in 1990 diminished continuously to 58% in 2002/03. Thus, economic growth since 2000 has not yet mirrored in more employment for working-age population.
- unemployment rose in all countries from less than 1% in 1989 to 6-7% of the working-age population in 1992, afterwards:
    - *huge rise and very recent fall:* In Bulgaria it grew from 12% in 1993 to nearly 24% in 2001, decreasing to 20% in 2002. Thus, a large part of the increase in the participation rate lays in huge increase in unemployment.
    - *slight rise and steady fall since 1995:* In Hungary it rose to 7-8% in 1993-94. Since 1995 it has continuously diminished reaching 3.8% in 2001, partly due to the economic recovery and partly due to the outflow of the unemployed from the register.
    - *slight rise, slight fall and rather constant since 1997:* In Romania it also rose to 7-8% in 1993-94[11]. Afterwards it decreased reaching 4.6% in 1997. Until 2001 it varied in the narrow band 4.6%-5.7%.
- early retirement[12] represented an alternative to massive redundancy, therefore proportion of pensioners in the working-age population seriously increased after 1990. As the policy changed, the share of working-age retired started to diminish.
    - In Bulgaria the share of retired aged 15-64 is much higher than in Romania and particularly Hungary.
- students, that is population 15 years and over in full-time education, increased as percentage in total working-age population in Hungary and Romania, and diminished in Bulgaria, mainly due to the demographic changes. However, in 2001, it represented between 10% and 11% in all three countries.

[10] Proportion of labour force in the total working age population
[11] Data from the Romanian National Institute for Statistics, Human Development Report 1997.
[12] Some professions have lower retirement age (i.e. miners' retirement age is 45 years in Romania if the condition of 20 years on job is fulfilled). In the transition years these people have been retired immediately after they met the legal requirements either for ensuring working places for the young or, more often, for restructuring the sector (as in the mining sector in Romania).

Figure 1. 8 Structure of the working-age population by activity/inactivity categories, Bulgaria 1992-2002, Hungary 1990-2001, Romania 1996-2003





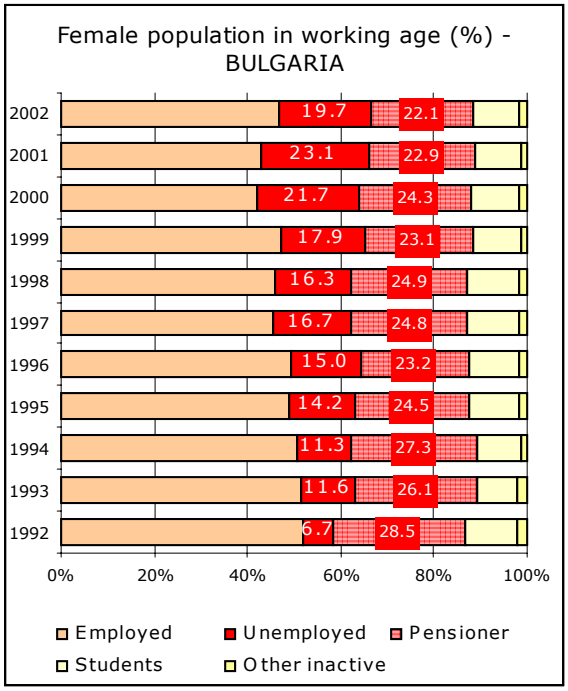


Sources: Bulgarian Labour Force Survey (BLFS); The Hungarian Labour Market Review and Analysis, 2003-Institute of Economics-HAS; Romanian Labour Force Survey (RLFS).

Note: In 2002 the methodology of the RLFS has been changed. Thus, estimate for 2002 are based on the 2002 Census and are not comparable with the previous series. For Hungary data refer to working age 15-59 for men and 15-54 for women. For Romania and Bulgaria working-age considered here is 15-64.

- category 'other inactive' comprises mainly house-persons (nearly all women):

Figure 1. 9 Women in working age (15-64 years) in Bulgaria



  - In Bulgaria 'other inactive' account for a very low share of working-age population that diminished two times from 2.7% in 1992 to 1.3% in 2002 (out of which women account for more than 70%). As most women were active before 1989, data indicate that most women that lost job either succeeded immediately after 1990 to obtain a pension (women account for 65% of the working-age pensioners) or were registered unemployed. After 1992 the decline in female in working age employment mirrors in increase of unemployment (with a peak in 2001 when unemployed women represented 23.1% of women in working age) and not in rise of housewives or other inactive women.
  - In Hungary and Romania, unlike in Bulgaria, the share of housewives increased considerable after 1989 because retreating in the household niche was the single alternative for many women (mostly aged 40-50 years) that lost jobs and were 'too young for a pension and too old for being employed'.
- total inactive in the working-age population is high, at least compared to the EU average, and it displays a decreasing trend only in Bulgaria, but even here mainly due to increase in unemployment.

Children and elderly[13]

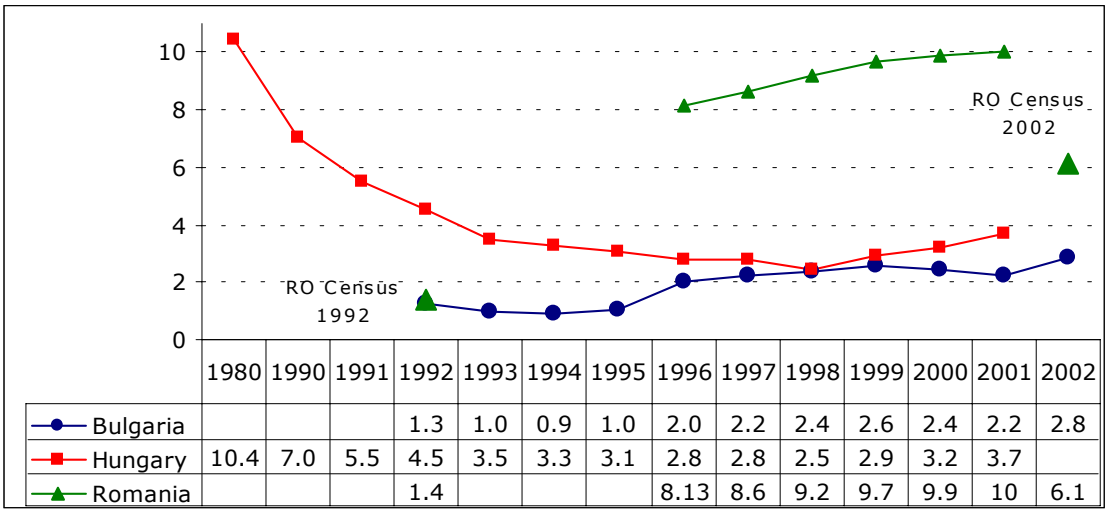
With regard to non-working age population first to be mentioned are the universal demographic changes: decline of the proportion of children and risen of the proportion of elderly.

Second, the large majority of the population above working-age are pensioners.

Third, during the transition period, the share of elderly in total employment diminished and then has increased in Hungary and Bulgaria, while in Romania it has consistently grown. Moreover, share of elderly in employment is much higher in Romania because, more than in the other countries, people 65 years and over have been forced to work due to their insufficient pensions. (Figure 1.10) Noticeable, the great majority of working Romanian elderly is concentrated in rural areas and in agriculture. Also, in Romania, the proportion of pensioners in total employment is even higher than the share of elderly because many of those early retired moved to countryside and perform subsistence agriculture.

[13] Children refer to 0-14 years age category. For elderly see notes Table Figure 1.8.

Figure 1. 10 Proportion of elderly (65 years and over) in total employment



	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria				1.3	1.0	0.9	1.0	2.0	2.2	2.4	2.6	2.4	2.2	2.8
Hungary	10.4	7.0	5.5	4.5	3.5	3.3	3.1	2.8	2.8	2.5	2.9	3.2	3.7	
Romania				1.4				8.13	8.6	9.2	9.7	9.9	10	6.1

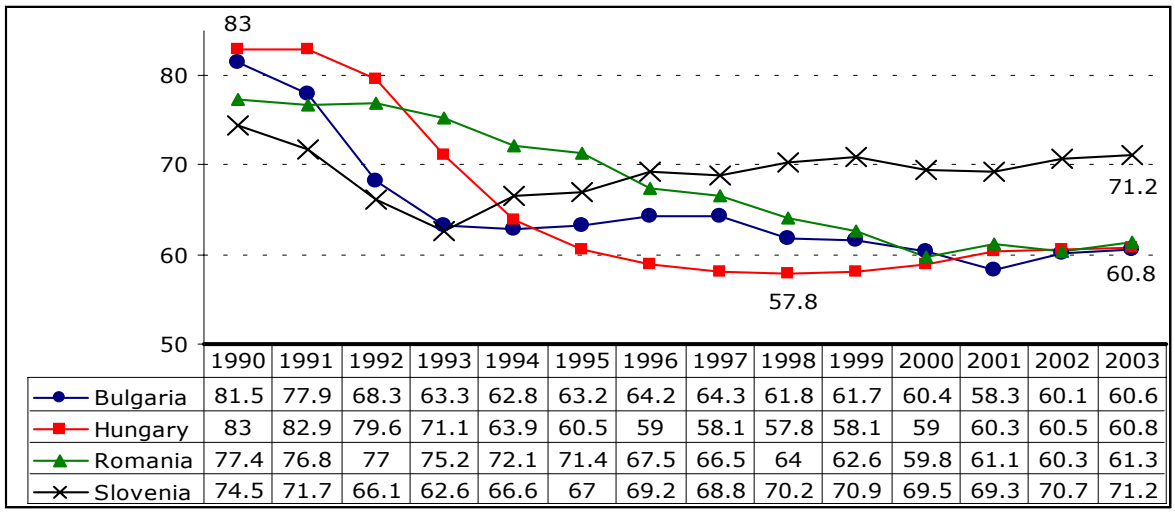
Sources: Bulgarian Labour Force Survey (BLFS); The Hungarian Labour Market Review and Analysis, 2003-Institute of Economics-HAS; for 1996-2001 Romanian Labour Force Survey (RLFS), 1992 Census and 2002 Census.

Note: Bulgaria: Data refer to proportion of pensioners (irrespective age) in total employment. Romania: Values for 1992 and 2002 come from Census data and are not comparable with the series 1996-2001. In accordance with the 2002 Census the RLFS changed its methodology.

Employment[14]

In Slovenia after the initial shock of the early 1990s the proportion of people aged 15-59 in paid jobs grew, reaching a stable level at about 70% after 1998. In Hungary, the rise in employment occurred only after 1998, mere 3% in the proportion employed. In Bulgaria and Romania after the drop in early 1990s the share of employed in the population aged 15-59 remained rather constant.

Figure 1. 11 Employment ratio (number of employed as percentage of 15-59 population)



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bulgaria	81.5	77.9	68.3	63.3	62.8	63.2	64.2	64.3	61.8	61.7	60.4	58.3	60.1	60.6
Hungary	83	82.9	79.6	71.1	63.9	60.5	59	58.1	57.8	58.1	59	60.3	60.5	60.8
Romania	77.4	76.8	77	75.2	72.1	71.4	67.5	66.5	64	62.6	59.8	61.1	60.3	61.3
Slovenia	74.5	71.7	66.1	62.6	66.6	67	69.2	68.8	70.2	70.9	69.5	69.3	70.7	71.2

Source: UNICEF, TransMONEE Database, 2004: 94.
Note: IRC estimate based on total employed. Differs from employment rate, which considers only the labour force.

[14] Official data do not take into account the informal employment. This topic is analysed in deliverable D15.

In all four countries, similar to the EU countries[15], female employment rate is significantly lower compared to male employment rate, but:

- In Slovenia, *men lost more than women in employment*: the share of employment as percentage of the corresponding age group 15-64 fell between 1987 and 2000 from 80.5% to 66.9% for men, respectively from 63.4% to 58.3% for women.
- In Hungary, *men and women lost almost equally in employment*: the share of employment as percentage of the corresponding age group 15-64 fell between 1990 and 2001 from 81% to 66% for men, respectively from 70% to 56% for women.
- In Romania and, to a smaller extent, in Bulgaria *men lost less in employment compared to women*. Thus, the share of employment as percentage of the corresponding age group 15-64 fell:
    - Bulgaria, between 1992 and 2002: from 55% to 53% for men, respectively from 52% to 47%
    - Romania, between 1990 and 2002: from 85% to 64% for men, respectively from 79% to 52%

It is to be remembered that in virtually all countries, the relative risk of poverty increases with the number of children in the family (to a lower extent in Slovenia) for one reason because more children mean less female labour force participation. A study using Hungary Labour Force Survey data (UNICEF, 1999) found that the presence of children considerably reduced the probability of employment among women. For women ages 26 to 29, female employment went from 82 percent in households with no children, to 52 percent in households with one child, 35 percent in households with two children, and 11 percent in households with three or more children. For women ages 36 to 39, female employment dropped sharply, from 78 to 41 percent, as the number of children increased from two to three.

Structural adjustments in the transition period changed substantially the employment structure by sectors. In the entire region there is recorded a shift from manufacturing to services. Agriculture was hardest hit by the transformation-related crisis. As a consequence of the liquidation of agricultural cooperatives the number of agricultural earners fell[16] dramatically in most former socialist countries. By contrast, in Bulgaria and particularly in Romania, despite the overwhelming fall in agricultural production, the employment in agriculture grew substantially: to 27% in Bulgaria, respectively 41% in Romania in 2000. Subsequently, it fell[17] but has remained much larger than the EU average (4.2% in 2001, 5% in 2002).

The increased number of private enterprises and the self-employed is a result of the general shift from manufacturing to services. In Romania, unlike in the other three countries, the major shift from manufacturing to agriculture resulted in much higher shares of self-employment and unpaid family workers in total employment. Correlated, proportion of employees is the lowest and has registered the most severe decline. (Table 1.1)

For instance in 2000, the share of employees (wage or salary earners) in total employment was 85% in Hungary and Bulgaria[18], 80% in Slovenia and only 56% in Romania. On the other hand, self-employed accounted for 11% of total employment in Slovenia and Bulgaria, 13% in Hungary and 24% in Romania. A similar disparity is

[15] In 2001, the EU average was 73% for male employment rate, respectively 54.9% for female employment rate.
[16] To 6.2% of employment in Hungary and 9.1% of employment in Slovenia in 2002, CANSTAT, 2003.
[17] In Romania in 2001 the share of population employed in agriculture was 40.4% and decreased to 35.7% in 2002 and 2003. In Bulgaria the share of employment in agriculture steeply declined to 9.4% in 2001, respectively 9.6% in Bulgaria in 2002, CANSTAT, 2003.
[18] Data for Bulgaria from Kovacheva and Pancheva (2003).

registered with respect to the unpaid family workers: 9% in Slovenia, less than 2% in Bulgaria and Hungary, and 19% in Romania.

Table 1. 1 Structure of total employment by professional status, Slovenia 1991-2003, Hungary 1992-2000, Romania 1992-2003 (yearly average, per cent)

Slovenia	**1991**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2003**
Employees	84.3	79.2	78.1	79.8	79.4	80.0	80.1	80.4	81.4
Self-employed - TOTAL	11.7	14.4	14.7	12.4	12.4	11.5	11.1	10.8	10.0
- Individual private entrepreneurs	4.3	7.0	7.3	6.3	6.2	5.9	5.8	5.7	5.6
- Professional services	0.8	***	***	0.8	0.8	0.8	0.8	0.8	0.8
- Farmers	6.6	7.4	7.5	5.3	5.5	4.8	4.5	4.3	3.6
Persons employed by the self-employed	3.9	6.5	7.2	7.8	8.2	8.4	8.8	8.8	8.5
Persons in employment (thou. persons)	841	750	745	743	745	758	768	779	777
Romania*	**1992**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2003**
Employees	79.9	60.6	61.7	59.8	59.4	58	56.1	56.1	62.5
Self-employed - TOTAL	15.0	22	19.8	20.6	21.1	22	24.2	24.2	22.5
- Individual private entrepreneurs	0.3	1.3	1.2	1.3	1.2	1	1.1	1.1	1.3
- Self-employed	14.7	20.7	18.6	19.3	19.9	21	23.1	23.1	21.2
Unpaid family workers	2.1	13.4	15	16.4	16.4	17.1	19.3	19.3	14.8
Persons in employment (thou. persons)	9,602	9,493	10,935	11,050	10,845	10,776	10,764	10,697	9,223
Hungary*	**1992**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2003**
Employees	79.6	82.2	82.1	82.8	84	84.4	85		
Self-employed - TOTAL	13.6	14.3	14.5	14.1	13.6	13.7	13.4		
- Individual private entrepreneurs	6.4	4.6	4.2	3.8	3.6	2.9	**		
- Self-employed	7.2	9.7	10.3	10.3	10	10.8	**		
Unpaid family workers	1.2	1.1	1.1	1.1	0.8	0.7	0.6		
Persons in employment (thou. persons)	4,083	3,679	3,648	3,646	3,698	3,811			

Sources: Slovenia - ESS, Annual report (2003); Romania – Census 1992, for 1995-2003 Romanian Labour Force Survey; Hungary - Hungarian Labour Force Survey (Kopasz, 2003).

Notes 1) In 1997 the Statistical Office of the Republic of Slovenia introduced methodological changes to the monitoring of employment in companies and other organisations. It included data on private companies with one or two employees. Since 1997 the source of data on self-employed persons (except farmers) and persons employed by the self-employed has been the Statistical Registry of Persons in Employment, and for farmers the Labour Force Survey; In 2002 the Romanian National Institute for Statistics changed the LFS methodology in accordance with the 2002 Census. Thus, estimate for 2003 is based on Census data.

Notes 2) * In Hungary and Romania, self-employed includes persons performing professional services as well as farmers. In both countries sum by column is lower than 100%, the difference represents member of cooperatives or, in Romania, member of agricultural associations; ** In 2000 the HLFS reported self-employed as an aggregate; *** Not available.

In all countries, most of the individual private entrepreneurs are sole traders. Their number rose up in the first years of transition and varied afterward. However, their share in employment is very low in Romania, almost two times lower than in Bulgaria, three times lower than in Hungary and more than five times smaller compared to Slovenia.

Both the number and the share of agricultural self-employed are low in Slovenia and have had after 1989 a continuous decreasing trend.

In Hungary, according to some authors (Kopasz, 2003), agricultural self-employment is underestimated by the HLFS data because persons without tax identification number are

not registered by statistics; as recent survey show (Sik and Nagy, 2003 data HWF, 2001) 27% of total self-employed perform in agriculture. Additionally, a second activity in small scale agriculture self-producing food for completing households income is widespread in Hungary as well as in Bulgaria. However, various studies (i.e. Kollo and Vincze, 1999 or EBRD, 2000) demonstrated that in Hungary the rising self-employed is mainly determined by widening business opportunities, self-employment representing a creative labour market strategy and not a coping strategy for the unskilled.

The self-employment in Bulgaria has also increased from a less than 1% to 11% in 2000. The share of the self-employed in villages is more than three times higher than that in towns (24% of the rural employment versus 7% of the urban one), as is the share of the unpaid family members (3.7% of the rural employment versus 0.7% of the urban employment). Thus, the agricultural self-employment is important yet it has a much lower level compared to Romania.

In Romania, both self-employed and unpaid family workers have had positive trends since 1990 on. This fact is due to the massive industrial lay offs in combination with land restitution and the households' strategy of retreating in the subsistence agriculture. The self-employment overlaps at a great extent the unpaid family workers. According to the official methodology, within a household of farmers the person(s) declared 'head of the household' is/are recorded as self-employed whilst the other members of the family, performing the same agricultural activity (work on own plot) is/are recorded as 'unpaid family workers'. In this light, the profile of the Romanian self-employed (as well as unpaid family workers) is rather straightforward. In 2003:

- Romanian self-employed – 88% (1.72 million out of 1.95 million) live in the rural areas and perform agriculture. While the patriarchal model is dominant, especially in the rural areas, most of the self-employed are men (69.7%) of 50 years or over.
- Romanian unpaid family workers – mostly are the wives, sons and daughters of the self-employed persons, 96% in the rural areas, 71.3% women, 61% younger than 49.

Only a minority of these two professional groups work in services (mainly trade), are qualified craftspeople, mechanics or similar and unskilled workers.

The rise in the number of entrepreneurs in Central and Eastern Europe is often interpreted as a temporary response to the transformational recession: during the hard times many people started a business temporarily and 'unwillingly' because it was difficult to find wage work. In 1999, the hypothesis of self-employed as 'disguised unemployed' has been refuted for the Hungary case but proved true for the Romanian self-employment in agriculture. Romanian agriculture absorbed a non-trivial proportion of the potential unemployed. Research on Romania by Kollo and Vincze (1999) for the period 1993–1996 and Ciupagea (2000) for 1993 and 1998 revealed larger flows into self-employment, subsistence farming and black market in regions hit hard by the transition shock. At the same time, no net flows from self-employment back to paid work have been observed in the few Romanian regions where the demand for labour was rising. The agricultural self-employment did not behave like a pool of unemployed workers normally does, most probably because the 'transformational recession' it was not over in Romania at that time (economic recovery started only in 2000).

Consequently, unlike in the other three countries, in Romania, employment is a weaker indicator of well-being due to the substantial proportion of population engaged in agriculture.

The employment decline it is not evenly distributed across households. The EUROSTAT (2004) data indicate that, although declining in the last years (except for Romania), the households at risk of joblessness are more frequent in three COMPRESS countries compared to the average EU states. (Tables 1.2 and 1.3)

Table 1. 2 Children aged 0-17 living in jobless households (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
EU (15 countries)	11.0 (e)	11.2 (e)	11.2 (e)	10.8 (e)	10.4 (e)	9.8 (e)	9.5 (b)	9.8 (e)	9.9 (e)
Hungary	:	15.0	14.9	15.6	15.5	13.5	13.5	14.3	12.6 (b)
Bulgaria	:	:	:	:	:	:	19.0	18.7	16.6
Romania	:	:	6.9	7.5	7.3	7.2	6.8	9.8 (b)	10.2

Table 1. 3 People aged 18-59 living in jobless households (%)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
EU (15 countries)	11.6 (e)	11.6 (e)	11.6 (e)	11.1 (e)	10.5 (e)	9.9 (e)	9.7 (b)	9.7 (e)	9.8 (e)
Hungary	:	15.8	15.7	15.8	14.2	13.5	13.2	13.0	11.6 (b)
Bulgaria	:	:	:	:	:	15.5	17.3 (b)	16.6	15.3
Romania	:	:	6.8	7.3	7.8	8.4	8.7	11.3 (b)	11.1

Data: EUROSTAT, 2004.

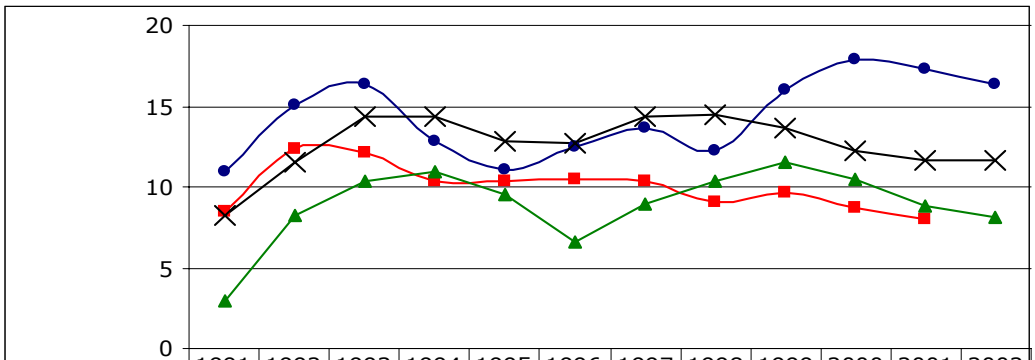
Notes: (:) Not available, (e) Estimated value, (b) Break in series.

Unemployment

During the socialist era there was no official unemployment, except for Hungary were unemployment was officially recognized in the late '80s. There was however hidden unemployment. At the beginning of the '90s, unemployment was officially acknowledged. The economic transformations resulted in universal increase in unemployment reaching a peak in 1993. The fall in registered unemployment rate started in 1997 in Hungary and in 1998 in Slovenia.

In Romania, it dropped until 1996 and rose again during the second recession period (until 1999) when it has started to decrease as the economic output has grown. In Bulgaria the unemployment rate had a trend reversed to the GDP only before 1998. Afterwards, despite the economic growth, the registered unemployment has decreased only beginning with 2000 when a new Law of unemployment was issued and active labour market measures were introduced.

Figure 1. 12 Registered unemployment rate (percentage of the economically active population), 1991-2002



	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria	11	15.1	16.4	12.8	11.1	12.5	13.7	12.2	16	17.9	17.3	16.3
Hungary	8.5	12.3	12.1	10.4	10.4	10.5	10.4	9.1	9.6	8.7	8	
Romania	3	8.2	10.4	10.9	9.5	6.6	8.9	10.4	11.5	10.5	8.8	8.1
Slovenia	8.2	11.5	14.4	14.4	12.8	12.7	14.4	14.5	13.6	12.2	11.6	11.6

Sources: Nikolova, 2004; Hungary – UNICEF, TransMONEE Database, 2004: 94; Romania – National Agency for Employment, 2004; Slovenia - ESS, Annual report, 2003.

Note: In Slovenia data represent annual average. In the other countries data refer to the end of the year.

One must of course bear in mind that data on registered unemployment do not necessarily provide an accurate picture of the unemployment phenomenon. Thus, the decrease in registered unemployment in the late 1990s was also caused by a "cleansing" of unemployment registries and by applying more strict conditions for registered unemployed persons (availability for work etc.).

Registered unemployment frequently differs from unemployment rates derived from LFS conducted on the basis of ILO definition. If the ILO definition of unemployment is used, during the entire period, the rate is lower than the EU average in all countries except Bulgaria. Thus, in 2003, the ILO unemployment rate was 5.8% in Hungary, 6.6% in Romania, and 13.6% in Bulgaria compared to 8.1% the EU-15 average (EUROSTAT, 2004).

Female unemployment was much higher than male in Bulgaria in 1990 but the share of women in total unemployment has significantly decreased to 53.4% in 2002. A similar trend followed the female unemployment in Romania only that after 1999 the share of men has started to be dominant (59% of total unemployed in 2003). In Slovenia the trend was reversed: the share of women in total unemployment used to be lower than men but has increased after 1995 (due to the lay-offs in the textile, leather and footwear industries) and reached 52.8% in 2003.

Due to the opportunities of employment in agriculture, in Romania, unemployment is specific to urban areas with a rate of ILO unemployment of 11.2% compared to only 5.4% in villages (RLFS, 2002). By contrast, in Bulgaria rural unemployment is consistently double than in urban areas. Thus, while the Romanian rural people are registered in statistics as employed (self-employed or unpaid family workers) in agriculture, in Bulgaria rural people are registered as unemployed. As Sahn, Younger and Meyerhoefer (2002) showed, most rural Bulgarian households that report being engaged in agriculture can be best portrayed as tending their gardens for their own consumption, perhaps selling a modest surplus to earn small sums of money that is complementary to other more important income sources. The work on the household plots is rarely the primary source of earnings for the household, or workers therein. Thus, subsistence agriculture in Bulgaria is mostly reported as second and third jobs.

In Bulgaria young represents a problematic category of unemployed; after the share of young[19] diminished from 42% in 1994 to 18% in 2000, it rose back to 35% in 2002. Increase of the highly educated youth unemployment is seen as an alarming phenomenon in Bulgaria and Romania as well. The most important cause of youth unemployment is the lack of correlation of the education system and related qualifications with the labour market demands. Likewise, the alternative training programmes, on the one side, and the information programmes related to the labour market demands, on the other side, were not sufficient, and the existing one were not fully efficient.

In Slovenia the share of young (15-24) in total unemployment has substantially decreased from about 50% to 26% in 2003. Thus, persons 40 or above became the problematic category. Their share although has been falling over the last five years it still represented 44% in 2003. It is difficult for older workers to find employment for a variety of reasons. Employers prefer to give precedence to younger applicants, and their demands regarding qualifications are increasing. Since older workers do not have the right types of qualification, and are less motivated to train and look for a new job, they are registered unemployed for a longer period of time than young people, which further reduces their employability.

[19] 22% in Romania, relatively constant in the last years.

A similar trend was registered in Romania, as consequence of the industrial restructuring beginning with 1997. The age category 40-49 years, particularly men, is the most affected by unemployment, especially by long-term unemployment. In fact in Romania the long-term unemployment is of special concern, as its share in total employment has continuously increased. Thus, in 2003, unemployed for 12-23 months accounted for 24% of total ILO unemployment, whereas unemployed 2 years or more represented almost 40% (RLFS, 2004).

Education is an important employment factor. Unemployed people with higher levels of education find it easier to get work; for those who have only completed secondary school, the subjects they have studied become important. When this is taken into account it becomes clear that it is mostly persons with few qualifications that are not in demand on the labour market who remain unemployed. In 2003, the largest group of unemployed were unemployed persons who had attained the 1st or 2nd levels of education. Almost three quarters of the unemployed in Slovenia and almost two thirds in Romania had only completed secondary vocational school or less. (Tables A9,A10, Annex)

Thus life-long learning/ training is a useful tool for adjusting to the growing competitive pressure (and avoiding unemployment). In this respect Romania has the lowest rate of participation to continuous training compared to other candidate countries but also to the EU average.

Table 1. 4 Adults' participation rate in education and training (per cent of the population aged 25-64)

	Romania	Bulgaria	Hungary	Accession Countries 10	EU 15
2001	1.1	1.5	3.0	4.6	3.2
2002	1.1	1.3	3.3	4.9	3.4

Source: Country Monograph – Executive Summary, Turin, Wednesday, 19 March 2003.

Inactive population – young in education and pensioners

Two groups are of high relevance with respect to the effects of increasing competitive pressure on income and social policy, namely young people in education and pensioners.

Young in education

Regarding young of working-age in education the main trends during the period 1989-2002 are the following (Table 1.5 and Tables A2 and A3, Annex):

- for population aged 15-18[20] years:
    - Enrolment in vocational/ technical secondary education firstly decreased and then slightly increased in Bulgaria and Romania. Unlikely, in Slovenia the trend was reversed, while in Hungary it has continuously grown.
    - In 2002 the enrolment rate in vocational/ technical secondary education was as high as in 1990 in Bulgaria and Slovenia (about 47%). In Hungary the 2002 rate (71.1%) represents 127% of the 1990 level. Only in Romania the 2002 rate (47.4%) was substantially lower than in 1990 (78.4%). This is mainly due to the dismantling of the vocational secondary system, which is seen as a major problem of the actual educational system.
    - Enrolment in general secondary education has increased in all countries. Compared with 1990 the 2002 rate was 2.3 times larger in Romania, 2 times in Hungary and Slovenia, and only 1.3 times larger in Bulgaria.

[20] For Hungary data refer to 14-17 years.

Nevertheless, despite the significant growth of the level of enrolment in general secondary education, in Romania in 2002 this was only 26.2% of the population aged 15-18, which is much lower than the rates between 36.5% and 38.3% in the other three countries.

- Total enrolment in secondary education of young 15-24 years although increasing is much lower in Romania (74%) than in the other three countries, particularly in Hungary and Slovenia. The relatively low enrolment in secondary education from Romania is an effect of the very low access of the rural youth to these forms of education. Nearly all units providing secondary education are located in cities, thus rural young, particularly the poor ones, do not afford commuting, accommodation and the other education-related costs.

- for population 19-24 years:
  - Enrolment in higher education increased considerable in all four countries. The slightest growth occurred in Bulgaria where the higher education gross enrolment rate was in 2002 only 1.3 times higher than in 1990 compared to 3 times in Slovenia, 3.5 in Romania, and 3.7 in Hungary. (Table 1.5)
  - The 2002 rate is much higher in Hungary (45% of those aged 18-23) and Slovenia[21] (69% of the age category 19-23) than in Bulgaria and Romania (34%, 33% respectively of the population 19-24 years). A major problem in the last two countries is the concentration of students in the urban areas, rural young people have an extremely low access to higher education.

Table 1. 5 Higher education enrolments (gross rates, per cent of population aged 19-24)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2002/ 1990
Bulgaria	22	26.2	25.7	27	28.1	30.3	33.7	34.9	34.1	35.2	34.7	33.3	33.1	33.9	1.3
Hungary (a)	12.2	12.1	12.3	13	14.2	15.9	18.2	20	25.5	28	31.6	35.3	39.3	44.6	3.7
Romania	7.2	9.2	11.3	12.8	13.5	13.5	17.5	18.6	19.1	21.3	23.4	26.8	29.5	32.5	3.5
Slovenia (b)	23.1	22.9	25.5	26.1	28.2	30.1	31.3	34.3	44	51	53	58.1	66.6	69.3	3.0

Source: UNICEF, TransMONEE Database, Innocenti Social Monitor, 2004: 85. IRC estimate based on number of students in non-degree or degree granting tertiary education.

Notes: (a) Data refer to those aged 18-23; (b) Data refer to those aged 19-23; data for 1997-2002 include candidates for graduation.

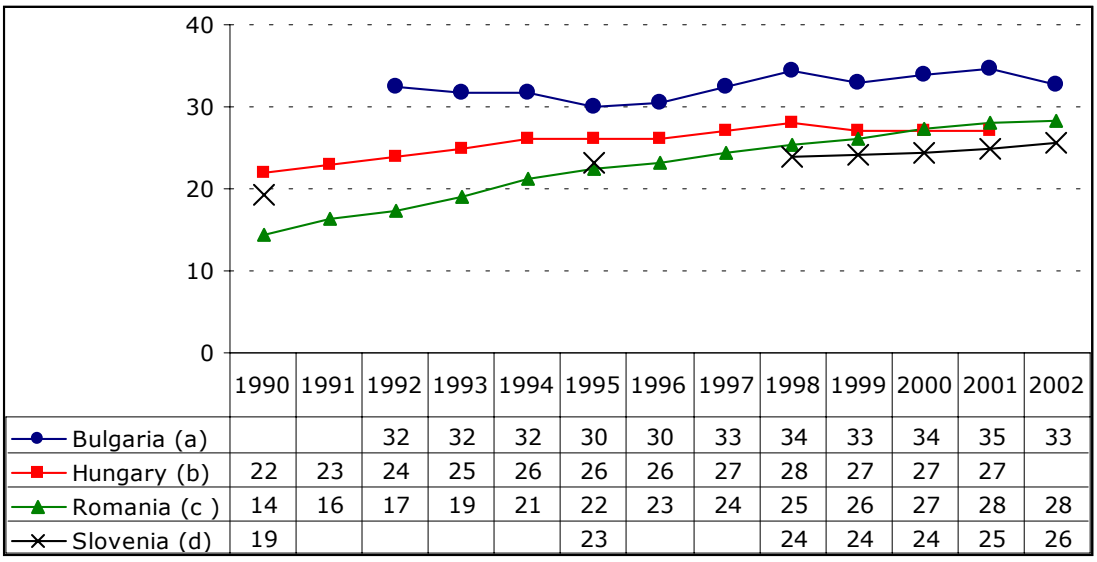
Pensioners

The numbers (see Table A4, Annex) and shares of pensioners in total population (Figure 1.13) have increased after 1990 in all four countries. On the one hand, due to the total population decline, on the other hand, due to the ageing process, and finally due to the policy of early retirement applied as alternative to unemployment.

The highest increase in the number of pensioners took place in Romania (1.9 times between 1990 and 2002, from 3.37 to 6.34 million persons). In all other countries the rise in the number of pensioners was much lower: 1.1 higher in Bulgaria, 1.2 higher in Hungary, 1.3 higher in Slovenia in 2002 compared to 1990.

[21] Data include candidates for graduation.

Figure 1. 13 Proportion of pensioners (per cent in total population), 1990-2002



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria (a)			32	32	32	30	30	33	34	33	34	35	33
Hungary (b)	22	23	24	25	26	26	26	27	28	27	27	27	
Romania (c)	14	16	17	19	21	22	23	24	25	26	27	28	28
Slovenia (d)	19					23			24	24	24	25	26

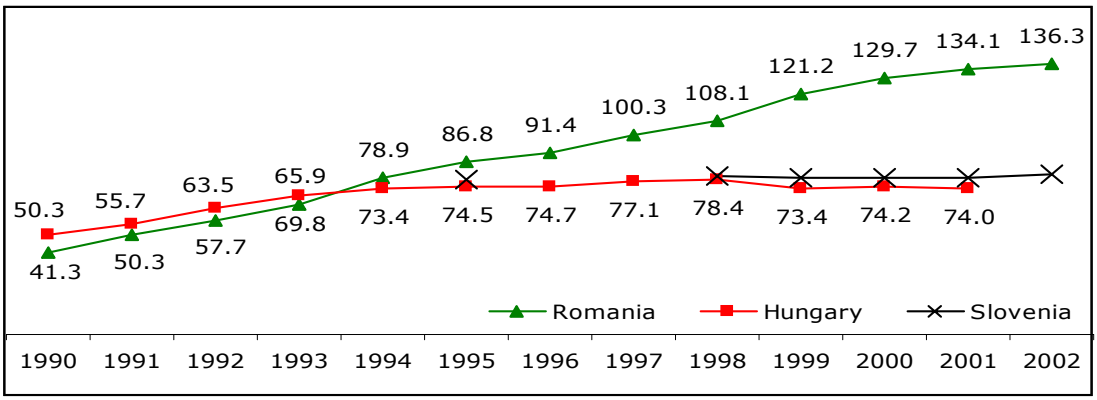
Sources: Countries Statistical Yearbooks (various editions).

Notes: (a) Total persons receiving pensions; (b) Data refer to old-age pensioners, disability pensioners, pre-miners pensioners, occupational injure pensioners and war, invalids, orphans and widows pensioners; (c) Data include social insurance pensioners (old-age, disability, survivors', military, and for 1997-2002 social aid pensioners and war, invalids, orphans and widows pensioners) plus farming pensioners; (d) Comprise social insurance pensioners (old-age, disability, survivors', military, and since 1991 military pensions and advances on pensions asserted in other countries of former Yugoslavia) plus farming pensioners and since 2000 persons receiving national pensions.

In all countries, the majority of pensioners are old-age pensioners. In 2002, the disability pensioners accounted for about a fifth of total pensioners in Hungary and Slovenia, while in Romania the corresponding share was only 11% (it rose to 13% in 2003, about 805 thousand pensioners). Nevertheless, the increase in the disability pensioners is highly debated in Romania. This increase is considered to be 'artificial' as it has been mainly determined by the 'control and sanctions deficit' (Preda et al., 2004). In fact, retirement into pension on the grounds of being disabled functioned as 'disguised early retirement'.

Farming pensioners make a distinctive case. In 2002, they accounted for more than a quarter (26%) of total pensioners in Romania, whereas in Slovenia and Bulgaria they were rather marginal with shares 1.5%, 2.3% respectively. While in Romania the number of farming pensioners increased, in Slovenia and Bulgaria it diminished 4-5 times.

Figure 1. 14 Pensioners – wage earners (employees) ratio (per cent)



Sources: Computations based on Slovenia - ESS, Annual report (2003); The Hungarian Labour Market Review and Analysis, 2003-Institute of Economics-HAS; Romanian Statistical Yearbook (various editions).

In conclusion, increasing competitive pressure after 1990 resulted in all four countries in more unemployed, more pensioners, less employment, particularly less employees (wage or salary earners).

However, Romania appears to concentrate more and deeper negative effects: there is a substantial lower share of wage-earners and each of them should support 1.4 pensioners (in 2003) plus children and other inactive persons. In addition most of the self-employed are in fact 'disguised unemployed' surviving by doing subsistence agriculture on small plots. Consequently, the poverty rate is by far the largest in the area (36% in 2003) as we have shown in the deliverable D6.

Bulgaria is in a better position compared to Romania yet it is characterized by high unemployment, high share of pensioners, and to a large extent its self-employment is a coping strategy for the unskilled. In addition, in order to cope with the transition hardship 52.5% of the Bulgarian households produce various goods at home (Kovacheva and Pancheva, 2003).

The Hungarian and particularly the Slovenian economy has done better, recovered sooner, have better educated young people, and in relative terms are 'work-rich'.

1.3 Dynamics of real wage and average pension

The decline in real population income provides a better indicator of hardship than an aggregate measure such as GDP presented in Figure 1.1 and 1.2. This is so because GDP movements do not always mirror changes in population income and welfare. Not always growth is pro-poor, that is it does not necessarily reach the lower social ladders.

Across the region, 'low pay, no pay, and unstable pay' is the overwhelming factor associated with poverty. In all Central and South Eastern Europe and the Baltics countries higher relative risk of poverty run: households whose head is unemployed and/or completed only primary education, households with fewer income earners. On the other hand, groups of population that make up the largest share of the poor are household leaded by employed (about 50 percent, except Bulgaria) or pensioners (more than 40 percent in Bulgaria and about 25 percent in Romania).

Thus, the risk of poverty is strongly linked to the number of income earners, household size, and number of children, factors which influence a household's ability to earn its income but also with the levels of the work-related earnings, public transfers as well as other forms of support. (see D6)

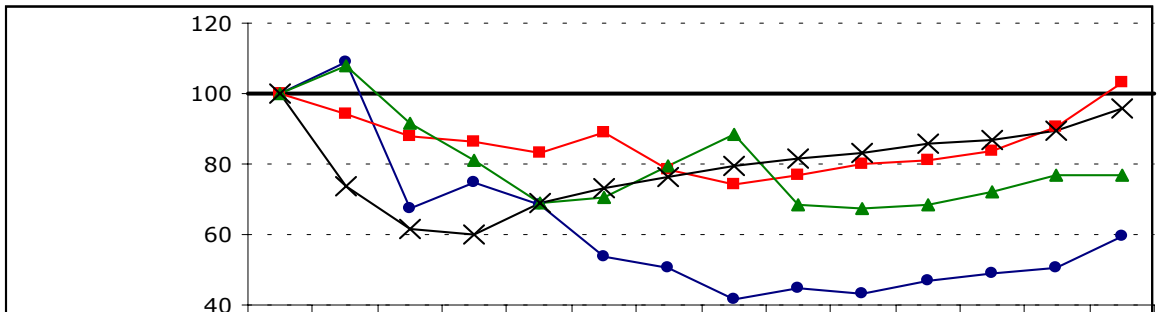
That is why in this subchapter we focus on the dynamics of few types of income, namely real wages, income from self-employment, and pensions. All other types of cash social transfers are discussed in the next subchapter on social policies because they are strongly dependent of the country specific legal framework.

Changes in real wages

Sharp decline of real wages is one of the main responsible for the large share of 'working poor'.

The similarity between the output and real wage trends is highly visible by comparing Figure 1.15 with Figure 1.1. Likewise the output drop, the decline of real wage was much deeper and for a longer period in Romania, and particularly Bulgaria, compared to Slovenia and Hungary. After 1998 the increase in national income has mirrored in increasing real wages in all four countries.

Figure 1. 15 Change in real wages index (per cent of the 1989 value) during 1990-2002



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria (b)(f)	100	109.2	67.5	75.0	68.4	53.5	50.6	41.7	44.9	43.0	47.0	49.1	50.3	59.5
Hungary (c)	100	94.3	87.7	86.5	83.1	89.1	78.2	74.3	77.1	79.8	81.0	83.9	90.6	103.2
Romania (d)	100	107.8	91.6	81.2	68.8	70.3	79.3	88.3	68.6	67.4	68.6	72.1	77.1	76.6
Slovenia (d)	100	73.8	61.8	60.1	68.7	72.9	76.1	79.5	81.8	83.0	85.6	86.8	89.5	95.8

Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 95. Expressed in PPP. Based on IRC estimate; consumer price index taken from EBRD (2003).

Notes: (b) Based on gross wages; (c) For 1989-1997 real net index calculated by Central Statistical Office; data for 1998-2002 IRC estimates; d. Based on net wages; f. Public sector only.

Nevertheless, if GDP was above the 1990 base level as soon as in 1995 in Slovenia and 1998 in Hungary, real wages in the two countries reached the 1990 base only in 2002. In Bulgaria and Romania, although GDP was close to the base level, real wages were still far of their 1990 levels (only 59.5% in Bulgaria, respectively 76.6% in Romania). There is therefore a delay between growth reflects in real terms in 'people's pockets'.

Labour adjustment occurred differently in the four countries:

- Bulgaria – 'severe transition': During the entire period it has been characterized by high unemployment (at least in European terms) and sharp and long lasting real wage decline (up to a maximum decline with 58% in 1996).
- Romania – 'delayed transition': its better 'statistical look' compared to Bulgaria is deceitful. Firstly because next to the unemployment rate one should consider the extremely high rate of 'disguised unemployment': agricultural self-employed and unpaid family workers in working age, concentrated in the Romanian rural areas. Secondly, the small decline of real wage registered between 1990 and 1995 (only 22%) is a result of the 'reparatory' policy (Zamfir, 1999) promoted in the first years of transition (1990 and 1991) and of the delayed structural reforms for the rest of the period. Furthermore, the rise of real wage in 1996 is mainly the effect of a whole series of populist measures implemented in an electoral year. By contrast, the sharp real wage decline (more than 20%) in 1997/98 mirrors the structural reforms implemented during 1997-2000, which 'cleaned' the economy and the banking system and have constituted the basis of the present growth. Thus, Romania makes a good example for countries with delayed transition.
- Hungary and Slovenia – 'soft transition': except for the first years after 1990, although both real wages and employment declined, they varied afterwards but in comparative terms have registered low-medium drop.

Incomes from self-employment

Incomes from self-employment differ according to the nature of self-employment. In Romania these incomes are in-kind and ensure strictly survival because self-employment has been concentrated in subsistence agriculture, a survival strategy in the face of collapsing formal incomes and 'paid-jobs-poverty'. Correspondingly, self-employed have

a risk[22] of poverty equal or even higher (in 2000-2002) than unemployed, particularly with respect to the persistent poverty. By contrast, in the other three COMPPRESS countries self-employment is associated with the emergence of small, private entrepreneurs in industry and services. Nevertheless, incomes from self-employment do not represent a solid shield against poverty, despite their better levels compared to Romania, as long as in Bulgaria the self-employed have medium-high risk of poverty.

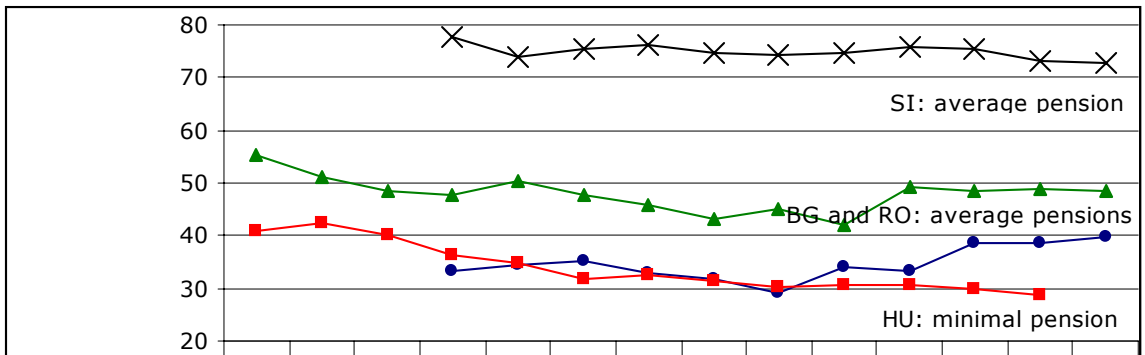
Changes in average pensions

Whereas the average wage is highly influenced by the competitive pressure on the market, the average pension is more the outcome of the social and income policy provided by the State despite the fact that pensions are mainly consequence of the persons' work history and their age. The pension systems and the retirement policies of the four COMPPRESS countries are discussed in subchapter 2.3.

Risk of poverty of elderly is relatively high (but declining) only in Bulgaria and Slovenia. In Hungary and Romania, this is medium. However, besides the poor, a large share of elderly lives in the immediate vicinity of the poverty line. The difficult situation of the pensioners is mainly the result of the severe decline of pensions more accentuated than the decline of real wages as besides the decline of the real wage the replacement ratio (average pension/average wage ratio) decreased too. (Figure 1.16)

The minimal pension represents 29% of the average net wage in Hungary, while the average pension in Bulgaria corresponds to 40% of the country average wage under the conditions in which the later is considerable lower than the former. For a more comprehensive picture, we add to data showed in Figure 1.16 that in Romania farmer pensioners (more than a quarter of total pensioners) received an average pension equal to 21% of the average old-age pension until 2004 when it was doubled.

Figure 1. 16 Change in average pension/average wage ratio during 1989-2002



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Bulgaria (a)				33.4	34.4	35.2	32.8	31.9	29.1	33.9	33.3	38.5	38.5	39.7
Hungary (b)	40.9	42.5	40.2	36.5	34.8	31.9	32.4	31.4	30.1	30.4	30.6	29.8	28.8	
Romania (c)	55.3	51.1	48.4	47.7	50.4	47.8	45.7	43.2	45.2	42	49.4	48.3	48.9	48.3
Slovenia (c)				77.8	73.9	75.4	76.2	74.6	74.3	74.5	75.8	75.3	73.2	72.8

Sources: Bulgaria - Nikolova, 2004; Labour Market in Hungary 2000 (IE-HAS) and CSO; Romania - Ilie, 2004 based on NIS and Ministry of Labour, Social Solidarity and Family data; Slovenia - Monthly Statistical Bulletin, Institute for Pension and Disability Insurance, April 2004.

Notes: (a) Rate of the average pension to the average wage; (b) Minimal pension per cent of net average wage; (c) Average old-age social insurance pension per cent of net average wage.

[22] In Romania, 22.7 percent of the non-agricultural self-employed– and 28.4 percent of the farmer-headed households bear their poverty stigma year after year. The incidence of permanent poverty of unemployed- and pensioner-headed households is medium, of 13.6 percent, and 10.1 percent respectively. Thus, poor households headed by employees, pensioners and even unemployed are more able to exit from poverty than the others, notably the farmer- or self-employed-headed households. (World Bank, 2003)

By comparing the evolutions of the real pensions and of real wages one observes that although the trends have comparable shapes, in real terms the pensions lost more and have recovered slower than wages. As result, the average pension, at least in Bulgaria and Romania, is nearly the minimum wage level.

Table 1. 6 Change in average pension/minimum wage ratio during 1989-2003

	1989	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
Bulgaria	*	*	*	80.5	78.6	81.5	87.5	126.4	81.9	116.0	99.9	109.4	92.4	102.3	*
Romania	84.8	86.4	68.8	84.5	105	114.7	133.1	164.8	156.2	134.8	184.5	149.0	112.0	110.7	86.1

Sources: Bulgarian Statistical Yearbook (various editions); Romania - Ilie, 2004 based on NIS and Ministry of Labour, Social Solidarity and Family data. * Not available.

The improvements of the average pension/average wage ratio from the last years are a result of the greater budgetary effort targeted to social policy. As the national incomes have increased both Bulgaria and Romania have raised the pension expenditures as share in GDP. However in 2002 the pension expenditures share in GDP was of only 6.8% in Romania compared to 9.01% in Bulgaria, and particularly 11.4% in Slovenia.

In Hungary the minimal pension is highly relevant for early retirement. In 1992 and 1993 unemployed men and women, mostly above the age of 45, asked for early retirement instead of being unemployed. Due to their incomplete work history their pensions were set near to the minimal level. This way they avoided the competitive pressure on the labour market but felt to pauper because the minimal pension was always under the minimal living standard[23] (Table 2.10). The rate of minimal pension to minimal living standard felt very fast until 1993, when the increase of the minimal pension gave better prospects. But the rate never reached again the 70%. Nowadays pensioners on minimal pension from Hungary, likewise in Romania and Bulgaria, particularly those from rural areas, make additional incomes by cultivating their gardens.

[23] Minimal living standard: This indicator is also calculated in Hungary, but in a very different way from the ILO definition. The CSO of Hungary distinguish different types of households in which different number of adults and children live together, from the single person to the two adults with five children and more. The minimal living standard includes needs for the living: food, housing expenses, clothing, transportation, educational expenses, so a nutrition-basket and multiply it with the minimum consumption of the poor families. As there are living expenses which can be divided among the members of a household, this standard per capita decreases as the size of the household increases. To demonstrate all the different amounts of it would be the subject of a longer study, so in this paper we use an average value. As the ILO definition gives us lower values, at about 50-60% of the CSO standard, we must use the Hungarian definition to evaluate correctly.

2 Social and income policies 1990-2003

In the literature, the increase in poverty during transition is foremost attributed to two distinct factors: the drop in economic output and changes in its distribution. Nevertheless, beyond these two factors lies a complex interaction of economic, social, and political processes. A large number of studies point to the initial conditions (such as location, initial economic distortions, unfamiliarity with the market process, and the resource endowment), the state of institutions at the start of the transition, the extent and quality of the economic reforms that countries chose to implement and the political system.

Out of the policy-related factors in relation with the increasing competitive pressure (such as privatisation, housing privatisation, land restitution) that have independent impact on the distribution of income, and hence on the level of poverty, we focus in this chapter on income and social policies.

The chapter is organized as follows. Subchapter 2.1 presents the general evaluation of the income and social policies from a comparative perspective. Subchapters 2.2 include the description of income policies by country. Income policies refer to: personal income taxes, wage bargaining and minimal wage, state set wages. Subchapter 2.3 reports social policies by country. Social policies comprise: pension system, unemployment benefit, child-care allowances, and other social allowances. In the last two subchapters all income and social policies are described so that to identify the main changes of rules in time and also their effectiveness in cushioning population against the transition shock.

2.1 General evaluation of the income and social policies

In this subchapter we resume the main conclusions that can be extracted by analysing the country studies on income and social policies. In the second step, we replicate Milanovic's (1998[24]) typology based on recent data, 1996 and 2001, to see from a different angle how our four countries look with respect to the effort to protect the population against increasing competitiveness.

The key features of the income and social policies detailed in the next two subchapters (2.2 and 2.3) are as follows.

Gradualism, consensus seeking and pragmatism are the terms that would probably best describe the approach taken by Slovenia in coping with changing economic and social conditions. This is particularly valid for income policy and social policy. So far, such an approach has served Slovenia well. Yet it is difficult to predict whether it will also be appropriate for dealing with challenges to come.

The Hungarian state has drastically shifted from a paternalist approach ('populist' according to Milanovic, 1998) in the first years of transition (1988-1994) to a liberal one, which promoted a more and more restrictive policy after 1995 by tightening the eligibility criteria and lowering the benefits. Thus, the social policy in Hungary after 1995 has not compensated any more the loss of income. However, as Figure 2.1 clearly shows the State effort to provide education and health, although declined (as share in GDP) has been maintained at a relatively high level.

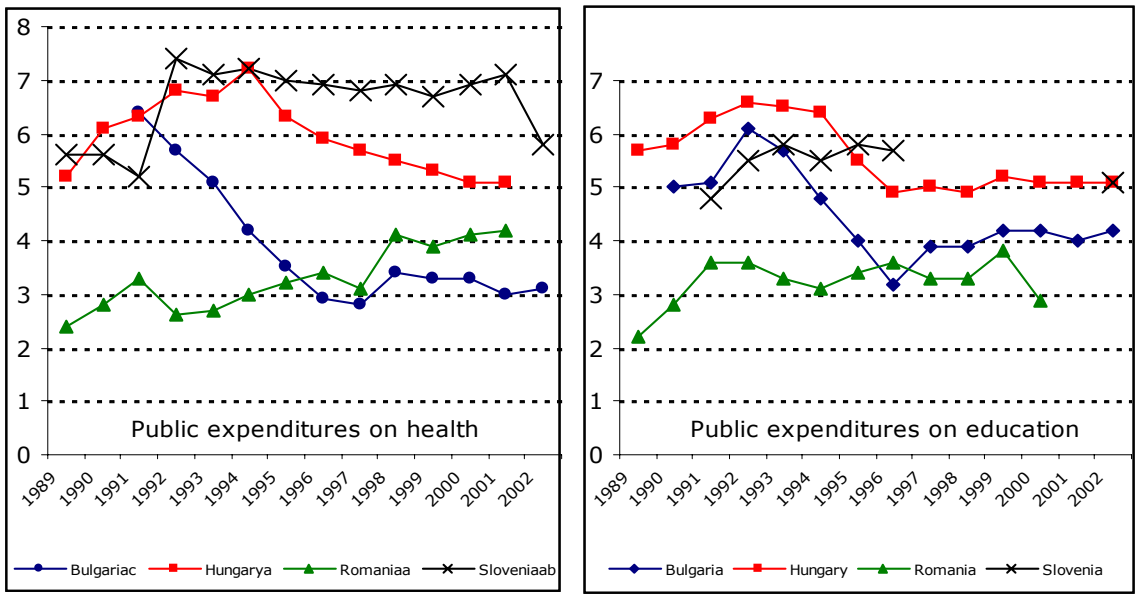
The Bulgarian state focused on unemployment reduction during the entire period due to the very high unemployment rate in the European context. The approach is, however, an active one encouraging people to train and retrain, to find a job, to open a business and not to becoming dependent on the state. During the '90s the system was profoundly reformed. Social assistance was also linked to the unemployment policy with the risk of low coverage of the poor. Most benefits decline considerable in real terms so that social

[24] It was based on the comparison of data 1987/88 and 1993/94.

policies did not fulfil its main function of protecting people in front of transition hardship. In addition, the expenditures for both education and health diminished considerable. Nevertheless, one should keep in mind that compared to Slovenia and Hungary, Bulgarian economy faced a much deeper and longer recession so that the state resources for social policies were much smaller.

In Romania the recession was somewhat 'lighter' than in Bulgaria but the economy started to recover later due to delayed reforms, the 'disguised unemployed' is very high, and the poverty incidence is much higher. Income policy has been highly distorted, tax burden is among the highest in Europe, for many years employment policy was dominantly passive, and investment in education was kept low or even diminished. However, as result of the solid economic reforms after 1996 and of the reformation of the social assistance system after 2001 some improvements are registered. As the budgetary resources increased the public expenditures on health has also been raised. The current social protection system is widespread[25] and contributes substantially to poverty reduction, a large share of the impact being due to pensions.

Figure 2. 1 Public expenditures on health and education as share of GDP, 1989-2002



Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 82 and 85. Regarding education: GDP taken from EBRD (2003).

Notes: Bulgaria – regarding health data refer to consumption expenditure; Hungary, Romania, Slovenia - regarding health IRC estimate based on WHO (2004); Slovenia - regarding health data for 2002 are consumption expenditure

Following Milanovic's methodology (in the limits given by data availability) we analyse the changes in composition of population disposable income share of (current) market-price GDPs. Thus, we use the same four-way classification of incomes in: 1) wages; 2) cash social transfers; 3) 'non-wage private sector', which includes self-employment, home consumption, property income, private transfers, and other private sector income; 4) 'in-kind social transfers', namely expenditures on health and education.

Changes in composition of income are measured between 1996 and 2001. In 1996, Bulgarian economy was in recession, Romania was just before the second recession period, while Hungary and Slovenia were already recording two-year of positive growth. In 2001, the situation is more positive for all four countries, all of them registering positive growth for at least two years. However, the Slovenian and the Hungarian real

[25] It redistributes about 10% of GDP and reaches 83% of the population. (World Bank, 2003)

GDPs were in the vicinity of the 1990 base, whereas the Bulgarian and the Romanian real GDPs came close to the 1990 base only in 2001.

COMPPRESS Country	GDP growth **1996**	GDP growth **2001**	Real GDP (1990=100) **1996**	Real GDP (1990=100) **2001**
Bulgaria	Negative	Positive	84.2%	92.7%
Hungary	Positive	Positive	93.0%	116.0%
Romania	Positive, sharply declining	Positive	98.8%	93.6%
Slovenia	Positive	Positive	105.5%	129.9%

Changes in the different sources of income *expressed* as shares of GDP encompass two economic dimensions.

- The first dimension is the structure of household income, which is relevant mainly for reflecting the ratio of compensations, in other words the level of welfare re-distribution. This represents the combined effect of the competitive pressure on the market and of the income and social policies provided by the state.
- The second dimension is the total share of households' income in GDP. This share reflects the distribution of GDP towards households, government and productive sector development.

Expectedly, as the market develops the distribution of GDP towards households, government and productive sector has considerably changed. Compared to Milanovic's analysis done in the first years of transition, in 1996-2001, the share of the households' income in GDP has considerably diminished.

On the other side, the structure of the households' income has also changed as it mirrors the labour market, income, and social policies developments.

The indicator is built based on the average household income per capita in each country, which is extrapolated at the macro level by multiplying it with the total population. Where estimates per capita were not available the average household income was divided with the average household size and multiplied by total population. As the indicator is based on Household Budget Survey data it includes at least partially informal incomes, which could otherwise induce great disturbances especially in the case of Romania and Bulgaria. For the Hungarian case we used the national accounts data due to the absence of data at the household level in the CSO Yearbook. A final remark, in-kind social transfers represent the share of public expenditures on health and education in GDP.

Table 2. 1 Population income by sources in 1996 and 2001, percent of GDP

	Wages		Cash social transfers (a)		Non-wage income (b)		In-kind social transfers (c)		Total	
	1996	**2001**	**1996**	**2001**	**1996**	**2001**	**1996**	**2001**	**1996**	**2001**
Slovenia	27.3%	26.1%	12.5%	13.3%	9.6%	3.0%	12.6%	12.2%	61.9%	54.5%
Hungary	18.3%	15.0%	5.8%	4.3%	9.3%	6.4%	10.8%	10.2%	44.2%	35.7%
Bulgaria	16.9%	16.8%	8.1%	11.4%	17.8%	14.1%	6.1%	7.0%	48.9%	49.3%
Romania	16.7%	18.7%	6.2%	8.5%	17.0%	14.5%	6.3%	7.2%	46.3%	48.9%

Source: Authors' calculations based on Countries Statistical Yearbooks.

Notes: (a) Includes unemployment benefits, pensions, family allowances, other social benefits; (b) Includes the income from self employment, work under contract, property income. With the exception of Slovenia, it also includes the equivalent of consumption from own resources. This does not bias the data to a large extent because money income represents in Slovenia 96%-98%; (c) Data for Slovenia refer to 2002.

Table 2.1 (total column) indicates that, between 1996 and 2001, whereas in Hungary and Slovenia the households' income share in GDP diminished, in Bulgaria and Romania it increased. This opposite trend it reflects the differential in the stage of development between the two groups of countries. As we have already showed, for the first pair of countries 1996-2001 is the period *after the transition shock* characterized by continuous growth, while for Bulgaria and Romania 1996-2001 is just *the final period of transitional recession*. Correspondingly, Hungary and Slovenia are ahead in the catching up process with the EU and include higher proportions of gross capital formation and non-households consumption in their GDP.

The type of change in the composition of household income is determined by adapting Milanovic's (-/0/+) evaluation. (Table 2.2)

Table 2. 2 Changes 1996-2001 in composition of household income by type of income and by country

	Wages	Cash social transfers	Non-wage income	In-kind social transfers	Total
Slovenia	-	+	- - -	0	- - -
Hungary	- - -	-	- -	0	- - -
Bulgaria	0	+ + +	- - -	0/+	0
Romania	+ +	+ +	- -	0/+	+

Legend:

'0' – a change under 1%;

'-', '+' – a small decrease/increase (1-1.9%);

'- -', '+ +' – a medium decrease/increase (2-2.9%);

'- - -', '+ + +' – a large increase/decrease (>=3%).

The reference typology (Milanovic, 1998) divided transition economies in the first years of transition into three categories depending on the type of change as follows:

1. configuration (- 0 +) corresponds 'the non-compensators'; this category is characterized by a declining share of wages (negative sign) that is not compensated by an increased in share of cash social transfers (zero); positive sign

denotes an increased share of non-wage income. Before 1994 out of the four COMPPRESS countries only Romania fell in this category.

2. configuration (- + +) corresponds 'the compensators'; this category is characterized by a declining share of wages (negative sign) that is compensated by an increased in share of cash social transfers (positive sign); the second positive sign denotes an increased share of non-wage income. Before 1994 out of the four COMPPRESS countries only Bulgaria fell in this category.
3. configuration (+ + + +) corresponds 'the populists'; this category is characterized by a increased shares of all sources of population income in GDP, wages, cash social transfers, non-wage income as well as in-kind social transfers. Before 1994 out of the four COMPPRESS countries Hungary and Slovenia fell in this category.

Before early '90s and the period 1996-2001 the situation changed significantly.

Hungary and Slovenia were 'populist' during the transition recession. After output decline reversed and the GDP reached the 1990 base, the two countries did no longer react at the decrease of both wage and non-wage income. This fact indicates that the economic development has already reached the large majority of the population. The very low poverty rates of Hungary and Slovenia are evidences in this sense. As the functional market developed and strengthen, the two countries they stopped to protect population, reduced the social effort and targeted assistance to the most disadvantaged.

By contrast, Bulgaria and Romania effort to protect population fluctuated as their national outputs did. However, in the second half of the '90s, these countries no longer compensate for lost wages but for the decline in non-wage income, especially the equivalent of agricultural products obtained within households, which is largely connected with the poor population. The underdeveloped and vulnerable non-wage incomes represent the major challenge for Bulgaria and Romania in the final phase of transition, because these incomes are not related to market, to property income and sustainable self-employment as in Slovenia and Hungary but are related to large pool of transition 'losers', mainly unemployed and underemployed.

Due to lack of fully comparable methodology our demonstration is rather a hypothesis that needs further in-depth analysis.

2.2 Income policies: country studies

2.2.1 Personal income tax

Bulgaria

In 1996, Bogetic and Hassan made an investigation of the distribution of income and of the income tax burden by income and expenditure class and by rural-urban sector in Bulgaria. The study is also based on the 1992 HBS. To account for variation in the household size, the authors use for their analysis the annual household income per capita.

In Bulgaria only the cash incomes are subject to taxation, although in-kind income accounts for about 24 percent of household income and is counted as a part of income. To assess the effect that such an inclusion might have on income levels and income distribution, the authors made adjustments to income as defined by the survey. First, sales of property are excluded, as they do not belong to income. Second, contrary to the NSI definition of income, personal borrowing, savings withdrawal etc., are also excluded. Theoretically, one should include income that would be received if the assets were rented

- rather than sold - in the market place instead of being used by the owner. Altering the definition of income leads only to a change in the level of household income per capita. None of the adjustments mentioned above significantly affects the deciles shares or income inequality as both adjustments result in a very small change in the shares of all income groups. These results indicate that asset sales were, in general, evenly distributed across the population, and not highly concentrated in any income group.

Low-income households display markedly lower income tax than higher-income households. For the bottom income deciles this ratio is 1.4 percent. Also the poor (lowest two deciles) pay a similar ratio. For instance, the rich (top income deciles) pay more than four times higher effective income tax rate than the poor. The rich (highest expenditure decile) devotes 7.2 percent of outlays to income tax, or more than four times the amount paid by the poor. These results suggest that the present income tax system with marginal rates ranging from 20 percent to 52 percent is very progressive. The exclusion of in-kind income/expenditure eliminates much of the share income (expenditure) of the poor from taxation, increasing the progressivity. Urban households pay 5.3 percent of their per capita income in income tax, whereas the rural sector pays less than half that amount.

On the other hand, Hassan and Bogetic assess the distributional impact of income tax at the national, urban and rural level, by posing the question whether the poor and other lower income classes pay a smaller share of total income tax than their share of national income. In such a case the income tax systems is judged to be pro-poor, as it reduces income inequality. Poor as well as the lower middle income groups (up to the 6th income deciles) pay a smaller share of income tax than their share of national income. While the poor (bottom two deciles) pay about 3.2 percent of total income tax (or less than one third of their income share), the top income class share of tax is 31.3 percent (or more than 50 percent of their income share). This leads to the outcome that the current income tax system contributes significantly to reducing income inequality. Urban households are found to pay smaller share of their total taxes paid than rural households. This applies to the rural poor (the lowest two deciles) and urban poor as well. This conclusion confirms the insignificant difference in the income distribution between urban and rural sector. In sum the current income tax system seems to be progressive and urban bias and to contribute significantly to reduce overall and sectoral (urban-rural) income inequality.

The distributional pattern of the tax burden remains unchanged when household per capita expenditure rather than per capita income is used as a base for calculating the effective tax rates. For example, urban households pay 5.3 percent of their per capita income in income tax, whereas the rural sector pays 2.4 percent (or less than half the urban amount). This urban rural disparity in income tax burden cuts across income as well as expenditure classes. It should be noted that the exclusion of in-kind income/expenditure from taxation reduces tax burden estimates, particularly in rural areas where in-kind income/expenditure is more common. The progressivity and urban bias in Bulgaria, however, must be viewed cautiously since it is obvious that as in-kind income becomes monetized, and the economy more market oriented, both progressivity and urban/rural difference will be substantially reduced over time.

Hungary

Changes in the tax system

The first and very important law on taxation was the Law on taxation No.XCI/1990. This was accepted to modify the previous laws to the new market economy. It has regulated the way to pay income tax and the taxes on the different types of incomes. Also it gave possibility to tax deduction due to family investment and insurance reductions.

The most important part of the law is which defines the level of personal income taxes. Before 1995 the people with low income did not pay taxes at all. In 1991 the personal tax system was very simple. It had four rates and just the high wages and salaries belonged

to the highest rate. In 1995 the tax rates increased and the low-income people also had to pay 20%. There were some favours for them (particularly the tax refund), which compensated the taxes paid. From 1995 till 2001 the tax system had again 6 rates and became more complicated. However did not follow the increase of the incomes at all. For this reason, in present people earning above average income must pay personal income tax according to the highest rate.

Taxation grew the competitive pressure as the system gave a lot of possibilities to avoid paying taxes mainly through investments and savings. In this way the average rate for rich people in Hungary is 28% which is lower than the rate on the average income.

Favours and tax reductions in Hungary

These reductions are changed in every year and depend also on the political background of the economy. Some types of them are:

- Monthly tax reduction: at about 10% of the average gross income. Due to this provisioning people with low income do not pay taxes at all.
- Tax reduction on estate-loans: people repaying a loan on their estate can ask for it. The rate was cut to the half this year. As people with average or higher income can afford to pay an estate they could exploit the advantage of it.
- Tax reduction on children: families with children can ask for it but the problem of this reduction is very similar to the problem of the previous one. Rich people can exploit it.
- Tax reduction on contributions paid to get pension: cancelled in 2004. Till this year 25% of the contribution could be deducted from the tax.
- Tax reduction on going to training or buying computers: the first one is opened for everyone who attends a course for adults. The second one was introduced for the parents with a child attending school and for teachers. This year maximum 60.000 HUF can be deducted.
- Those who write articles give lessons or act in theatres besides their main job can reduce their income with the expenses of their second job. The laws also favour the bed-and-breakfast services in the rural area of Hungary by several reductions.
- Generally people did not pay tax after their pension. For additional incomes pensioners must however pay tax.

The tax system of Hungary does not decrease the effect of the competitive pressure at all. People with average or low income pays high taxes and the taxation is not progressive at all. The moral of paying taxes is very low and just the state employees pay the total amount of it.

Romania

Tax and the safety net

The Romanian safety net is highly progressive. Total government tax collection amounted to 189% of net tax, with 89% being subsequently redistributed from the four richest deciles to the three poorest ones (Tesliuc and Pop, 1999, Tesliuc et al, 2001, World Bank, 2003). Most of this redistribution occurs to the first (58% out of 89%) and the second deciles (21% of 89%). In aggregate, the government levied from households the equivalent of 52% of their consumption and transferred back 46% of the same consumption figure. It seems therefore that the Romanian safety net is well targeted towards lower income quintiles (except from scholarships and some merit based benefits) but, as we show in the next subchapters, it has modest coverage.

Taxation policies and black work

'The highest proportion of the fiscal burden lay on the employees' shoulders and on their families. They represent 44% of the Romanian population but the tax on wages and the social contributions they pay make 70% of the overall revenues.' (Tesliuc, Pop, Tesliuc, 2001: 154)

Burdensome and unstable fiscal system adds to the high inflation and the lack of legal provisioning regarding atypical forms of work. In facing this environment people develop ways to gain and protect their incomes. Small entrepreneurs (representing most of the Romanian entrepreneurs) as well as self-employed operate at least partially in the informal sector, to buffer the burden imposed on their official businesses by the fluctuating fiscal system. Alternatively, employees accept all sorts of informal agreements to ensure that at least a part of their payment goes through invisible channels in order to avoid taxation.

Given the present wage versus profit-related taxes, and in spite of the risks involved in breaking the law, the most profitable option for an employer is to pay taxes on profits and to hire people without contract. The number of blackleg increased accordingly, particularly in construction, trade and transport. (Stanculescu and Ilie, 2001)

Payroll tax

The payroll taxes in Romania are among the highest in Europe. The total tax burden on labor for low wage earners in Romania currently (2004) stands at 45.2%, similar to Belgium, Germany, Sweden and Italy, while the European average is around 38% and in countries such as Ireland, Cyprus and Malta it is below 20% (European Commission, 2003). The effect of levering such a large tax-burden is especially perverse in the case of low-skilled and low-productivity workers. As the recent CASE (2004) study demonstrated using RHBS data (1995-2002) the increase in the tax wedge imposed additional distortions in the labor market and, consequently, many unskilled workers lose employment opportunities. As the result unskilled workers, particularly those from rural area did not benefit of the economic growth after 2000.

Pension funds are the most important contributor to the total wedge, constituting as much as 46.7% of the total (see also subchapter 2.3). Personal Income Tax (PIT) is the second largest contributor, constituting 12% of the total tax burden even for low wage earners.

In 2001 (provisioning subsequently modified in 2002 and 2003), a global income tax has been introduced with a maximum rate of 40% (down from 45% in 1998 and 1999) on salaries higher than ROL 60 mil per annum (approximately USD 2,700).

In Romania:

- Employers must pay various social security contributions calculated on the gross salary:
    - Social security fund 30% (generally)
    - Health fund 7%;
    - Unemployment fund 5%;
    - Social Solidarity Special Fund 3%;
    - Education Fund 2%;
    - Chamber of Labour commission 1%.
- The employee pays the following contributions, which are deductible for salary tax purposes:
    - Pension fund 5%;
    - Unemployment fund 1%;
    - Health fund contribution 7%.

According to the most recent regulations a person should pay the contributions to the social security fund and those to the health fund for each job hold (including temporary).

The tax base is subject to progressive annual tax schedule, which contains five tax brackets with marginal tax rates of 18%, 23%, 28%, 34%, and 40%. Each taxpayer is treated individually. For the next year a modification of the Fiscal Code (Law 571/2003) is scheduled that will reduce the tax brackets to three.

According to the Pre-Accession Economic Program (2003) the changes in taxes-related legislation are oriented toward the diminish of the tax burden by adjusting the share of the direct and indirect taxes, by simplifying the tax system and by reducing the costs associated to the tax administration in order to create the right incentives framework to working, saving and investing.

Thus, after a reduction with 5 percent implemented in 2003 and distributed proportionally between the employees and the employers there will be an additional diminish (scheduled in 2004) of at least 3 percent that will be granted mainly to the employers. The reduction process of the social security tax rates will be continued on the medium term in order to reduce the labour costs, to improve the fiscal competitivity of the business environment and to reduce the marginal propensity to tax evasion of the companies.

Slovenia

Personal income tax and social security contributions

Slovenia first introduced a personal income tax in 1991, with major changes being adopted in 1994. In May 2004, a completely new personal income tax (PIT) law was approved by parliament and its provisions accord to the Constitutional Court rulings, which declared (in 1996) that certain articles of the personal income tax act do not conform to the constitution. At issue were tax allowances for children (dependents) and these were deemed »too low«, i.e. »insufficient« to cover the cost-of-living of children. The new law thus raises the tax relief for children and the value of the basic tax relief for all taxable persons. In order to compensate for this loss of tax revenue, the tax base was broaden with the inclusion of interest (currently, interest from bank deposits and securities is not taxed), and some types of income received by farmers (agricultural subsidies). However, it must be noted that the threshold for interest taxation is rather high. The new PIT act reduced some generous tax allowances for income from property rights and rents. It also introduced some new mechanisms to prevent untaxed transfers of income through the decrease of capital (equity) to the company owners. The Ministry of Finance estimates that the majority of low-income taxpayers will benefit, while the position of those in the top income range will not change substantially. The result is an expected 10% decrease in revenue from the new personal income tax compared with the existing taxation. The law will become effective in January 2005.

Under the existing law, still valid till the end of 2004, personal income tax is levied on eight categories of income subject to tax: (1) *Income from employment*, (2) *Income from contractual work*, (3) *Pensions and pension benefits*, (3) *Income from agriculture*, (5) *Income from private business and professional activity*, (6) *Capital gains*, (7) *Income from property*, (8) *Income from property rights*. The system includes tax reliefs in the form of tax allowances. They are:

1. *General allowance;* 11% of the gross average national wage, granted to all taxpayers.
2. *Disabled person's allowance;* 100% of the gross average national wage, granted to all taxpayers who are heavily disabled.
3. *Student work allowance;* 40% of the gross average national wage, granted to taxpayers with income deriving from student work.
4. *Seniority allowance;* 8% of the gross average national wage, granted to all taxpayers above 65 years.

5. *Allowances for dependent family members*:
6. *Allowances for children;* 10% of the gross average national wage for the first child, with 5 additional extra percentage points for each subsequent child, and 50% of the gross average national wage for a disabled child.
7. *Allowances for other dependent family members*; 10% of the gross average national wage for any other dependent family member.
8. S*pecial allowance;* defined as a sum of a taxpayer's expenses for selected purchases such as the purchase of books or government securities (up to 3% of the tax base).

The tax base is subject to progressive annual tax schedule, which contains six tax brackets with marginal tax rates of 17%, 35%, 37%, 40%, 45% and 50%. Each taxpayer is treated individually.

Personal income, more precisely: wages and wage compensations, are also subject to social security contributions. There are four types of compulsory social security contributions, which are paid both by employer, at a rate of 16,1% of gross wage and employee at a rate of 22.1% of gross wage: (1) for pension and disability insurance (paid to the Institute for Pension and Disability Insurance), (2) for health insurance (paid to the Institute of Health Insurance), (3) for unemployment insurance (paid to the central government), (4) for maternity leave insurance (paid to the central government). The joint (employee + employer) contribution rate for social security contributions in 2004 is 38.2%

With regard to the tax burden, measured as the effective tax rate (personal income tax and social security contributions as percentage of gross wages), the tax burden of low-income persons is low and comparable to that of other European countries. With regard to high income (more precisely: high wages), the situation is quite different. Thus, the marginal effective tax rate for wages is among the largest in Europe, and surpasses 60%. The reasons for this are clear: a high marginal income tax rate of 50%, coupled with high social security contributions, which are not capped.

In assessing the overall tax burden on labour, one must also take into account the employers social security contributions, which are currently 16.1%. There is also a differentiated (and very progressive!) payroll tax. All this results in a rather high tax burden on labour in the formal economy.

This fact is well known to policymakers. Tax changes in 1996 attempted to decrease the tax burden for low-income groups. These changes were strongly motivated by a desire to improve the competitiveness of labour intensive industries (footwear, textiles etc), which were burdened with high labour costs. Thus:

a. the employer social security contribution rate for pension and disability insurance decreased from 15.5% (of gross wage) to 8.85%;

b. a progressive payroll tax was introduced, with a zero rate for low wages and a 15% rate for very high wages;

c. excise duties were increased, in order to fully compensate for the decrease in tax revenues caused by the decrease in the employer social security contribution rate.

As the draft law on the personal income law was nowhere in sight, the parliament passed a law on additional tax relief in 2000, which further reduced the tax burden of the very low-paid workers, i.e. those that earn less than 45% of the average wage. And, as already noted, the new personal income tax permanently reduces the tax burden for low-income taxpayers.

To sum up: legislative action in the field of personal income taxation has been very much concerned with decreasing the tax burden of low-paid workers: the "broader" picture, i.e. decreasing the tax burden on labour, has not really been dealt with.

The personal income tax system and social security contributions substantially reduce income inequality. As Table 2.3 reveals the inequality of gross income subject to tax increased between 1991 and 2000. In 1991 the top 10% of taxpayers received 25,14% of all income while in 2001 this number reached 29,23%. Due to the personal income tax and (employee) social security contributions, inequality of net income did not change by much. The Gini coefficient for net income is practically the same in 2000 (0,346607) as in 1991 (0,344307).

Table 2. 3 Distribution of gross and net income (subject to PIT), Slovenia 1991 and 2000

Decile		1	2	3	4	5	6	7	8	9	10	All	Gini Coefficient
Gross income*	1991	0,43	3,72	6,04	7,30	8,45	9,67	11,05	12,80	15,38	25,14	100	0,3578
Net income	1991	0,50	3,96	6,24	7,54	8,68	9,87	11,16	12,77	15,18	24,10	100	0,3443
Gross income	2000	1,14	3,93	5,39	6,42	7,49	8,72	10,26	12,22	15,21	29,23	100	0,3886
Net income	2000	1,46	4,51	5,96	7,00	8,05	9,28	10,68	12,36	14,85	25,85	100	0,3466

Source: Kump, 2002, personal income tax databases (5% sample from the population of all taxpayers). Recipients of pensions are excluded.

Notes: *Gross income - gross income subject to tax, before employee social security contributions and personal income tax.

Similar results were obtained by other studies, which were based on different databases, for example Borak and Pfajfar (2002), who examine income inequality for the entire period 1991-2000 on data for the whole population of taxpayers, or Stanovnik (2001) whose study is based on the analysis of household budget survey databases for 1983, 1993 and 1998. During the 1990's the differences in income earned in the market (wages etc.) increased. On the other hand, the inequality of net income remains almost the same as a result of tax system and active social policy. The tax system provides the tax shield for low-income individuals and most social security benefits (social assistance and family benefits) are effectively tax-exempt, including most pensions.

2.2.2 Minimum wage, state wages

Bulgaria

The minimum wage has been set by the Bulgarian authorities as a tool for guaranteeing income for everybody who works regardless of his work history, age or education. In 1992 its value represents 42% of the average monthly wage for the country. Corresponding to the high inflation processes in the country, government adjusted the value of the minimum wage regularly and the result was that its nominal value increased. However, the main goal was not achieved because, despite the growing nominal value, the real value of the minimum wage decreased.

Until 1994 Bulgarian government managed to keep minimum wage above 40% of the average wage. In 1996, the rate of the minimum to the average wage was the lowest one for the period – only 29%. Afterwards, this rate has increased slowly reaching again 42% in 2001. In 2002 the minimum wage is 39% of the average wage.

Table 2. 4 Minimal and average wage in Bulgaria, 1992-2002

Years	Minimal wage (BGN)	Average wage (BGN)	Rate of minimal wage to average
1992	850	2 047	0,42
1993	1414	3 231	0,44
1994	2143	4 960	0,43
1995	2760	7 364	0,37
1996	3340	13 247	0,25
1997	45500	127 909	0,36
1998	53500	183 250	0,29
1999	67	201	0,33
2000	79	224,5	0,35
2001	100	240,0	0,42
2002	100	257,6	0,39

Source: Bulgarian Statistical Yearbooks (various editions).

Because of the Currency board established in Bulgaria, the value of the minimum wage is set by the Council of Ministers but with the approval of the experts of the World Bank and the Monetary International Fund since 1997. This minimum wage is unified for all categories labour and for all educational levels. There are suggestions its value to be differentiated accordingly to the level of education which will contribute to better operation of the labour market under conditions of competitive pressure.

Many firms mainly in the private sector prefer to hire employees on wages near to the minimum wage with the goal to avoid tax payments and the other part of the wage is given 'under the table'. For the employees this is also a way to avoid the payment of high payroll taxes. As result, the wage level in the private sector is lower than in the state sector. The negative impact of this praxis is to be seen also in the lower income in the state budget and the low level of the wages and salaries in some sectors of economy not responding to the real labour demand and supply. This is, on one hand, an effect of the competitive pressure on the Bulgarian market because all economic agents strive for reducing their expenditures and thus gaining an advantage in comparison with their competitors. On the other hand, this process has rather negative impact on the competition on the labour market and leads to holding back the wage level and thus decrease in the living standard of the population. Lower incomes in the state budget are premise for social policy not well developed and implemented.

The income policy has as its main focus the regulation (based on special Ordinance) of the wage fund in enterprises with predominant public and municipal ownership and direct establishment of the wages in the budget sector. Regardless of the unions' demands for negotiating higher level of wages the wage rise in the wage sector is strictly conformed with the requirements of the IMF i.e. the growth in percentage for every six-month period is linked to the level of the revenues in the budget, the availability of a budget surplus and the reduction of staff. The income policy does not address the wages in the private sector and the shadow economy.

The wage development in state-owned companies has remained fairly uncontrolled despite the efforts made by the government after the crisis of 1996-1997 to link wage increases to the financial situation of the companies. Until very recently wage setting was more guided by anticipation of inflation than by consideration of productivity trends. Specific conditions currently apply to the remaining 60 or so monopolies within the framework of the IMF agreement. Wage increases are subject to strict conditions such as profit during the previous year, absence of state subsidy and debts duty paid.

Wage setting still displays number of features inherited from the past such as the practice of bonuses which can represent 25% to 30 % of the basic wages or the definition of sectors and grouping of occupations. Wages and salaries in Bulgaria are fixed at three levels:

- National, which determines the minimum wage and some additional remuneration;

- Collective bargaining;
- Individual agreements between the parties in individual employment relations.

At the national level the fixing of the minimum wage is related to the ambition to sustain and increase the purchasing capacity of the employed and hence to sustain and increase the employment; to create conditions for reducing and removing the unfair competition in the labor market and to stabilize the function of the wage in macro-economic perspective.

The minimum wage is adjusted by a government resolution after consultation with the social partners through the national Tripartite Commission. The right to minimum wage is a fundamental constitutional right of workers and employees and the minimum wage is fixed by the Council of Ministers. The Council of Ministers fixes the minimum wage having discussed it in tripartite cooperation with workers' and employees' trade unions and with the employers. The minimum wage covers all workers and employees under labour contract and is determined for the lowest skilled labour in full-time normal working conditions. Since the minimum wage is guaranteed by the Constitution and by the minimum wage system provided in the Labour Code the minimum wage system has the force of law. The fundamental right to minimum wage cannot be revoked, limited, restricted, etc. other than through an amendment to the Constitution itself. The minimum wage is periodically adjusted through decrees of the Council of Ministers. The basic guarantee for its payment is contained in article 245 paragraph 1. of the Labour Code, which reads as follows: 'A worker or an employee is guaranteed, provided they duly and faithfully implement their labour obligations, the payment of a monthly remuneration to the amount of the minimum monthly wage valid for the whole of the country'. In determining the minimum wage due account is taken from the needs of the workers and employees and their families, the cost of living and its dynamics, the economic development of the country, the level of labour productivity and the maintenance of an adequate level of employment. All these are the subject of negotiations in the tripartite partnership between the State, trade unions and employers' representative associations. This procedure was introduced for the first time in an amendment to the Labour Code in 1992. Specifically the tripartite cooperation defines the following:

- Ways and means, principles and procedures for fixing the minimum wage valid for the whole country as well as the reasons, conditions and manner in which it is adjusted;
- The minimum hourly and monthly wages for the whole country and the recommended coefficient to differentiate starting wages according to the level of education;
- Types and minimum amounts of additional remuneration where this is not specifically provided for in the Labour Code;
- Ways of determining the sources for wages. various positions and coefficients for determining starting wages in enterprises being run from the State budget;
- Principles, ways and means, and terms for regulating sources of wages.

In addition, the minimum wage is subject to adjustments in different production branches. The fixed minimum wage valid for the whole country is the focal point in the negotiations on determining wages in the different production branches. Social partners here are entitled to negotiate a higher minimum wage for a particular production branch taking into account the specific economic opportunities, economic demands, and the social partners' balance of forces. This makes it possible to agree on a more just differentiation of wages for different branches since the minimum wage determined on an average basis for the whole country does not necessarily comply with the specific working conditions and requirements of all production branches. The last level of collective bargaining on the minimum wage takes place in the enterprise itself. There the employer and the representative trade union organization are the parties empowered to negotiate.

They determine the minimum hours daily or monthly wage for the enterprise and also the following:

- Starting wages, differentiated according to the categories of the personnel, positions, needed level of education or training as well as the reasons and ways and means for their adjustment;
- Ways and means of evaluating jobs with a view to determining the wage;
- Ways and means of assessing labour efficiency and of consequently determining wages;
- Determining the types and amounts of additional remuneration;
- Pay increases depending on inflation and other economic factors;
- Mechanisms for distribution of the sources for wages among various structural units in the enterprise;
- Defining the system to be taken into account in determining the wage in accordance with the particular working conditions in the various branches.

A basic requirement in determining the wages of workers and employees at each of the lower levels of contract bargaining is that only such conditions as favour the workers and employees may be put forward.

The mechanism for determining, supervising and adjusting the minimum wage is dependent on the general mechanism of the income policy. The basic principles of this policy are a regulated formation and increase of the sources of wages in State-run and municipal factories and companies for example a three-monthly regulation of wage sources in State-run and municipal factories and companies a three-monthly adjustment of wage sources in the budgetary sphere and a minimum wage and other protected remuneration kept in accordance with the rate of inflation.

Against a background of weak social dialogue in the private sector and in SMEs in particular private employers tend to copy the wage behaviour of the big state-owned enterprises that are themselves constrained by centralised rules for wage adjustment. Therefore, development of wages in the private sector has hardly been related to productivity and economic performance either. Overall, this has also impeded wage bargaining in improving the functioning of the labour market with implications for employment.

Hungary

During the early '90s Hungary was the country in which it was worth to invest. Low taxes, or even no taxes at all, low cost of infrastructure and labour drew hundreds of investors to come here. Later, some of them left the country but most of the investors remained and had higher profit rate than in other places. Between 2002 and 2004 several companies left Hungary to settle their parts near to cheaper labour force. This way we must be very careful if we want to declare the effect of the minimal wage on the labour market, as it is twofold.

The rate of minimal wage to the average gross earning is a very good indicator of pauperisation in Hungary. Of course as citizens pay taxes and social contribution from the gross wage, the rate of minimal wage to net average earning would be higher, at about 60%. Till 1997 the minimal wage lost it's value but the increase in that and the following years turned back the phenomena and nowadays it keeps its level, however does not increases.

The introduction of the minimal wage for people with degree was needed after the great increase of the minimal wage, as there were several people who get the same money from the 1st of January as others without degree. In the public sector providing this

minimum value is obligatory but in the private sector companies do not pay it, just if they are in lack of a young employee.

Table 2. 5 Minimal wages in Hungary after 1990 in HUF

Year	Minimal wage	The rate of minimal wage to the average gross earning
1992 I.1.	8000	35.8
1993 II. 1.	9000	33.1
1994 II. 1.	10500	30.9
1995 III. 1.	12200	31.4
1996 II.1.	14500	31.0
1997 I. 1.	17000	29.7
1998 I. 1.	19500	28.8
1999 I. 1.	22500	29.1
2000 I. 1.	25500	29.1
2001 I. 1.	40000	38.6
2002 I. 1.	50000	40.8
2002 IX.1.	100000 with college and 107000 with university degree	n.a.
2003 I. 1.	50000	38.2
2004	53000	n.a.

Source: Labour Market in Hungary 2000 (IE-HAS) and CSO.

Minimal wage is enough to survive today in Hungary if someone does not want to by a flat, and lives with parents. But for one adult who lives with one child the minimal wage is already less than the minimal living standard[26] of this kind of a household. For a household of two adults on the minimal wage and from two children (which is quite possible in Hungary), the minimal living standard, 145000 HUF/month is already 1,5 times higher than the earnings of the adults.

Table 2. 6 Minimal wage and average net wage percent of minimal living standard, Hungary 1989-2001

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Minimal gross wage % minimal living standard	182.7	166.9	146.5	137.5	129.7	127.8	140.1	159.8	154.7	193.2	219.3	200.0	181.8
Average net wage % living standard	186.4	187.5	180.7	176.1	164.5	176.1	186.1	216.9	231.5	217.4	219.7	223.1	231.3

Source: CSO of Hungary: Yearbooks.

Romania

Minimum wage

The minimum wage has been regulated since the beginning of the transition so as to provide basic protection of human dignity and work-related welfare.

The minimum wage in Romania started from a high level of 65% of the average wage in 1989 and reached a minimum of 27% in 1999. In 2001, it constituted 32.5% (37% in 2003 and 34.7% in March 2004[27]). This ratio between minimum and average wages is similar to the other transition economies of Central Europe and also to the OECD average. One has to remember, however, that most transition countries, and Romania in particular, have a large unskilled labor force that is characterized by low productivity, and

[26] For more details see footnote 23.

[27] This followed the decision to increase the minimum wage by almost 43% in January 2003, growth that took some time to propagate towards the upper layers of the wage distribution curve: while in January 2003 the ratio of minimum wage to the average gross wage was 38.4%, this ratio dropped to 31% by the end of the year.

minimum wage policies should be commensurate with this. According to NIS Statistical Information Series 2004, in 2001, as many as 6.7% of employees were paid at the level of the minimum wage or even slightly below and 15% were paid on the vicinity of minimum wage. Most recently, following the 43% increase in the minimum wage in January 2003 (IMF, 2004), and following the introduction of the New Labor Code, the share of employed persons paid (officially) at the level of the minimum wage has increased, according to some estimates to as much as 30% of total employment (estimates from the Romanian Chamber of Commerce, National Council of SMEs). This suggests important downward wage compression that may pose an additional barrier to employment of the unskilled. (CASE, 2004)

Table 2. 7 Minimum wage in Romania, 1989-2001

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Changes in minimum wage (1989=100)	100	95.1	92.8	64.8	45.6	39.8	36.9	30.8	26.3	29.4	25.8	30	42.2
Minimum wage percent in gross average wage	56.5	49.9	57	44.9	36.6	32.5	25.8	19.7	21.6	24.6	21.3	24.5	31.1
Minimum wage percent in net average wage	65.3	59.2	67.2	45.5	39.3	34.9	31	26.2	29	31.2	26.8	32.4	43.7
Proportion of employees registered on minimum wage	6.8		9.1		1.7	3.4	1.9	1.1	4.7	5.1	5.4	6.9	6.7

Source: Ilie, 2004.

Before 1989, wages were artificially maintained within a narrow band by the communist regime. Since 1992-93 wages started to differentiate. The share of employees earning minimum wage increased. At the other end of the scale, share of employees earning the equivalent of two monthly average wages increased also (fivefold between 1994 and 1998, reaching 10%). Mostly were employees in large state-owned enterprises and monopolies and their earnings have not been decided based on labour productivity but on their negotiation power. Besides, in the first years of transition, significant spending from the Unemployment Insurance Budget subsidised the wages of those employed in the so-called national strategic branches and the army during periods when their production was low or zero. Thus, mainly before 1997, salary policy created and exacerbated the imbalance and inequality in the system of work remuneration. (Zamfir, 2001: 25)

Beginning with 1997 the government policy changed its focus from salary policy to restructuring the economy.

With regard to gender equality, the women income in Romania represents, on average, 82% of the men's one. In October 2002, the distribution on gross salary groups in different fields of the national economy showed that 69.7% of the salaried women had an income below the average net salary. This is because women are employed in fields with lower gross added value – such as food processing or textile - and they predominate in the area of lower wages. However, the wage differential is not very high at least in European terms.

Trades Unions and social dialogue

Before 1989, the state was in the same time employer and representative of the working people and the employees. After 1989, the trade union movement boomed. Independent unions were created in virtually all, relevant institutions. In the first semester of 1990 there were 800 legally registered trade unions. In the same year, a special Government – Union commission for dialogue was set up. Nowadays, there are one or several unions in each enterprise and they may belong to different trade union confederations. Primarily the trade unions represent the employees in negotiating collective work agreements at enterprise level. Federations perform this role at the branch or professional level. At the same time, the trade unions confederations provide representation to employees during negotiations with the Government in the National Commission for Indexation as well as

during the preparations of the legislation establishing minimum salary throughout the economy.

In 1998 a Social and Economic Council (SEC) was set up, as an advisory tripartite body of representatives of trade union confederations, employers' organisations and Government (9 members of each). The main task of this council is reaching consensus in regards to future relevant legislation and social-economic programmes. The council may also act as mediator in disputes at national or branch level. SEC includes seven commissions on: labour relations and mediation, privatisation, salary policies, health and safety, education and research and relations with international and non-governmental organisations. In short, the trade union movement assumed the role of a social partner in a dialogue with State authorities.

With the shrink of industry (massive lay-offs) the power of confederations and federations in negotiations decreased. After 1995 collective labour disputes changed from national to organization level, from actions coordinated by confederations and federations to local trade unions, with more and more accent on specific topics. As a general rule, newly elected governments had higher support of the trade unions, but the larger the governance period the lower the unions' support and the higher the number of disputes. Thus, the number of collective disputes reached its maximum (653) in 1999. The main claims of the collective labour disputes have been related to salary – non-payment of compensations, indexations, non-payment of wages in time, non-payment of holiday bonuses –, which represented 39-49% in total disputes.

Slovenia

Collective bargaining and wage determination

After decades of socialist self-management, collective bargaining was reintroduced in 1989. Today the collective bargaining practice in Slovenia is similar to those found in the EU countries. Collective bargaining is highly centralized and occurs at three levels: central level, branch level and company level. Since wage policies are being negotiated at two levels, separately for the private (market) sector and for the public sector, there are two national general collective agreements. The national and branch agreements include provisions for the level of a basic wage rate for nine-tariff groups with different skills and education requirements. It is expected that in the future, with decentralization of the bargaining system, branch agreements and bargaining at the company level will gain greater importance (Ministry of Economic Affairs, 2000).

From 1997 on there have been wage agreements that tried to slow down the growth of wages. Due to the still high level of inflation, the agreement is also specific on the indexation procedure to be taken into account in salary negotiations.

Unionization rate and coverage of workers by collective agreements

According to a survey on trade union membership, the unionization rate in Slovenia is around 42% and is similar to the rates of Austria, Italy, the United Kingdom, Portugal and Luxembourg. In most countries the percentage of workers covered by collective agreements is higher than the trade unionization rate. The coverage depends on the share of employers who are members of employers associations, the share of employees belonging to unions and if the legislation allows collective agreements to be extended to non-union employees. In Slovenia membership in the Chamber of Commerce and collective agreements are obligatory. Therefore, nearly every Slovenian worker is covered by collective bargaining agreements (Ministry of Economic Affairs, 2000).

Minimum wage and wage dispersion

Social partners (employees, employers and government) introduced minimum wages in Slovenia in 1995 as a result of increased wage inequality in the early years of transition.

The minimum wage covers all full-time workers. It is adjusted for inflation (85% of the inflation rate) and adjusted for gross domestic product growth rate in the previous year.

Since 1997, the minimum wage fluctuates in a narrow band of 44 to 46% of the national average wage.

With regard to gender equality, women on average earn 11.1% less than men, mostly owing to the smaller number of women on top positions as well as the fact that women on average work in sectors with lower wages. Since in other European countries the gender wage differential is higher (for example around 30% in Sweden), we cannot say that the position of women in the Slovenian labour market is seriously underprivileged. However, further steps for ensuring equal opportunities have to be taken, especially concerning some aspects of discrimination of women (National Development Plan of Slovenia 2001-2006).

2.3 Social policies: country studies

2.3.1 Pension system

Before introducing the four case studies we consider useful a more general presentation of the common features of the pension systems in the Central and Eastern European countries mainly drawn from Preda et al (2004).

The PAYG (*pay-as-you-go*) system pensions assumes a certain type of *redistribution* based on a social solidarity principle both between generations as well as between categories of pensioners (Mărginean, 2000). Particularly due to this redistribution, by setting a maximum ceiling for pensions, a minimum pension, a minimum contribution period, certain contributors (especially those with big earnings) are disadvantaged. Even so the 'pillion I' public pensions are present in all Western countries even if their importance has diminished somewhat in favour of private insurance.

After 1989, all Central and East European countries were confronted with a growing imbalance between available resources and population in need. The main causes of this imbalance have been:

- Reduction in the number of contributors to the system due to the decline in economic active population correlated with the increase in unemployment.
- Consistent growth in the number of pensioners
- Partial efficiency of contribution collection systems due to the growth in tax evasion and the development of the informal sectors of the economy
- Inflationary pressures which resulted in erosion of all types of incomes, including pension benefits.

Accordingly, all 'East European PAYG systems have been confronted by similar problems after the fall of communism. Post-1989 discussions and all reform proposals had common elements in identifying the need for raising the age of retirement, increasing the contributions' period, linking benefits to earnings rather than to a flat base rate, introducing or proposing to introduce supplementary systems relating to the second pillion (occupational) or even to the third pillion (private) smaller replacement rates for short-term benefits (maternity, illnesses).' (Muller et al, 1999 cited in Preda et all, 2004)

In the entire region it seems that an agreement has been reached that the current PAYG systems may become financially sustainable through raising the age of retirement, introducing more drastic eligibility criteria and improving contributing collection. However, each country reformed its pension system in a different manner as described in the country studies below.

Bulgaria

The number of pensioners in Bulgaria is fairly stable and varying around one third of the population in Bulgaria. This share was greatest in 2001 when pensioners were 34.57% of the whole population. Because of the low pensions' level the situation of these people deteriorated after their retirement and many of them did not go out of the labour market but started to search new job in line with the law requirements or worked without a labour contract and in this way became part of the hidden economy in Bulgaria.

Table 2. 8 Pensioners as ratio of the total population, Bulgaria 1992-2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total population (thousands)	8,485	8,460	8,427	8,385	8,341	8,283	8,230	8,191	8,150	7,891	7,845
Pensioners percent of total population	32.43	31.59	31.67	29.92	30.38	32.55	34.32	32.82	33.85	34.57	32.69
Number of persons receiving pensions	275,165	267,245	266,896	250,870	253,397	269,618	282,467	268,825	275,861	272,792	256,453

Source: Bulgarian Statistical Yearbook (various editions).

Pensions are the largest payment scheme in Bulgarian social security system. There are different types of pensions in Bulgaria – personal old age pension, social old age pension, social invalidity pension, personal invalidity pension due to general disease, personal invalidity pension due to work injury and occupational disease, inherited pension, military invalidity pension, civil invalidity pensions, civil invalidity pensions.

The biggest share is for the pensions for retirement, general invalidity and occupational injure which depend on the previous work history. In 1988, before the transition, they represented 78.07% of all pensions. The second biggest share was that of the farmers' pensions – 16.08%. In the years before the re-structuring of the economy there were also social pensions granted but their percentage was only 2.02%. The tendency which can be seen is towards steady growth of the pensions for retirement, general invalidity and occupational injure and in 1999 they were 91.76% of all pensions paid by the budget. This trend is an outcome of the demographic processes and the increasing average age of the Bulgarian population. Since 2000 the share of the pensions for retirement, general invalidity and occupational injure has started to decline and in 2002 it was 84.58%. The decrease was not due to decrease in the number of pensioners but to an increase in the share of social pensions. They were granted to people who did not have the required work history but had the required age. They can be seen as the 'losers' from the transition processes who did not managed to cope with the competitive pressure and did not managed to find a new job after they had become unemployed.

The re-structuring of Bulgarian economy led to deterioration Bulgarian agriculture – the cooperatives were destroyed and the process of land privatisation was very slow. As result the farmers' position got worse and people searched job in the other economic sectors or some of them stayed unemployed. These changes led to a trend of reduction of the share of farmers' pensions – it was only 2.31% in 2002 compared to 16.08% in 1988.

For the social age pensions 70 years are necessary and the presence of certain income fixed for the country during the last 12 months before the pension requirement. In case of invalidity social pension a minimum age is required (16 years) and the work capacity to be decreased with more than 71%. The social pension's share increased very slowly until 1999. Than measures for improving the situation of people out of working age who did not cover the low requirements for work history have been taken. As result of this step the share of the social pensions paid by the state increased more significantly and in 2000 it was 5.83%, in 2001 it was 9.63%, and in 2002 it reached 11.90%.

Table 2. 9 Rate of different types of pension, Bulgaria 1988-2002

Years	Retirement, general invalidity and occupational injure	Military disablement pensions	Peoples' and special merit pensions	Civilian-disablement pensions	Farmers' pensions	Pensions of craftsmen, tradesmen and self-employed	Social pensions	Changes in total 1990=100
1988	78.07	0.82	2.24	0.04	16.08	0.73	2.02	98.06
1989	79.59	0.74	2.12	0.04	14.64	0.78	2.08	97.30
1990	81.16	0.72	1.98	0.04	13.20	0.80	2.15	100.00
1991	84.50	0.66	0.08	0.04	11.79	0.78	2.14	102.28
1992	85.97	0.60	0.08	0.04	10.34	0.80	2.16	105.19
1993	87.07	0.60	0.08	0.04	9.28	0.76	2.17	104.97
1994	87.94	0.57	0.08	0.04	8.33	0.77	2.27	104.22
1995	88.64	0.57	0.12	0.04	7.41	0.77	2.44	103.58
1996	89.45	0.54	0.12	0.04	6.51	0.78	2.55	102.32
1997	90.28	0.53	0.12	0.04	5.66	0.78	2.58	102.78
1998	91.08	0.49	0.16	0.04	4.85	0.74	2.63	102.61
1999	91.76	0.49	0.16	0.04	4.16	0.74	2.64	102.32
2000	89.38	0.48	0.16	0.04	3.43	0.68	5.83	105.56
2001	86.26	0.46	0.15	0.04	2.80	0.65	9.63	109.87
2002	84.58	0.42	0.15	0.04	2.31	0.60	11.90	111.55

Source: Bulgarian Statistical Yearbook (various editions).

Generous provisions for early retirement have also been established which allow retirement for workers in 'special categories' six years earlier than normal. Early retirement provisions cover about 30 per cent of all state employees.

The amount of pensions is defined in different ways but here it is necessary to have in mind the type of the pensions. The pensions not related to the labour activity represent a percentage of the social old age pension which amount is to be defined by the Council of Ministry under the proposal of the Ministry of Labour and Social Policy and the National Social Security Institute.

The pensions that depend on the insurance contribution payment are calculated with a defined formula. In general, it could be said that their rate depends on the income upon which the contributions have been paid during a certain basic period and on the acquired insurance length of service.

There is accepted a rather unfavourable method for determining the social security payments. The amount for pensions for age and over labour period is related with the average social security income for the country at the moment of retirement. The individual pension is determined, concerning the personal social security income during the period after 1997 and 3 years by choice before. The amount of the social security pension cannot be lower than 115 per cent of the social pension for age.

The accepted method increases the dependence of the social security payments on the labour incomes. At the same time, the effect of its use is the relation process of the expenses of the pension system with its financial possibilities.

Despite the low level of the pensions, pensioners have limited opportunity for additional income earnings. Restrictive measures are implemented in order to limit the employment of pensioners. Due to the above numbered reasons the pensioners are considered as a homogeneous group, strongly affected by the risk to become poor.

The proportion between the minimum and maximum pensions was kept at about 1:2.5 until 2004 by the implementation of maximum pension ceilings.

Admittedly there are some specific features for each one of the pension's types. For instance the recognized length of service of the invalidity pensions due to general disease or the different coefficients depending on the degree of decreased work capacity for the work injury and professional disease invalidity pensions. It is also of great importance the average monthly insurance income for the country for the year, preceded the year of correspondent labour activity pension allowance. After the pension allowance the rate is

not staying unchangeable. It could be said that in some cases the pensions are changed regardless the pensioner's will but in some other cases the legislation states such a possibility but this possibility depends entirely on the person's will.

In accordance with the Mandatory Social Security Code (changed in 2001), the pensions allowed up to 31st of December of the previous year are to be updated every year from 1st of June with the resolution of the Supervisory Board of the National Social Security Institute. The update is to be done in dependence of the insurable income increase for the country and the consumption price index during the previous calendar year.

As it has been already pointed out of the yearly pensions updating the social security legislation allows under specific conditions the pensions to be changed but these are only possibilities and depend on the pensioners' will. According to the Mandatory Social Security Code the persons to who is allowed an old age pension or an invalidity pension due to general disease could ask for a new pension to be allowed for a length of service and insurable income acquired after the retirement, if it is more favourable for them.

The objective of the pension reform implemented with the Mandatory Social Insurance Code (MSIC) has been to enhance and stabilize mandatory pension insurance by increasing the number of opportunities for the people to receive supplementary retirement income from supplementary pension insurance and supplementary voluntary pension insurance as well as to establish a new health insurance system.

The three-pillar pension security system has been finalized and introduced since January 2001 and aims to establish a stronger link between contributions and benefits. The first pillar is organized in a manner to be able to provide about 40% replacement incomes. The professional social security adds 20% more such incomes. The third pillar – the voluntary social security is exclusively regulated. It has been under the control of the State not only through the license regime but also through the obligation for investing of 50% of the accents of the private social security firms in State's shares. At the same time, the tax reliefs which stimulate the voluntary social security are minimal.

The compulsory social security guarantees only the minimal necessities. The expectation is that the pensioner's incomes will increase, thanks to the other two pillars. The second pillar aims to secure good conditions for retirement for special profession, especially from the public sector. Due to the fact it is compulsory and the tax is paid by the employer, the perspectives for its development are the same as those of the first pillar. The voluntary security, however, which is expected to attract the occupied and the employing from the private field, is mostly dependent on the investment field, as well as the large scaled economics and profits. This pillar will most probably lack a great importance for the incomes maintenance system.

The three pillars of the pension system are financed by three kinds of taxes. In the beginning of the reform the participation in all three pillars supposes an accumulated pension tax of 50% of the income of professional activity. The problem of the social security system is that it should collect the compulsory taxes and not stimulate the voluntary social security.

While the minimum age for retirement has increased, there is a tendency for reducing the men/ women gap in what regards the conditions for access. Thus, in 2007, when the pension system has to be complete, the females will retire at the age of 60 and the necessary labour period for gaining full social security rights will be 34 years. The males will retire at 63 years of age and will be expected to have 37 years of labour period. After the age of 65 all people with social insurances will gain social security rights, having 15 years of labour period.

Hungary

The PAYG system was introduced after the World War II in Hungary. As there were more people to pay and less to be pensioner, the system run quite well until the middle of the '90s. The age limit was 60 for the men and 55 for the women, but those with 35-years

long work history could apply for early retirement, until 1988. The system was not unified for all types of jobs and was also changed several times.

But the re-structuring process caused a large number of people to apply for early retirement based on age close to the normal limit or on different disabilities. Given the increased pressure for funds, starting with 1992 the pension has been calculated based on the income after 1988. As this was not enough to avoid the pension system from a deficit, from 1993 a new negotiation process was initiated, mainly in order to enable the establishing private pension funds.

The new law accepted in 1997 changed the system fundamentally. The age limit was increased and the replacement ratio between pension and wage lowered. In general those persons reaching 62 years and 20-year long work history can apply for old-age pension. Having less working history lowers considerable the pension amount.

The work history is shorter by	the pension is less by
1-365 days	0.1%/every 30 days
366-730 days	0.2%/every 30 days
731-1095 days	0.3%/every 30 days
1096-1460 days	0.4%/every 30 days
1461-1825 days	0.5%/every 30 days

Source: Law No. LXXXI/1997.

Accordingly, due to those early retired, the average Hungarian pensioner gets about the 67-70% of his/her last net salary. After 2013 the old cohorts will get less as a person with 40 year-long working history can get just 60% of the former salary base of the pension plus 1.66% per a every surplus year.

In conclusion, whereas the competitive pressure pushed people 50 years of above, particularly those poorly educated, to retirement, the Hungarian pension-related legislation was changed as to force people to stay on the labour market. In the first years of transition, the individuals' response was to access as much as possible the early retirement opportunity. Since 1997 this niche was legally blocked and the disability pension has become the most popular channel for leaving the labour market. In this respect, Table 2.10 shows the distribution and the changes of new pensions by own right.

- The number of new pensioners felt sharply until 1999. The number of the new pensioners felt sharply mainly due to the increase of the age limit. Since 1999 there was registered a small increase but this was not significant.
- The new pensions by cause of employment policy were just 16% in 1990. In seven years the rate of them doubled and reached 31%. By the new law accepted in 1997 this early retirement became nearly impossible so that the rate felt to 3%.
- The old-age pension was nearly the half of the new retirement in 1990. As the pensions by cause of employment policy grew a lot, this type was driven back. The minimum was reached in 1996/97. This phenomena was due to the increase of the age limit and the disability pension. After 1998 the old-age pension seems to reach the half of the new pensions per a year, however the regulation is more sever on it.
- The disability and accident pensions were just one-third of the new retirement in 1990. Then, more and more people not eligible for other types of pensions who could not find a job applied for retirement on the grounds of being disabled. As discussed in chapter 1, disability pension represented an alternative to the early retirement and unemployment. Thus, after 1998 when the Hungarian economy prospered again the rate of disability pensions grew significantly.

Table 2. 10 Distribution of new pensions by own right, Hungary 1990-2002 (see also Table A5, Annex)

Year	Pensions by cause of employment policy	Old-age	Disability and accident disability	Pensions by own right 1990=100 %
	Per cent total pensions			
1990	15.7	48.8	35.5	100.0
1994	27.3	31.7	41.0	88.3
1995	24.1	33.1	42.8	82.8
1996	29.6	29.1	41.3	86.9
1997	30.6	29.8	39.6	81.0
1998	17.1	33.4	49.5	57.7
1999	4.1	42.4	53.5	52.0
2000	3.6	41.8	54.6	57.6
2001	3.8	40.7	55.5	61.4
2002	3.2	47.6	49.2	62.7

Source: CSO of Hungary: Yearbooks.

The minimal pension was always under the minimal living standard[28]. In 1989 the rate was about 76%. Till 1993 it felt very fast, when the increase of the minimal pension gave better prospects. But we must show that the rate of minimal pension to minimal living standard never reached again the 70%.

As in 1992 and 1993 several unemployed men and women above the age of 45 asked for early retirement instead of being unemployed, their pension was near to the minimal level. Their only additional help is the monthly financial aid for housing given by the state from 2004.

Table 2. 11 Minimal living standard and minimal pension, Hungary 1989-2001

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Minimal living standard (HUF)	4,380	5,391	7,167	8,873	11,183	13,300	11,915	14,083	16,481	20,700	22,800	25,000	27,500
Minimal pension (HUF)	3,340	4,300	5,200	5,700	6,400	7,480	8,400	9,600	11,500	13,700	15,350	16,600	18,310
Minimal pension percent in minimal living standard	76.26	79.76	72.55	64.24	57.23	56.24	60.37	68.17	69.78	66.18	67.32	66.4	66.58

Source: Labour Market in Hungary 2000 (IE-HAS) and CSO of Hungary: Yearbooks.

Romania

Since the end of the 80's and till 2001, the normal age for pension in Romania was 57 years for women and 62 for men (with reductions for certain work conditions), the minimal work service being 25 years for women and 30 years for men. The employees supported the supplementary pension, the contribution representing 3% of the wage. (Ilie, 2004)

Starting with 1991, service could be continued after retirement age for a period of maximum three years. Also, there was the possibility to cumulate both pension and salary yet not in the case where pension is awarded due to early retirement, inheritance or becoming disabled. This possibility fails to entice people to delay retirement.

Before 1989, for the members of the former collective farms there was a separate fund that ensured in fact a rather symbolic pension. In their case the age limit was 60 years for women and 65 for men.

[28] See footnote 23.

The type of state insurance system in Romania is PAYG type, with the costs for current pensions being covered by the currently active generation with the cycle likely to be continuing in the future. Beginning with 1990, this system was put under high pressure by a massive increase of the number of pensioners (from 15.8% of population in 1990 to 19.6% in 2000 and 28% in 2002, see Table A6, Annex). The number of employees has been exceeded by those of the pensioners in 1997, and in 2002 the non-agriculture pensioners to equal the number of employees. Currently, 1.4 pensions are supported by one wage.

A series of legal provisioning encouraged the increase of the number of pensioners, namely:

- in 1990 early retirement (at full work service) was enabled. Through the Law 2/1995 the period for early retirement was enhanced from 2 to 5 years.
- the former members of former agricultural collectives had been included in the insurance pension system. However the level of the farmers' pensions has been maintained at a considerably lower level than the rest of the pensions (see Table 2.12).
- in the second part of the 90's, much of the restructuring process was based on early retirement for the persons close to the age limit, after the standard unemployment period. The Law 19/2000 has enabled another wave of early retirements.
- an artificial rise of the II degree invalidity pensions, which practically doubled (reaching 11% of total pensioners in 2002, respectively 13% in 2003).

Table 2. 12 Types of pension percent of average net wage or of minimum wage, Romania 1989-2003

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Old-age pension percent of average net wage	55.3	51.1	48.4	47.7	50.4	47.8	45.7	43.2	45.2	42	49.4	48.3	48.9	48.3	44.2
Old-age pension percent of minimum wage	84.8	86.4	68.8	84.5	105	114.7	133.1	164.8	156.2	134.8	184.5	149	112	110.7	86.1
Old-age pension with due complete stage percent of minimum wage	85	103	75	95	117	130	150	186	177	153	213	171	129	127	101
Farmers' pension percent of minimum wage		33	13	19	36	35	36	47	54	45	49	38	29	29	21

Source: Ilie, 2004.

Anticipated retirements and retirements on the grounds of being disabled led to a real average retirement age around 52-53 years, between 2001-2003. Correspondently to the increase of pensioners, the number of employees and implicitly, the number of contributors to the Pensions Fund fell dramatically from over 8 millions in 1990 to less than 4.4 million in 2003, which contributes to the greatest crisis in financing the Fund. In certain sectors, there are very few Pension Fund contributors such as, for example, in the agricultural sector where from a total of 2 million persons occupied there are only 50-60.000 contributors to the insurance system.

Inefficient policies resulted in a pension system that has faced after 1989 both instability (due to frequent changes) and very difficult problems. The mains problems identified by a very recent study (Preda et al, 2004) are described below.

Firstly to be mentioned is the delay of the introduction of complementary solutions, pillions 2 and 3, although a World Bank projects have initiated this process years ago.

Secondly, the pension system is highly inequitable because of:

- the utterly inequitable process of calculating pension benefits for people retired at different moments in time that lasted until 2001. The inequity compounded by the fact that this computation was dependent only on the contributions made during the best 5 consecutive years of the previous 10 years. Thus, significantly different

pensions levels correspond to similar contribution terms. After long political debates a 3-year re-correlation process to restore the equity among various cohorts of pensioners has been started in 2001; by the end of 2004 the process has not been finalized.

- the inadequacy of the system designed before 1989 to the transition environment characterized by high inflation. As there was no rule that could be automatically applied to index-link pension, the adjustments of this benefit was done through ad-hoc created mechanisms (Mărginean, 2000).

Thirdly are the factors related to the collection rate to the Pension Fund. On the one hand, the contributions is not very good because large enterprises from the state sector (such as mining) fail or are exempted to pay due contributions. On the other hand, private companies have developed all sorts of strategies to under-declare the real wages. In addition, there is the low pension insurance coverage rate for the active population (mainly among self-employed, employers and unpaid family workers).

Hence, the Pension Fund has come into chronic deficit since 1995, as its value amounted for only 7% of GDP (the lowest value in Central and East European Countries, according to CESTAT 3/2001). In order to recover the balance, starting with 2002, the contributions became compulsory also for the complementary and temporary jobs. Thus the social tax burden increased up to 35% of the labour cost (two third being supported by the employers), fact that may affect further the general level of employment. (Ilie, 2004)

On the other hand, for maintaining the fiscal balance of the system, the administrators opted for low replacement rates for pensioners that for many pensioners are too small to protect them against poverty. (World Bank, 2004)

The Law 19/2000 meant the beginning of the system's reformation. Following the international trend this Law corresponds to the legal framework for the establishing of private pension funds (pillions 2 and 3 of the pension funds)

This law restricted the access to benefits through: increasing (in theory) the retirement age to 60 for women and 65 for men (gradually, until 2013) and the length of service (30 for women and 35 for men), introducing a much more stringent control vis-à-vis awarding disability pensions, and restricting early retirement. The persons eligible for early retirement are only those with less than 5 years before normal pension age, but with a work service longer by at least 10 years for full benefits; persons exceeding 35 years of service are receiving a proportional increase of the pension.

At the same time, the definition of dangerous work places become more restrictive thus limiting the privileges obtained by certain groups in the past. Contributions are kept at virtually the same level as they were in 1999, averaging 37% from the income, 2/3 on the part of the employer and 1/3 on the employee. (Preda et al, 2004)

Through the same law a new methodology for calculating the pension has been introduced, mainly in order to avoid the de-correlation of the pensions. Monthly contributions are turned into points and the average number of points is multiplied by a value established by law for each pension point thus obtaining the value of the pension quantum. The new methodology takes into consideration the contributions made during each year of work. The value for each point cannot be more than 50% of the gross national average wage and the yearly number of points cannot be more than 5.

One aspect that is still subject for protests is the ceiling of the pensions to 3 average wages for the state insurance system.

Unfortunately, the degree of system comprehensiveness remains low, while an important segment of self-employed and the vast majority of peasants run the risk of remaining uncovered by social insurance.

Slovenia

Massive retirement took place at the beginning of transition, especially in 1991 and 1992 when early retirement schemes enabled retirement under very favourable conditions (low and only temporary reductions in pensions). Different categories of pensioners and recipients of other benefits, which are provided through the pension system, are presented in Table A7, Annex.

Early retirement conditions have tightened since the mid nineties; in spite of this, the strong pressure for retirement as soon as eligibility conditions are met is a standard feature of the 1990s. The 1999 Pension and disability act, in force since January 1, 2000, has tightened eligibility conditions, decreased the value of pension (by decreasing the accrual rate) and provided incentives for 'late' retirement and disincentives for 'early' retirement. The 'eligibility boundary', named full pension age, is 63 for men and 61 years for women. This means that (for men) working past 63 will result in higher pension accrual rates. These are important changes, and the effects - in terms of longer periods of activity i.e. later pensioning, will have to be carefully monitored. It must though be noted that there are numerous exemptions to the fairly harsh eligibility rules and that the transition period required for the system to reach the final parameter values is quite long, unreasonably so (for some parameters it is even 20 years).

The success of this strategy, i.e. prolonging the active period, does not depend only on the pension system, but to a very large degree also on the labour market and employment opportunities, as well as pay and employment flexibility for the age groups above 50 years of age. It is documented (Stanovnik, 2001) that only persons with high wages stay in the labour market after the age 50, i.e. that wages do not decrease in the elder age groups. This is a strong proof of the existing wage rigidity of the labour market in Slovenia.

A rather modest reform of the pension system was introduced in 1992, and a more far-reaching reform followed in 1999[29]. As seen from Table A8 (Annex), the 1999 pension reform increased pension age - particularly for women, and decreased the accrual rate. Early retirement is not possible anymore; however, retirement prior to the full pension age (63 for men, 61 for women) is possible, but is subject to permanent deductions ('maluses'). The earliest possible entry (i.e. retirement) is set at 58 years; under certain conditions this early entry is not subject to permanent deductions - for example, a person must have acquired 40 years of active insurance i.e. work. A person with 40 years of pension qualifying period (which includes not only the insured period but also periods credited by the state[30]) can retire, but with permanent deductions.

As seen from Table A8 (Annex), the period relevant for computing one's pension base (and therefore one's pension) has been extended from the best 10 consecutive years to the best 18 consecutive years. The minimum pension base has remained the same in relative terms (i.e. as percentage of average net wage), whereas the maximum pension base was lowered and is now 4 times the minimum base. The minimum and maximum pension bases serve as (respectively) a floor and ceiling for computing one's pension. This in effect means that the maximum ratio of pensions of two men (or two women) who have the same insurance period is 4:1.

Apart from severing eligibility conditions and decreasing the value of pensions for new entrants, the 1999 Pension reform also introduced a new indexation rule. On the surface, this rule sets limits to the nominal growth of pensions - it cannot exceed the growth of wages nor be less than the growth of cost-of-living index. However, the nominal growth

[29] A detailed account of the political economy of the Slovene pension reform can be found in Stanovnik (2002).
[30] The insured period includes not only periods of actual insurance, but also periods for which insurance could be - *ex post* - purchased, such as year of military service, years spent in university education. In other words, the insurance period includes periods for which contributions have been paid. The pension qualifying period includes also years for which contributions have not been paid, but which can be included in ascertaining eligibility conditions for pensioning. However, in computing one's pension, only periods for which contributions have been paid (i.e. proof of wages being disbursed) are relevant.

of pensions is then adjusted downward (by 0.5 percentage points), to take account of lower pensions of new entrants. As seen from Table 2.13, this had a real impact on the gradual decrease of the 'replacement ratio', i.e. ratio between average pension and average net wage. Also to be noted is the small and gradual increase in actual retirement age, doubtlessly a result of more stringent entry conditions, lower accruals and strong incentives for latter retirement.

Table 2. 13 Pension expenditures (percent of GDP), average old-age pension/average net wage ratio, and actual retirement age, Slovenia 1992-2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Pension expenditures (as % of GDP)	11,41	11,76	11,84	11,69	11,49	11,50	11,45	11,49	11,62	11,49	11,39	11,29
Average old-age pension/average net wage	77,8	73,9	75,4	76,2	74,6	74,3	74,5	75,8	75,3	73,2	72,8	71,1
Actual retirement age Men (yy/mm)	56/2	56/2	57/7	57/6	57/6	58/3	58/5	58/2	59/2	59/3	59/11	59/11
Actual retirement age Women (yy/mm)	52/6	53/3	53/2	53/1	54/0	54/11	55/3	54/10	55/5	55/5	55/6	55/8

Source: Monthly Statistical Bulletin, Institute for Pension and Disability Insurance, April 2004.

Though the pension system is of a Bismarckian type, it has quite strong solidarity elements. This is seen through the setting of a floor and ceiling for the pension base. For example, if one's computed best 18-year average of wages[31] is less than the minimum pension base, which is set by the Institute for Pension and Disability Insurance (IPDI), his/her pension is computed according to the minimum pension base. A similar role is served by the maximum pension base; if one's computed pension base is greater than the maximum pension base, his pension is computed according to the maximum pension base, i.e. his pension is lower than it should have been.

An additional social corrective is the minimum pension, which is set by the IPDI and represents the lowest value of a disbursed pension for persons who have acquired a right to a pension, regardless of insurance periods and contributions paid. It is set at 35% of the minimum pension base. As seen from Table A8 (Annex), it is set 'as if' a person had 15 years of pension insurance. Since the minimum pension base represents some 64% of the average net wage, the lowest possible disbursed pension represents some 22.4% of the average net wage. The 1999 Pension reform also made provisions for persons who were not pension-insured. This is the so-called "national pension", granted to elderly persons (65 year and more) and residents of Slovenia[32]; it is means-tested and amounts to 33.3% of the minimum pension base.

Finally, there is a pension income supplement, which is social assistance benefit, granted to persons with low pensions, provided they do not have other sources of income. The amount of this supplement depends on one's insured period - the greater the insured period, the greater the amount disbursed. Of those potentially eligible - these are recipients of old-age, disability or survivor pensions - some 10% did receive this supplement in 2003.

Do pensioners in Slovenia represent a high poverty-risk group? Analyses, based on the Household Expenditure Surveys (see Kump and Stanovnik, 2004) have shown that the income position of pensioners has even marginally improved during the 1990s. However, there are signs that the 1999 Pension reform will gradually have its effect felt -

[31] Without going into details, we note that the best 10 year average of wages is being gradually increased to best 18 year average of wages. Currently (in 2004) it is best 15 year average of wages. Wages in this period are updated using the cost-of-living index.

[32] A person must have spent at least 30 years in Slovenia, between the age of 15 and 65 (article 59 of the 1999 Pension and Disability Insurance Act).

particularly by decreasing the number of pensioners in the high income groups (due to lower ceilings for the maximum pension) and increasing the number of pensioners in the low income groups - quite possible, and paradoxically, by granting the elderly dependants a low national pension. A measure of the inequality of pensions is the deciles ratio (i.e. the 90/10 ratio) and amounts to 3.3 - for old-age pensions - in April 2004.

2.3.2 Unemployment policies

Bulgaria

The increasing number of unemployed enforced an implementation of more restrictive unemployment politics from the state and there has been made several changes in the conditions for receiving unemployment benefits. As result there is existing trend for lowering the number of unemployment benefits recipients and in 2002 they were 21.08% of all unemployed. This is the lowest percentage for the whole period. The largest share of the unemployed receiving unemployment benefits was in 1994 when 37.96% of the registered unemployed received unemployment benefits.

Table 2. 14 Unemployment in Bulgaria 1990-2002

Years	Number of registered unemployed (thousands)	Unemployment rate	Registered unemployed - women (%)	Registered unemployed - with higher education (%)	Rate of young unemployed (15 - 24 years)	Unemployed receiving UEB (% in total unemployment)
1990	65079	1.7	65.18	16.18		
1991	419 123	11.0	54.49	8.15		34.55
1992	576 893	15.1	52.42	6.05		34.56
1993	626 141	16.4	52.34	4.85		33.70
1994	488 442	12.8	54.34	4.57	42.19	37.96
1995	426 773	11.1	55.25	4.16	39.93	31.05
1996	478 770	12.5	55.02	4.31	28.41	27.57
1997	523 507	13.7	54.83	4.37	25.29	32.74
1998	465 202	12.2	54.61	3.83	26.89	24.87
1999	610 551	16.0	53.40	5.94	20.71	24.67
2000	682 792	17.9	52.63	6.82	17.96	27.55
2001	662 260	17.3	51.52	5.94	25.04	23.66
2002	602 524	16.3	53.35	6.57	34.99	21.08

In 1989, a specialized fund was established to provide unemployed persons with unemployment compensation, labour market information and training. Unemployment social security covers unemployment compensation and benefits in cases of workers and employees that have been forced out of their jobs.

Unemployment compensations are paid:

- To persons who have lost their jobs because of labour contract termination. In such cases the compensation amounts is 60% of the lost wage and no less than 90% and no more than 140% of the minimum wage. Unemployment compensation in such cases is paid for a period of 6 to 12 months depending on the length of service, age and sex;

- To persons who have lost their jobs because of labour contract termination, who have been engaged for half-time jobs with wages below the minimum wage. The amount of the unemployment benefit in such cases represents the difference between the obligatory unemployment compensation, on the one hand, and the

wage, on the other hand. The amount is paid for the period during which unemployment compensation is due.

In addition to these categories there are other complementary unemployment benefits given under certain conditions are the monthly allowances for children, family benefits, benefits for enrolling in orientation and labour motivation courses, as well as for successful completion of professional qualification and training courses for the unemployed organized by the labour offices. In winter, when heating is a priority, the unemployed are entitled to an additional benefit as compensation for increased electricity and heating bills.

In December 2001, only 15% of the unemployed received the maximum benefit, 20% had benefit under the maximum but above the minimum wage, 17% a benefit over the minimum but below the minimum wage and 47.2% the minimum benefit. Only about one-quarter of the registered unemployed are eligible to receive benefits; even fewer receive them for the full 12-month period of eligibility.

If during the period when the person is eligible for unemployment benefits, he/she starts part-time work the person receives money benefit in amount of 50% of the unemployment benefit if the salary is smaller than the minimum wage.

Since 1992 young specialists who have not worked have been entitled to social assistance in amount of 80% of the minimum wage for not more than six months, if they have been registered as unemployed. This term was changed in 1994 and its duration was already 3 months. Unemployed registered more than 12 months in the labour offices are entitled to grant in amount of 60% of the minimum wage for six months.

Unemployed included in training courses receive additional 15% to the unemployment benefit after the end of the course. Unemployed with a child up to 16 years or up to 18 if is still studying receive correspondingly 10% and 20% supplement to the benefit they are paid. In 1994 the unemployment benefit for young people was reduced 50% of the minimum wage for the term of three months.

Since the last reform in spring 2002 the minimum and maximum amounts of the unemployment benefits have been no longer linked to the minimum wage but set annually on the basis of the Social security budget act. The amounts fixed for 2002 represent a decrease by 17.6% for the minimum benefit and 7% for the maximum compared to their level at the end of 2001. Nevertheless, they were very close to the national minimum wage of 100 BGN. The reform from 2002 also abolished the additional non-means tested allowance for the long-term unemployed which was equivalent to 60% of the minimum wage and was granted for three months to those still unemployed six months after the expiration of their unemployment benefit.

The basic benefit amount is 60% of the average gross earnings during the last nine months of employment insured by social insurance and is subjected to a minimum and a maximum set annually, corresponding to 70 BGN and 130 BGN respectively in 2002. The amount of benefit is defined proportionately for shorter working hours and in this case, can be less than the defined minimum.

The unemployment benefit is not subject to personal income tax.

Unemployed registered at local labour offices are entitled to unemployment benefits if they have worked for at least nine months during the last 15 months (six months during the previous year in the case of seasonal workers) and are willing to accept a job or a training offered by the labour offices. The maximum duration of 12 months corresponds to 25 years of service.

Work history (years)	Term of the unemployment benefits' payment (months)
Up to 3	4
above 3 to 5	6
above 5 to 10	8
above 10 to 15	9
above15 to 20	10
above 20 to 25	11
above 25	12

For the unemployed who have already been entitled to unemployment benefits during the previous three years the benefit is limited to four months at the minimum level.

After the reforms from 2002 the long-term unemployed are not eligible for unemployment benefits nor are young people looking for their first job. Together they represent approximately half of the registered unemployed. Successive reforms have resulted in a tightening of requirements regarding previous employment spell (raised from six to nine months and the reference period from 12 to 15 months) and an increased duration (from 6 to 12 months).

One of the concerns of the Bulgarian authorities is the lack of control of recipients' eligibility for unemployment benefits. Measures were taken within the framework of the recent reforms for social insurance and active policy. Following the last reforms of social insurance and of active policy the administration and control of unemployment insurance and of unemployment benefits are being transferred from the PES to the National Security Institute (NSSI).

Hungary

In Hungary the unemployment has been recognized since the late '80. As consequence, an allowance system was introduced mainly to help the company maintain the job, but also for ensuring financial aid to those losing their job. In 1986 the termination has been established up to six month. The unemployment fund supported also retraining activities, job creation in disfavoured areas, in the form of small entrepreneurship, assistance for the young people who had finished their studies in the last two years in order to find a job, employment of public utility.

Under the competitive pressure, since 1989 the unemployment policy moved from the idea of preserving unprofitable jobs. In 1990, the aid has been prolonged by another year for the persons exceeding the protection period.

In the 1991 law, the main action lines are the education programmes both for unemployed and for employed (at the request of employers), financial aid and guarantees for establishing enterprises, paid social work and aid to establish new jobs.

Early retirement (three years before the normal age limit) became quite popular since 1995, when with the Bokros-package the rule changed. However, until 1998 a special scheme for 'unemployment before retirement' had been in place, which maintained the obligation of searching a job.

For the people with disabilities (with at least 40% working capacity lost) the employment was compulsory for the companies, unless they pay a certain fee. Most of them choose the second form as it would be less economic for them to bare with disabled.

The new school graduates or leavers coming into unemployment are not received regular aid since 1996, but they could ask for a part time job for a year paid ranging from 1.5 to 2.5 minimal wages, depending on their diploma degree.

From 1997 some measures have been introduced in order to stimulate the search for jobs. As consequence, the state covered the bills of transportation and catering for maximum 5 days per occasion maximum three months per year.

Another new form is the financing of the self-employment by a fixed amount of a loan with zero interest rates. The package contains professional help also to establish the enterprise. The loan must be repaid with a prolongation of 19 months but not later than 5 years.

In 1998-2000, the job creation in high-tech industry received a special attention, but the program has been cancelled afterwards. Another sector receiving special attention is the agriculture, as the land-owners (many getting out of the industrial labour market) received a certain financial help.

The duration of the unemployment allowance has been subject to frequent changes, as follows (see also Table A12, Annex):

Table 2. 15 Changes of the unemployment provisioning, Hungary

Year	Duration for full time allowances	Duration of supplementary aid period	Quantum of full allowance
1990	360 days	360 days (755 of the full allowance)	80%-200% of the minimal wage
1991	The duration is correlated with the work experience and could reach 360 days (for at least four years of work)	The duration is correlated with the work experience and could reach 180 days (for at least four years of work). The quantum was half of the minimal wage.	70% from the last four years wage in the first 180 days and 50% in the rest.
1992	The duration is correlated with the work experience and could reach 360 days (for at least four years of work)	Maximum 180 days of social benefit on condition that the income per capita in the family does not exceed the minimal widow pension.	
1993	The duration is correlated with the work experience and could reach 90 days (for at least four years of work)	Maximum 180 days of social benefit on condition that the income per capita in the family does not exceed 80% of minimal pension.	124% of minimal wage
1995	360 days	The unemployed had to apply for the substitution in 12 months after loosing the right for the unemployment allowance.	
1997	The duration is correlated with the work experience and could reach 360 days (for at least four years of work)	-	65-200% of the minimal pension
2000	270 days	suspended	
2003		180 days (85% of pension), 270 for persons above 45 years	

Both the accumulation of long term unemployed and the shortening of the unemployment allowances explain the increasing share of non-recipients of financial aid among the unemployed.

Table 2. 16 The distribution of the different types of aids and benefits between registered unemployed

Year	Unemployment benefit recipients (% of total unemployed)	Pre-pension allowance recipients, %	School-leavers' allowance recipients, %	Income support recipients, %	Regular social support, %	Non-recipients, %	Registered unemployed
1992	68	n.a.	4	n.a.	n.a.	n.a.	663 027
1994	30	n.a.	6	40	n.a.	23	519 592
1995	33	n.a.	7	39	n.a.	21	495 893
1996	29	n.a.	0	44	n.a.	26	477 459
1997	29	n.a.	0	42	n.a.	29	463 962
1998	35	n.a.	0	39	n.a.	26	404 094
1999	37	n.a.	0	37	n.a.	26	404 509
2000	33	n.a.	0	27	10	30	372 409
2001	37	n.a.	0	8	25	30	342 773
2002	32	2	0	1	32	34	344 901

Source: CSO of Hungary: Yearbooks.

Romania

In Romania, the unemployment phenomenon has been officially recognized in 1991, once the Law no. 1/1991 regarding social protection of the unemployed and thereof professional integration came into force.

In the first years of transition, unemployment benefit was granted to employees who contributed to the Unemployment Insurance Budget. Initially, unemployed persons were entitled to 6 months unemployment benefit, followed by 12 months support allowance.

The level of unemployment in Romania has not been high, but considering the huge share of self-employment and unpaid family workers in the subsistence agriculture (see chapter 1), it becomes clearer that the real unmatched demand on the labour market is considerably higher. Unfortunately, these categories have been included neither in the unemployment statistics nor in the correspondent aid schemes.

In 1992, the Unemployment Law 1/1991 was modified in such a way that people owning 20,000 square meters in plain/hilly areas or 40,000 in the mountainous areas are not entitled to unemployment benefits. In the mid-90s the Social Assistance Law extended this ineligibility to everyone owning a piece of land. Accordingly, a more relevant unemployment rate is that for the urban areas.

Table 2. 17 ILO Unemployment in Romania 1996-2003

	1996	1997	1998	1999	2000	2001	2002	2003
Total	6.7%	6.0%	6.3%	6.8%	7.1%	6.6%	8.4%	7.0%
Urban areas	9.2%	8.5%	9.2%	10.3%	11.2%	10.4%	11.2%	na

Source: Households Labour Survey.

Between 1991 and 1994, the legal provisioning has been adjusted so that the duration of the unemployment benefit has been increased from 6 to 9 months, respectively from 12 to 18 months for the support allowance.

The unemployment benefit was granted to employees who contributed to the Unemployment Insurance Budget at least 6 months in the last 12 months and self-employed who contributed at least 12 months in the last 2 years. Registration to the Labour Force and Unemployment Offices together with a health certificate (proving for work capacity) was compulsory. The unemployment benefit represented 50–60% of the average net earnings of the last three months, depending on the recorded work seniority. However, it should have not been lower than 20% of the national average net salary and it should have not been greater than 55% of this.

Also, it was introduced a 'professional insertion allowance' for graduates of secondary or higher education that for 60 days have not found a proper job for their qualification. Both people at the end of the military services that neither had a job nor find one in 30 days and graduates of special needs education benefit also of this provisioning. This allowance has been 18% of the national average wage for the secondary education graduates and 20% for higher education graduates.

After nine months (270 days), the unemployment benefit as well as the professional insertion allowance was replaced by support allowance, which was 60% of the unemployment benefit and, as we have already mentioned, it last for 18 months. Afterwards, the cash benefits were cut and long-term unemployed tended to be removed from the official records.

A series of restrictive conditions were enacted, namely the eligibility for the various unemployment benefits depended on attendance of the training/ retraining courses organized by the Ministry of Labour, refusal of a job, and the ownership over income generating assets such as land. Another restrictive condition referred to the amount of the benefit which was no longer determined based on the last 3-month wage but on the last 5-year wage due to the widespread employers' practice of increasing the wage just before lay-offs.

In 1997 was set up the institutional network that provide specialized employment services: the National Agency for Employment (NAE), including its decentralized structures (41 county agencies for employment plus the Bucharest one – one for each county, 177 local agencies and 73 local offices established in smaller localities and 'working points' in the mono-industrial areas or in areas where large companies undertake restructuring), all these institutions constituting the so-called 'Public Employment Service' (PES). Nowadays, there are also accredited suppliers for specialized employment services coming from the public or private sector.

The financing of the Unemployment Fund is made by the contribution of the employees (1% of the gross wage) and the employers (4%). (Ilie, 2004)

The protection of the unemployed was mainly passive, through cash benefits. However, starting 2001 the share of active measures has a strong increasing trend. According to the *National Development Plan*, for 2003 it is envisaged a share of 22.46% of the unemployment insurance fund and for 2004 a share of 23.65%.

Table 2. 18 Public expenditure on Labour Market Programs, Romania 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
Total (% of GDP)	0.9	0.7	1.2	1.4	1.5	1	0.7	0.7
Active measures percent in total expenditure	15.7	11.7	2.3	2.5	2.7	2.5	12.9	14.8

Source: World Bank, Country Economic Memorandum- Romania, June 2004.

Complementary to the regular unemployment benefits, have been introduced early retirement schemes for persons close to pension age limit (see chapter 1).

In the first years of transition the policy promoted in Romania was focused on job protection by supporting from the state budget large enterprises with no profit. The system of social protection for collective lay-offs has been de facto active since 1997, mainly in the mono-industrial areas, but it was regulated only in 1999 as such.

Initially, redundancy payments were granted immediately after the job termination, as they were meant to represent the initial capital for starting a business. As, the amount proved insufficient for this purpose, serving only for regular consumption, they started to be delivered monthly (for 8-12 months), with the exception of the proof of starting a business[33]. After the eligibility period for financial compensation ends this is replaced by the unemployment benefits.

Financial compensation program has been part of the *Employment and social protection* project, financed by World Bank. The number of beneficiaries of financial compensations increased from 169 thousands in 1997 to 252.7 thousands in 2000, when the legal framework was changed. Nowadays financial compensations should be supported from the employers' funds (and not from the Unemployment Insurance Budget), except for downsizing included in the RICOP program. The compensation system 'was perceived as <bribe> to avoid social protest, as a way of making unemployment acceptable for organized groups, rather than a support system for creating new jobs.' (Zamfir, 2001: 36)

Incentives for the employment of young graduates were provided by the Government's Emergency Ordinance no. 35/1997, which provides one year subsidy of 70% of the minimum net wage for newly created jobs that last a minimum of three years. Small and medium enterprises, which allocate 50% of newly created jobs to the unemployed for a period of three years benefit by credits with subsidized interest rates stipulated by Law no. 65/1997. According to NAE, in 1998, a ROL 66 billion credit lead to the creation of 2,619 jobs of which 1,355 were for unemployed.

The Employment Public Service has implemented a project aimed at creating and developing an information and advice national system on Career. The main objectives were: preparing the documents regarding the information and advice activity on career, the employment profiles, development of some new testing and evaluation modern methods of vocational skills and preoccupation, as well as the training advisors for vocational orientation. At present, there have been established 136 Information and vocational advice Centres regarding career, aiming at employing more than 300,000 job seekers per year in the period 2003-2006. Also, an electronic service of labour mediation has been launched in 2000 and extended in 2001 and 2002.

The target groups of the active measures are: women (26%), young (23%), 'disadvantaged persons' (over 45 years old or single family income earner) (22%), long-term unemployed (16%), over 18 years old graduates leaving social care institutions (6%), Roma ethnic minority (5%), disabled persons (1%), and persons released from imprisonment (1%).

The World Bank[34] estimates that although works programs did not have a significant impact on employment and earnings, they considerably reduced the duration of unemployment. Also, the measures had different effects on various sub-groups, the positive impact being concentrated on older participants.

[33] Credit facilities for unemployed willing to start a business have been provided through law since 1995. (Ilie, 2004).
[34] World Bank, Country Economic Memorandum- Romania, June 2004.

Beginning 1992, workforce training/retraining courses made less than 1% of the spending from the Unemployment Insurance Budget and an 'optimistic assessment would indicate that these courses could have reintegrated into the labour market no more than 1% of the overall recorded unemployed' (Zamfir, 2001: 37). Indeed, the number of unemployed persons attending qualification and prequalification courses has maintained extremely low during the entire period.

Table 2. 19 Share of registered unemployed persons attending qualification and prequalification courses, Romania 1991-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Share of registered unemployed persons attending qualification and prequalification courses	3.1	4	4.2	2.1	2.3	3.1	2.7	2.6	2.7	2.6	3.3	2.6

Data: Romanian Statistical Yearbooks (1993, 1996 and 2003).

Since February 2002 a new Law on the Unemployment Insurance System and Employment Stimulation connects the benefits to the period of contribution to the system. The number of active measures (such as job counselling, public works and micro-credit programs) has been increased from three to eleven. According to the provisions of this Law a number of labour market concepts have been defined, such as: employment service providers, collection procedure, centralization and processing of statistical indicators, establishing the system of indicators and the methodology for their calculation.

The unemployment benefit was reduced to a level lower than the minimum wage (75%) and the duration of benefits is of 6 to 12 months depending on the period of contribution to the system.

The unemployment benefit system in Romania used to be generous throughout the 1990s. In 1991, unemployment benefits stood at 43% of the net average wage, falling to 33.8% in 2002.

Table 2. 20 Unemployment benefit percent in average net wage, Romania 1991-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Unemployment benefit % of average net wage	42.7	29.5	28	35.8	30.2	29.6	39.3	32.4	36.7	31.3	30	33.8

Source: Ilie, 2004. Data: Romanian Statistical Yearbooks (1994, 1996 and 2003).

Strikingly, between 1994 and 2000 the unemployment benefit was equal or even above the minimum wage.

Table 2. 21 Unemployment benefit, support allowance and insertion allowance percent in minimum wage, Romania 1991-2002

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Unemployment benefit	63,6	64,8	71,3	102,7	97,4	112,9	135,8	103,8	118.9	96.6	72.5	77.5
Support allowance	-	43,8	41,1	41,2	60,0	60,0	53,2	47,1	53.3	40.0	25.8	26.9
Insertion allowance	-	-	-	70,7	65,0	65,0	65,0	57,5	66.4	54.2	40.6	42.1

Source: Ilie, 2004. Data: Romanian Statistical Yearbooks (1994, 1996 and 2003).

System reach was also very wide compared to other transition countries (Vodopivec et al, 2003). The share of benefit recipients in the total number of unemployed was as high as

73.9% in 2000. In 2002 this share decreased to 45.2% as consequence of increased registration in unemployment offices due to the new Minimum Guaranteed Income legislation that made registration in employment offices compulsory for receiving benefits.

Table 2. 22 Number of unemployed by types of benefits, Romania 1997-2002

	1997	1998	1999	2000	2001	2002
Total registered unemployed at the Labour Force Agency, of which receive	881,435	1,025,056	1,130,296	1,007,131	826,932	760,623
- unemployment benefit	333,219	310,976	291,021	221,815	316,413	213,724
- professional insertion allowance	104,825	92,004	95,496	8,525	*	*
- support allowance	217,959	390,038	445,992	391,932	286,214	122,943
- compensatory payments (according EOG No. 98/1999)	-	-	39,042	52,914	5,063	7,021
- no benefits	225,432	232,038	258,745	255,220	219,242	416,935

Source: Romania Statistical Yearbook (2003). * In 2001 and 2002 the number of beneficiaries of professional insertion allowance are reported aggregated with those of unemployment benefit.

However, according to the most recent World Bank Poverty Assessment (2003) the unemployment benefit program expanded during the 1997-1999 recession, and contracting thereafter. In 2002, 7% of the Romanian households were covered by unemployment benefits. The system of support of unemployed has low coverage and low targeting. Its effectiveness in reducing poverty is also reduced.

Slovenia

In Slovenia the rights guaranteed by the unemployment insurance include: unemployment benefit, unemployment assistance, reimbursement of transport and relocation expenses, rights to health insurance and to pension and disability insurance.

Changes were introduced in 1998. These include:

- an extension of the minimum insurance period as a condition for receiving unemployment benefit;
- a reduction of the maximum period of receiving unemployment benefit;
- changes in the system of extending rights to elderly recipients or those who need insurance for a period up to a maximum three years before retirement;
- prolongation of the period of receipt of unemployment assistance up to a maximum of 12 months;
- a more direct link between the receipt of unemployment benefit or assistance and stricter obligations regarding active job search, acceptance of an appropriate job and participation in active employment policy programs.

Quite predictably, these changes resulted in a gradual decrease in the number of recipients of unemployment benefit and gradual increase of recipients of unemployment assistance. Both unemployment benefits and unemployment assistance are disbursed by the Employment Service of Slovenia (which is a part of Ministry of Labour Family and Social Affairs) to people who were employed for a period of at least 12 months in the 18 months prior to the termination of employment. The size of the unemployment benefit depends on one's gross wage from the last 12 months before the unemployment.

The benefit amounts to 70% of one's gross wage for the first three months and 60% thereafter. Upon expiration of the unemployment benefit, unemployed people are also entitled to unemployment assistance. Unemployment benefits are subject to rather low thresholds and very low ceilings: the minimum amount of disbursed unemployment benefit amounts to 100% of the guaranteed wage (approximately some 20% of the average wage) and the maximum amount (ceiling) is 300% (approximately some 60% of the average wage).

A person becomes entitled to the unemployment assistance if his or her right to the unemployment benefit or his employment following a trainee period of less than 12 months has expired, and he/she meets income conditions (less than 80% of guaranteed wage per family member) and property limits. It can be disbursed for a duration up to 15 month (or up to three years if an unemployed person fulfils conditions for regular retirement in this time).

Table 2. 23 Recipients of unemployment benefit (UB) and unemployment assistance (UA), Slovenia 1991–2003

Year	UB recipients (Dec)	UA recipients (Dec)	Recipients of UB and UA	Index (previous year = 100)	Average duration of receipt of UB (months)	Average duration of receipt of UA (months)	Average monthly no. of UB and UA recipients	Proportion of UB and UA recipients in monthly unemployment
1991	31,818	14,110	45,928	168.6	4.2	7.6	30,053	40.0
1992	32,533	18,229	50,762	110.5	8.5	10.4	46,191	45.0
1993	42,582	20,052	62,634	123.4	14.3	19.0	55,618	43.1
1994	31,452	11,036	42,488	67.8	14.4	8.0	53,454	42.1
1995	28,305	5,936	34,241	80.6	12.7	7.3	36,824	30.3
1996	33,715	4,112	37,827	110.5	13.1	5.9	36,343	30.3
1997	37,152	3,734	40,886	108.1	11.6	3.7	40,791	32.6
1998	36,082	2,818	38,900	102.8	14.3	3.7	41,065	32.6
1999	31,227	3,283	34,510	88.7	17.8	3.9	36,905	31.0
2000	23,091	3,754	26,845	77.8	22.3	6.9	31,001	29.1
2001	19,489	4,516	24,005	89.4	20.6	8.0	25,774	25.3
2002	17,601	5,664	23,265	96.9	14.6	8.5	24,216	23.6
2003	17,047	6,063	23,110	99.3	10.5	8.8	24,275	24.9

Source: ESS, Annual report (2003).

It must be noted that the difference between the registered unemployment rate, which was 11.6% in 2002 and unemployment rate according to the LFS, which was 5.9% in 2002 is quite large. Interestingly enough, some 19% of those that were unemployed according to the LFS were not registered as unemployed. A large number of those registered as unemployed (some 52.5%) were however not unemployed according to the LFS methodology. Most of these did not comply with the criterion of 'actively seeking work during the past 4 weeks prior to the survey' and only a small share of the registered unemployed declared that they have been gainfully employed for at least one hour during the week prior to surveying.

While the decreasing number of registered unemployed receiving unemployment benefits or unemployment assistance might appear worrisome, one must note that this trend is moderated by the fact that an increasing number of registered unemployed receive income from another institution (and not from the Employment Service of Slovenia). Thus, an increasing number of unemployed receive disability benefits, disbursed by the Institute for Pension and Disability Insurance.

2.3.3 Child-care allowances

As we showed in previous deliverable D6, children have high risk of poverty in Romania, Bulgaria, and Hungary. Risk of poverty of elderly is relatively high only in Bulgaria and Slovenia. Nevertheless, while situation of elderly has improved (their risk of poverty diminishing during the period), the risk of children has increased also in these two countries. For this reason we discuss the child-care allowances in the four countries in a distinct sub-chapter.

Bulgaria

The share of the households receiving child-allowances decreased constantly between 1992 and 2002. The rules for entitlement for child-allowances include every child up to 18 years and are not linked to the household's income. Hence, the decreasing number of households receiving social family-allowances is due to the decreasing birth rate in Bulgaria. In 1992 households receiving family-allowances were 40.73% while in 2002 they represent only 21.35% - a decrease by more than 48%. One other reason is that before the transition the share of family-allowances in total households' income was much greater and as result of this many Roma families had larger number of children and lived from these allowances. Later after the changes in 1989 the value of the child-allowances paid by the state deteriorated and they are not any more a significant income source for the family.

Table 2. 24 Changes in the rates of households receiving family allowances, Bulgaria 1992-2002

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Rate of households receiving child-allowances	40.73	38.87	35.76	36.03	35.41	34.56	28.88	29.06	28.31	24.43	21.35
Change 1992=100	100	95.44	87.79	88.46	86.93	84.85	70.91	71.35	69.5	59.99	52.42

Source: Bulgarian Statistical Yearbooks (various editions).

Child-allowances are monthly grants paid by the Social Security Fund and entail payments dependent only on the number of children. They are payable up to the 18-th year of the child. The amount of the social grants is fixed every year in the State Budget Law for the relevant year. Since 2004 has been introduced means-tested system for child-allowances and the eligibility for the grants depends already on the family's income.

The incomplete families are a specific risk category due to several causes. The first one is the specific structure and level of the wages in Bulgaria. As the compulsory full employment existed in the near past and the 'working mother' pattern is still typical for the country. The average salary is defined on the presumption that the expenditures for dependent members of the family will be shared between two employed in the family. In the cases where one adult should pay all expenditures the burden is too higher and the persons affected are in a serious risk to become poor. The second cause is that social protection for single mothers is very limited in Bulgaria. In the pre-transitional period they were entitled to receive double child allowances according to the Law for Encouraging birth-rate. Since the price liberalization in 1991 the anti-inflationary protection of the child-allowances has been provided by the government. However, it has been reduced for the basic amount of the allowances and has not included additional preferences.

In case of pregnancy the paid leave is 120 calendar days, including 45 before the confinement. Then, women can use paid leave for raising a child until it reaches 2 years of age. Since 2001 this period is reduced to 1 year. After having used the paid leave for raising a young child, a female employee (or her husband, or one of their parents) may be granted unpaid leave until the child reaches the age of 2 years. The period during which this leave is taken must be included in the length of service.

The mother has the right of terminative assistance by birth of a live child independently of the family's incomes when the baby is not leaved for bringing up in specialized institution.

By birth of twins one of who is third child of the mother, the grant for each child is on the amount for third child.

Hungary

In Table 2.25 we have the picture of the evolution of beneficiaries of child-care allowances and fees. The ratio of women getting these social benefits did not change significantly. Women asking for child-care fee are less because this type of benefit needs working history. But more applied for child allowance. (see also Table A13, Annex)

Table 2. 25 Share of population getting child-care allowance or fee, Hungary 1990-2002

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total	2.4	2.62	2.53	2.45	2.39	2.38	2.34	2.32	2.39	2.39	2.42	2.42	2.38
Allowance	0.91	1.07	1.1	1.1	1.14	1.17	1.2	1.77	1.85	1.85	1.89	1.8	1.69
Fee	1.49	1.46	1.43	1.35	1.25	1.21	1.14	0.55	0.54	0.54	0.53	0.62	0.69
Changes in total	100	105	105	102	99	99	97	96	99	99	99	99	97

Source: CSO of Hungary: Yearbooks.

The real value of the child-care fee felt in 1990-1995 by 18 percent. Since then, an increase can be seen. In 1998 and 1999 families could not get this type of benefit, and in 2001 the real value of the child-care fee was equal its 1990.

In the case of child-care allowance we can see a continuous decrease in 1990-1995 cumulating 21%. The family allowance was most affected, as it dropped to 36% of the 1990 value. Partially this is because these allowances were substituted by tax reduction. The effect of this change is that the very poor families without a regular income became much poorer, getting less social benefit. But the middle-classed families got more help from the state.

Table 2. 26 Real values of average monthly amount per family of child care allowances, Hungary 1990-2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1990 = 100%												
- child-care fee	100	95	96	95	92	82	79	79	..	–	97	111
- child-care allowance	100	100	95	89	92	78	75	82	80	81	80	79
- family allowance[a)]	100	93	85	79	67	53	45	44	46	42	38	36
previous year = 100%												
- child-care fee	93	95	102	99	96	90	96	101	..	–	–	144
- child-care allowance	96	100	95	94	103	85	96	110	98	100	100	98
- family allowance[a)]	89	93	92	93	84	80	84	99	104	92	91	93

Source: CSO of Hungary: Social Yearbook, 2001. [a)] From October 1999 includes schooling subsidies.

The child raising support was the form for which more and more families applied. Four times more asked for it but the total payments increased just by 3.8 times. The average monthly amount per capita became 2.77 higher than before in its real value. (see also Table A14, Annex)

Table 2. 27 Child raising benefit, Hungary 1970-2001

Year	Real value of the expenses on family allowance and schooling subsidy,	Average monthly number of			Changes in the percentage of ages 0-18	Real value of the average monthly amount per family, HUF	Number of children per family
		families		children			
		receiving family allowance and schooling subsidy, thousands		as a percentage of ages 0–18 years			
1970	4	48	64	55.0	60	9	2.19
1980	21	74	84	73.3	81	29	1.88
1990	100	100	100	91.0	100	100	1.65
1995	50	94	94	93.2	102	53	1.64
1996	39	87	88	88.7	97	45	1.67
1997	36	82	85	87.9	97	44	1.68
1998	36	79	82	87.1	96	46	1.69
1999	36	86	86	93.5	103	42	1.65
2000	33	86	86	96.1	106	38	1.64
2001	30	86	85	96.2	106	36	1.63

Source: CSO of Hungary: Social Yearbook, 2001. From 1 October 1999 the child raising benefits include family allowance and schooling subsidy.

As the child-raising support was transformed in social help, the child raising benefit felt back. Not only the average monthly amount per family decreased but also the total expenses.

In 1990 the parliament of Hungary accepted a new law on family allowances - law no. XXV. This Law established the conditions in which a family can get a social benefit in cash. A family with less than three children is eligible only if its net income falls below a threshold redefined in every year. A family with three children or more or has a disabled child can receive the family allowance if the child is under 16 years or, for children above 16, if the child is in full time education. After 1990 the family allowance was the following:

Table 2. 28 Family allowance, Hungary

The monthly family allowance per child	1994/1990	1998/1990	2002/1990
Up to 24.000 HUF income/person			
family with one child	64.3	41.47	29.3
1 parent + one child	65.0	41.99	29.7
family with two children	65.0	43.88	31.0
1 parent + two children	70.6	47.44	33.5
Three or more children			
families	70.6	51.82	36.6
1 parent	74.3	55.28	39.1
Disabled child	82.8	56.8	56.2
family with one disabled and other children. after the others			
1 parent with one disabled and one healthy child			

Source: Economic and social database (2001).

Child-care allowances and fees can be given to every mother or father who has a child under the age of three and do not have full time job after the age of 1.5 of their child. The value of it is the 100% of the minimal pension and belongs to the work history this way they must pay contribution after it to get pension later for this period too.

Another help given by the state was the child allowance deductible from the tax, which was introduced in 1999. It's value increased year by year but it helped just to the 62% of

the families. There need to have a proper income to exploit all the vantages of this help. Most of the families had income under the average. This way they lost the possibility to get the total allowance.

In conclusion, in Hungary families have children because they want to and not to get financial help from the state. However, the number of children depends strongly on the economic conditions of the family.

The ratio of total family benefits payments in GDP did not changed as all of the different types grew in real terms.

Table 2. 29 Aggregate expenditure figures for family benefits[a)]

Year	Prenatal allowance	Maternity benefits[b)]	Child-care		Family allowance	Schooling subsidy new form	Total	Payments as a percentage of GDP	Changes of the ratio to the GDP 1990=100%
			fee	allowance					
	1990=100%								
1970	17	12	–	32	4	–	6	1.43	36
1980	38	50	–	104	21	–	23	2.69	68
1990	100	100	100	100	100	–	100	3.95	100
1995	219	280	211	97	156	–	173	2.54	64
1996	204	183	230	98	148	–	171	2.05	52
1997	148	227	134	152	164	–	185	1.79	45
1998	170	268	115	198	187	–	204	1.65	42
1999	191	287	–	208	189	100	226	1.63	41
2000	247	322	211	164	87	729	247	1.58	40
2001	307	348	307	153	81	776	264	1.46	37

Source: CSO of Hungary: Social Yearbook, 2001.

Notes: a) Without postal charges (ledger data). b) Up to 31 December, 1992 maternity grant; from 1 January, 1993 to 14 April, 1996 pregnancy allowance; from 15 April, 1996 maternity subsidy.

Romania

Between 1990 and 2001, child-care represented 76% of the total financial aid granted by the state for social assistance. In 2002 its share decreased to 69%, as some of the resources has been reoriented towards enlarging the number of minimum income allowances. (Ilie, 2004)

The state child allowance is a universal benefit granted to all children aged up to 16 or up to 18 if enrolled in regular secondary education system (Law no. 61/1993) and for disabled. The benefit serves also as a stimulus for education enrolment, as it is conditioned for children over the age of 7 by attending the school classes on a regular basis. Taking into account that some children graduates from the pre-university education after the age of 18 years, according to the provisions of Law no. 261/1998, since 1999 young people aged over 18 years may also benefit of child allowance till graduation.

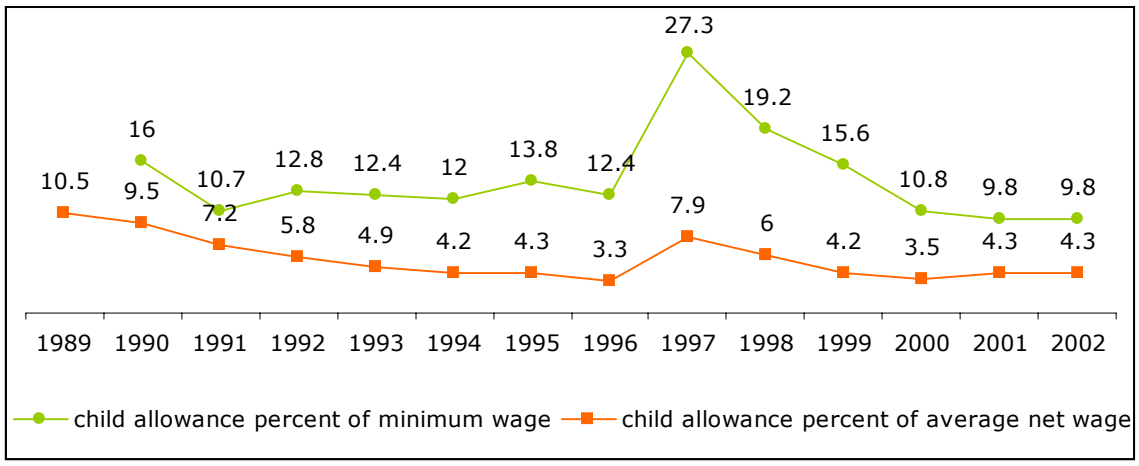
The state child allowance is granted on a monthly basis, in a fixed amount, regardless of the children's' family income. The state child allowance is yearly indexed to protect its purchasing power through time, but in 2003 it has reached only 5.6 EURO per month. In real terms the state child allowance decreased significantly after 1990, reaching its minimum in 2000 (21.7% of the 1990 value). (Figure 2.2)

The families with more than two children are receiving a supplementary allowance, which have replaced since 1997 the aid for mothers with many children. Between 1990 and 2002 the number of beneficiaries of these transfers oscillated between 11% and 14% of total households. This benefit was an attempt to improve the targeting of the child-care program to the poor, knowing that families with more children face high risk of poverty.

The level of the supplementary allowance was set in 1997 and it was not indexed afterwards. Consequently, it has low quantum: monthly equivalent of approximately 1.2 EURO families with 2 children, 2.5 EURO for 3 children, respectively 3 EURO for families with four or more children. (Table 2.30)

For disabled children or children suffering of 1st or 2nd degree of invalidity, the amount of the child allowance is increased by 100%.

Figure 2. 2 The evolution of child-care allowance percent of minimum and average net wage, Romania 1989-2002



Source: Ilie, 2004.

Table 2. 30 The average number of the beneficiaries of supplementary allowances for families with children, Romania 1998-2003

	1998	1999	2000	2001	2002	2003
Total	1,099,399	1,117,473	1,097,694	1,054,719	1,003,400	972,998
Of which:						
- Families with two children	791,061	817,576	810,720	783,443	760,050	731140
- Families with three children	203,840	199,392	190,973	178,544	167,048	160,114
- Families with four or more	104,498	100,505	96,001	92,732	76,302	81,744

Source: National Development Plan 2004-2006, Ministry of Administration and Internal Affairs.

The state child allowance and the supplementary allowance for families with more children represent by far the biggest share of the social assistance transfers. These benefits were granted to 4,835,606 children (state allowance) and 1,003,400 families (supplementary allowance) at a cost of 0.68% of GDP in 2002.

Families with children are also receiving birth allowance, which represents a fixed amount. The number of recipients of the birth allowance increased by 15 times after 1990 (from 2,404 to 27,633 in 2000 and to 40,677 in 2002) (Ministry of Labour, Social Solidarity and Family, 2003).

Of special concern to the Government is the relatively high number of child abandons. Hence, the Government Emergency Ordinance no. 26 on the protection of the children in difficulty, approved by Law no. 108/1998 stipulates the support conditions for families or private authorized bodies to which children are entrusted or given in placement. However, the amount of the family placement allowance starting with 2003 represents the equivalent of only 16 EURO/ child/ month.

Paid pregnancy leave is part of the social insurance system. Only women with work contract (or with a contract expired in the last 9 months) benefit from this provisioning. According to the Law no. 19/2000, active since April 2001, the duration of the paid pregnancy leave is 126 days (112 days with the past regulations) before or after the child is born, and the allocation represents 85% of the average salary in the last 6 months. After maternity leave, a return to the former job is guaranteed.

The pregnancy leave is followed by the parental leave (for one of the parents), which lasts up to two years, the allowance being similar to that for pregnancy leave. (Law no 577/2003).

The proportion of households that benefited of child allowances varied between 1995 and 2002 in a narrow band, 52%-55%. Child allowances (state child allowance and supplementary allowance for families with more children) are not very well targeted but have the largest coverage of the poor and the extreme poor. In addition, excluding pensions, the child allowances and the unemployment benefit have the highest impact on poverty alleviation. (World Bank, 2003)

Slovenia

From the benefits linked to the child, financially the most important in Slovenia are maternity ('parental') leave wage compensation and child benefits.

Maternity leave wage compensation

Until the end of 2001, the total leave associated with childbirth in Slovenia (parental leave) was one year (365 days) long, of which three months (105 days) could be used only by the mother (maternity leave). Either the mother or the father could use the remaining nine months (child care and protection leave); however, this right is used almost exclusively by the mother, so we simply refer to this joint benefit (maternity leave and child care and protection leave) as *maternity leave wage compensation.* After maternity leave, a return to the former job is guaranteed.

Wage compensation, to which those covered by health insurance are entitled during their absence from work when on maternity leave and child care and protection leave, amounts to 100% of the average monthly gross wage of the entitled person during the past 12 months. New limits for the wage compensation were introduced in January 2002: the minimum is 55% of the minimum wage and the maximum is 2.5 times the average wage in Slovenia; however, the upper limit is not applied for wage compensation during maternity leave.

Parental allowance

Since 1994 (according to the 1993 Family Benefits Act), a parental supplement has been granted to persons who are not eligible for the insurance-based wage compensation during parental leave. Until the end of 1993 this benefit was termed social assistance to mothers and eligibility was limited to female secondary school and university students and the registered unemployed. Housewives and some farmers were excluded. The benefit was received for 84 days. Since 1994, this benefit is limited to mothers who are of Slovene nationality, are permanent residents of Slovenia and are not receiving any wage or wage compensation. The duration of the entitlement has been extended and is the same as for maternity leave wage compensation - i.e. one year. However, unlike the maternity leave wage compensation, the amount of parental allowance is quite low; the average amount per beneficiary is only some 17% of the average amount disbursed for maternity leave wage compensation.

Child benefits

Up to 1993, child benefits were targeted, and only children in families with per capita income up to 43% of the average net wage in Slovenia were entitled. The eligibility ceiling was raised in May 1994, and child benefits were granted to children from families with per capita income up to 50% of the average gross wage in Slovenia. Since 1994, the

benefit level depended on family income. From May 1996 to April 1999 the income ceiling was raised again - to 110% of the national average gross wage per family member. As a consequence, the number of children receiving child benefit increased by 70%; the amounts disbursed also increased considerably, as can be observed from Table 2.31**.** Further changes in the Family Benefits Act were introduced in May 1999. The income ceiling was lowered to 99% (instead of 110%), child benefits were differentiated according to the number of children (increased benefits for each additional child), and benefit levels were also increased for children in low income families.

Subsequent changes in 2002 and 2003 extended the duration for receiving child benefits (from 15 years to 18 years); in case the child continues with full-time education, the benefit could be extended up to the age of 26. Also, child benefits for pre-school children who are not included in subsidized childcare programs were increased by 20%. This is to compensate for a part of the costs of informal child-care arrangements or a part of the opportunity costs for a parent taking care of a child at home. Also, somewhat higher child benefits were introduced for children in single parent families.

Table 2. 31 Expenditures on child benefits and number of recipients, Slovenia 1990-2002

	1990	1995	1998	1999	2000	2001	2002
Average monthly number of beneficiaries	73,181	123,006	254,228	245,998	247,505	248,996	245,077
Average monthly number of children	152,393	222,634	410,864	405,040	411,397	412,495	408,051
Total amount for the program (mil SIT)		14,033	26,705	35,939	44,904	48,066	51,462

Source: Statistical Yearbook (2003).

Other child-related benefits

Allowance for nursing a child is disbursed to one of the parents of a severely ill child or a physically or mentally handicapped child. This allowance was introduced on 1 May 1996. Eligibility is restricted to children, citizens of the Republic of Slovenia and with permanent residence in Slovenia. The value of allowance is rather low. Children treated, trained or educated in institutions with free nursing are not eligible to receive allowance during their stay in the institution. Recent changes (in 1999) extended the duration of this allowance, under certain conditions. Thus, the allowance can be disbursed up to the age of 26, on condition that the child is in training

A large-family allowance is a universal transfer to families with three or more children and was introduced in 2001. Eligible are families with three or more children below the age of 18 or older, if they fulfil the age and status conditions for the entitlement to a child benefit. In order to qualify, parents and children must be citizens of Slovenia and have the same place of permanent residence. The large-family supplement is paid lump-sum once a year.

Birth grant can be either an in-kind or a cash benefit. A mother or other person who looks after a child makes the choice. The value of the birth grant depends on the price of goods included in the kit and is adjusted by the index of retail prices of goods included in the kit. However, if bought at market prices, these goods would cost about 40% more. Due to that, most parents (about two-thirds) opt for an in-kind benefit, even more so since 1995 when the third alternative of the package contents was introduced.[35] The cash benefit is the average cost of goods included in the three alternative kits.

[35] The first two alternatives include the most essential goods for a newborn child, while the third one includes goods for an older child and is thus preferred for children of higher birth orders.

Childcare

Since the end of the 1970s, pre-school childcare services have been widespread and highly subsidized in Slovenia. The high level of availability along with affordability of organized childcare has been an important precondition for extensive female employment, which, in socialism, was considered as one of the elements of gender equality. Throughout the socialist period, public day-care centers were the only legitimate, formally organized and subsidized providers of pre-school childcare. Family day-care (guest families) existed as well, but was legal only if associated with day-care centers and allowed only for children up to three years.

Slovenia has managed to retain most of its advantages and achievements in pre-school child-care attained in the socialist period, while also rather successfully reforming these services. Changes were gradually introduced, and the first private day-care centers were established in 1991, although it was only in 1996 that the new Pre-school Child-care Act was enforced, formally allowing for private institutions/programs.[36]

Child-care services in Slovenia are widely affordable due to high subsidies from public sources. Not much has changed in the size of the public subsidy for pre-school child-care during the transition period. While the average subsidy amounted to 75% of the costs per child in 1990, it decreased to about 69% in 1998. All approved programs of public and private day-care centers/providers are entitled to a subsidy.

Since January 1998, at least 20% of the price, including costs of education, care and meals, and excluding investments and maintenance costs, is being covered by local communities; this is a basic subsidy. There is an additional subsidy amounting to 10%-70% of the price, depending on the income per family member. Even this additional subsidy is financed by municipal budgets. Thus, subsidization is strong, as only some 4% of all parents pay the full parent fee, which amounts to 80% of the cost. In these families, the gross monthly income per family member is greater than 110% of the average gross salary in Slovenia.

Private providers i.e. private day-care centers that perform the public service are also entitled to a high public subsidy.

2.3.4 Social assistance and other social allowances

Bulgaria

In Bulgaria the basic minimum income is not used as efficient poverty line but rather has a secondary function. It is settled by the state as a base for granting social assistance. Its value is adjusted to the number of households' members and their social status and value has been changed every year by the government with the goal to respond to the inflation processes in Bulgaria and to the changes in the price level. Regardless of this fact, its value was kept very low and the outcome is that the households treated by the state as poor do not include all poor households and thus social assistance did not contribute to decline in poverty. Many people whose incomes are above the basic minimum income live in poverty and have not received social assistance. Nevertheless, the means provided by the state were not enough to escape from poverty. During the last years in Bulgaria has been working on the problem for specifying an official poverty line which the social policy to be based on. This line was fixed at 120 BGN per capita in July 2004 and was created by a team of experts from the Ministry of Labour and Social Policy, the National Statistical Institute and the trade unions. There are still some

[36] The term "private" is used in the meaning of "non-public". It encompasses private firms and physical persons, as well as different forms of voluntary and other non-governmental organizations.

discussions on this line and for the time being it is going to be used only for statistical purposes.

As shown in Table 2.32, in 1992 the ratio of minimum wage to the basic minimum income was 170%. This rate is increasing and in 2002 it is already 250%, which means that the changes in the minimum wage were with higher speed than these in the basic minimum income. The consequence is, as stated above, that the official number of the poor households entitled to social assistance did not include all poor people in Bulgaria.

Table 2. 32 Ratio of the minimum wage, average wage and average pension to the basic minimum income, Bulgaria 1992-2002

Years	Basic minimum income	Minimum wage	Rate of the minimum wage to the basic minimum income	Net average wage	Rate of the net average wage to the basic minimum income	Average pension	Rate of the average pension to the basic minimum income	Rate of the average pension to the average wage
1992	500	850	170.0	2047	409.40	684	136.80	33.41
1993	885	1414	159.8	3231	365.08	1111	125.54	34.39
1994	1225	2143	174.9	4960	404.90	1747	142.61	35.22
1995	1600	2760	172.5	7364	460.25	2415	150.94	32.79
1996	1800	3340	185.6	13247	735.94	4221	234.50	31.86
1997	27000	45500	168.5	127909	473.74	37273	138.05	29.14
1998	32400	53500	165.1	183250	565.59	62080	191.60	33.88
1999	37.3	67	179.6	201.0	538.87	66.96	179.52	33.31
2000	37.3	79	211.8	224.5	601.88	86.41	231.66	38.49
2001	40	100	250.0	240.0	600.00	92.37	230.93	38.49
2002	40	100	250.0	257.6	644.00	102.29	255.73	39.71

Source: Bulgarian Statistical Yearbooks (various editions).

Both the minimum wage and the basic minimum income are measures used by the state as a base for providing its social and income policy. However, the rate of the minimum wage to the basic minimum income indicates that a four-member family, consisted of two adults receiving minimum wage and two children, is not entitled to social assistance because its income (two minimum wages + child-allowances[37]) exceeds the basic minimum income, although this money is not enough for granting normal life of the family. This example and the results in the table prove that the social assistance as a part form the social policy directed to poverty reduction is at this stage still not enough efficient and cannot meet its main purposes.

Table 2. 33 Changes in the rates of households receiving family allowances and social assistance, Bulgaria 1992-2002

Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Rate of households receiving social assistance	15.12	14.6	9.1	6.12	7.52	27.08	14.87	15.08	15.06	14.7	17.89
Change 1992=100	100	96.59	60.18	40.51	49.75	179.08	98.33	99.73	99.58	97.23	118.29

Table 2.33 includes data on the share of households that receive social assistance. In 1992 they represent 15.12% of all households. Then this percentage is falling and in

[37] Child-allowances in Bulgaria are very low and are not a sufficient income source

1995 only 6.12% of the households received social assistance or 49.75% of the 1992 level. In 1997 (the most difficult year for Bulgarians when they had to cope with the hyperinflation), the share of people receiving social assistance increased sufficiently and reached 27.08% of the households. Than this share decreased again and fluctuated around 15%. In 2002 can be seen again an increase in the share of households receiving social assistance – 17,89% of the households.

Most social assistance programs were introduced in 1991 in a 'social safety net' system. Financing comes from the state budget and includes financial support for households and individuals without other sources of income (and who are below certain poverty line) and providing homes for elderly, disabled, orphans, etc. There is a prescribed subsistence level of income, with payment made to eligible households to bring them up to this level.

Social assistance is means-tested and comprises a monthly cash benefit as well as a range of in-kind benefits (free goods or services, access to care system etc). Social assistance (in cash and in-kind) is funded by the state and the municipal budget. For years now municipalities have been facing acute financing difficulties. As a consequence they were often not in position to address effectively all people in need of social assistance, to ensure full-payment of the benefits or to pay them on time.

Since the beginning of the transition social assistance has been used mainly to respond to increasing poverty. At 1.3 % of GDP the amount redistributed as social assistance is considered by the Bulgarian authorities as having reached a critical threshold. The transformation of social benefits into 'employment benefits' for those able to work is envisaged to gather with the overall improvement of quality.

Eligibility for social assistance is determined on the basis of the basic minimum income adjusted to the household size and the situation of its members (age, health, etc). The amount of the monthly benefit is the difference between the adjusted basic minimum income and the actual income of the family during the previous month for which only 70% of the work-related income is taken into account. In addition during the winter season eligible households receive an electricity allowance (flat amount of 37.35 BGN currently) and a heating allowance (according to the adjusted basic minimum income).

Only the unemployed who have been registered for six months at the labour office can apply for general social assistance. In addition they are obliged to participate for at least five days a month in municipal temporary work programs for activities of general interest (social services, waste collection, maintenance of public infrastructure, etc) without payment. If there are dependent children in the household, social assistance can still be granted to unemployed people who do not meet these requirements.

Hungary

Social help

During the first years of the '90s the social support was decided centrally by the parliament and given by the labour offices. After some years the system was changed and the local governments got the right to give aids, regular or emergency supports. The support is granted on request and on a visit of the social worker. The social benefit can be given in cash or in kind.

Table 2. 34 Rate of people getting social support percent in total population by the type of support, Hungary 1990-2002

Year	Inhabitants in thousand	Regular social support	Unemployed supplement	Dwelling and emergency	Funerals	Transport support	Medical card and nursing	Old-age and child	Total	Change of total
1990	10375	0.45	-	7.79	-	0.38	-	0.97	9.59	100.00
1991	10373	0.42	-	8.53	0.45	-	-	-	9.40	97.65
1992	10374	0.37	-	13.52	1.09	-	-	-	14.98	155.56
1993	10365	0.29	1.07	11.37	0.94	0.15	2.80	-	16.62	170.80
1994	10350	0.26	1.89	12.07	0.83	1.98	3.03	-	20.06	208.88
1995	10337	0.23	2.04	12.28	0.84	2.40	3.39	3.93	25.11	262.96
1996	10321	0.20	1.88	13.04	0.84	1.99	4.26	3.93	26.14	270.22
1997	10301	0.26	1.80	10.01	0.84	2.49	4.77	6.37	26.54	312.15
1998	10280	0.27	1.70	10.03	0.84	2.70	4.90	11.10	31.54	324.98
1999	10253	0.34	1.4	11.64	0.82	2.82	4.85	11.67	33.54	344.63
2000	10222	0.46	1.13	8.22	0.80	2.87	5.05	12.00	30.53	312.60
2001	10200	0.93	0.46	8.06	0.75	2.96	5.16	11.72	30.04	306.89
2002	10175	1.24	0	8.26	0.81	2.95	5.29	11.40	29.95	305.90

Source: CSO of Hungary: Yearbooks.

Some people ask for social help every month, while others succeed to find alternative sources of income. Thus, if we count three applications per person per year, 3% of the population asked for social support in 1990. This ratio grew very fast and in 1992 was more than 5%. In 1995 the proportion of beneficiaries of social help rose to 8.3%. In the next two years the ratio stagnated for jumping again in 1998 to 10%. Since than nearly 10% of the population gets social help from the state. The distribution by type of social support indicates that the medical card and nursing support and the old-age and child care benefit grew significantly.

Today there are three very important types of the social assistance, namely:

- dwelling and emergency benefit which covers a part of the electricity, gas and water bills for the poor families. Since 1996, dwelling aid has become more common than the emergency benefit, predominant at the beginning of the '90s. The payments are made directly to the supply companies.
- old-age social aid is a form of supplementary pension targeted to one-person households, mainly of widows, that live alone. This benefit is granted through municipalities.
- aid given for children is an in-kind benefit comprising books, catering at schools and clothing.
- regular social support refer to a fixed amount provided for one year or more. In 1990, 0.5% of the Hungarians applied for this benefit. After 1994 the rate decreased due to the cut of the social expenditures. As the economy stabilized the rate reached again 0.5% and in 2002 it became more than 1%.

Other forms of support include:

- Funeral aids is a financial support for a poor families or persons. The number of funeral aids increased dramatically.
- Medical card means the right to buy medicines for a reduced price or for free. Most of the old-aged and disability pensioners have it. Nursing is also provided at the applicant's home.

The main regular and irregular benefits granted by local governments are shown in Tables A15 and A16 (Annex). The amount of regular and irregular social benefits did not change too much during the last ten years. The amount of the income supplement for

unemployed increased to the 66% of the living standard from the 37%. The other benefits kept their ratio and were always lower than the living standard, which means that the assistance of the state did ensure the minimum conditions for the poor.

Romania

The social assistance system includes all non-contributory programs granted to families with incomes below a threshold established by law or in extremely difficult situations. The main programs changed during time.

Allocation for solidarity, income tested benefits directed to support families with per capita incomes less than a half of the national minimum wage. It was introduced in 2000 with the intention of replacing the social aid system. It is financed from a special fund and managed at the county[38] level. It is granted upon request, usually for no more than six months. Due to its location in county seats the access to this benefit is discriminatory and generates inequality because rural residents (particularly the poor ones) have low access to fulfil the application.

Assistance for the wives of men performing compulsory military service, heating allowance, compensation of bread price raising, funeral aid, and various programs for families in difficulty and persons with special needs.

Social aid refers to means-tested benefits directed to support the poorest families. It was introduced at the end of 1995 and it was highly ineffective. Beginning with 1996 the financial responsibility was transferred to local city governments and by 2000 the system crashed (the expenditures for social aid in 2000 represented only 6% of those from the first months after the benefit was passed in 1995). In January 2002 was replaced by the minimum guaranteed income.

Social aids were granted to the families with a monthly net revenue per family member of maximum 50% of the national gross minimum basic wage and who cannot cover the costs of preparing their children for starting the new school year, of school supply, stationeries or other necessary goods, as well as to stimulate school attendance.

Before 2001, despite the large number of social assistance programs, the number of beneficiaries had been low and most corresponding social benefits are paid rather sporadically due to the financial problems of the local councils. (Tesliuc, Pop, Tesliuc, 2001: 88, 146) In this respect, the fiscal decentralization has generated new inequalities while people in the same situation are differently granted social assistance according to their residency (in poor rural communes and in most depressed towns none of this programs functioned). They play rather an insignificant role in the population budget being low-level and highly irregular.

Table 2. 35 Social aid/MIG percent of average net wage, Romania 1995-2002

	1995	1996	1997	1998	1999	2000	2001	2002
Social aid/MIG percent in average net wage	21.3	14	15.6	12.5	10.2	7.7	5.5	15.5

Source: Ilie, 2004.

However, with the Law no.705/2001 social assistance had a more coherent approach, the specified dimensions being: cash benefits (universal and targeted), subsidies and services. The social assistance system is complementary to social security system, and the Governmental institution responsible is The Ministry of Labour, Social Solidarity and Family.

[38] Administratively Romania is divided in 40 counties plus the capital city, Bucharest.

There are two main targeted cash benefit programs[39] that are granted to the households with an aggregates income below certain threshold, established and periodically updated by the Government, namely:

- *Minimum Income Guaranteed* (MIG,), Law no. 416/2001 enacted in 2002, replaced the social aid program implemented from 1995 to 2001. Eligibility for MIG is gained based on income and asset test. The income threshold depends on family income and its size. The MIG benefit covers the gap between the program threshold and the actual family income. The new law places a certain accent on the responsibility of individuals for their own welfare, as the MIG is conditioned by participation for 72 hours a month in municipal temporary work programs for activities of general interest (social services, waste collection, maintenance of public infrastructure, etc) of those able to work. Another request is represented by the enrolment at the Unemployment Office. Also, in order of encouraging unemployed persons to find a job, the law establishes an increase with 15% of the minimum guaranteed income level if one of the members of the family is working under a labour contract. Program beneficiaries are entitled to other tied-benefits: health insurance and heating subsidies.
- Heating subsidy program provides lump-sum benefits for low-income families from November to March. The size of benefit depends on the aggregate income level of the family and the source/fuel used for heating (district heating, gas or wood/coal). Initially, the heating subsidies were provided only for MIG beneficiaries but in 2002 the Government changed the MIG law and raised the heating subsidy eligibility threshold[40] above the MIG threshold in the attempt to cover mainly the urban poor, particularly the urban pensioners with low pensions.

The graduates of the compulsory education, who continue their education in pre-university education, and are members of families that benefit from MIG can benefit each month of scholarship in order to continue their education.

Families and single persons with low or without any income could benefit of two meals provided by the social canteen for 90 days, according to Law no.208/1997. The allowance is 0.9 EURO/ per day/person.

Table 2. 36 Level of the MIG by family type (equivalent EURO), Romania 2002-2003

Family type	Level of the MIG **- 2002 -**	Level of the MIG **- 2003 -**
- single person	20.2	19.7
- 2 persons families	36.3	35.4
- 3 persons families	50.4	49.1
- 4 persons families	62.5	60.8
- 5 persons families	74.6	72.6
- any other member of the family, over the 5 members	5.0	4.9

Source: Calculated based on data from National Development Plan 2004-2006, Ministry of Administration and Internal Affairs.

In 2002, the MIG program covered almost 619 thousand families for a total cost of 0.28% of the GDP. In the same year almost 756 thousand families (more than 3 million persons, that is 13.5% of the country population) benefited of the heating subsidy program for a total cost of 0.1% of the GDP (included in the MIG budget).

Noticeable, the MIG is one of the best targeted programs to the poorest. It succeeds to transferring 62% of program benefits to the poorest quintile, a performance that

[39] The two programs were initially (2002) regulated by the same law but after the first year of implementation they were split in two separate programs.

40 For an important segment of population with low income, particularly urban, the expenses in cold season with thermal energy, natural gases, energy and other utilities represent more than 70–80% of the family budget.

overshadows other similar programs in the regions such as from Serbia or Estonia. Nevertheless, its coverage and benefit adequacy are rather low. The same experts showed that the major two weaknesses of the program are the funding arrangements (unclear distribution of the financing burden between the central and local administration, unpredictable funding, lack of enforcement with regard to benefit payments, MIG resources from the central budget are not clearly earmarked) and implementation (the discretionary power of local public administration with regard to the criteria for assets evaluation and eligibility). (World Bank, 2003)

Slovenia

Means-tested financial assistance to individuals in need of social assistance - available also to those capable of work - was introduced in 1979. In 1992, the Social Assistance and Services Act was adopted, preserving the principles but decreasing the income threshold (minimum income level) by about 16%, reducing in this way the number of eligible persons. The act differed for: a) persons permanently unable to work as well as those above 60 years of age, for whom social assistance was the only source of income, and b) persons who were - for reasons beyond their control - temporarily unable to secure sufficient minimum means for themselves and their families. The benefit level for the first group of beneficiaries amounted to 60% of the guaranteed wage, while for the second group it amounted to the difference between the level of the normative family minimum income and the actual family income. The normative family minimum income was computed using an equivalence scale with three different weights for children and one for adults. For example, the normative family minimum income for a family with two adults and one child less than 7 years old and a child 12 years old was 167% of the guaranteed wage.

Except for a very low benefit level that only covered the costs of poor nutrition, the problem was in the benefit linkage to the guaranteed wage, which was not suitably indexed. The guaranteed wage used to be the lowest possible pay for a full-time job in Slovenia. Though it had lost its meaning for labour remuneration, it was nevertheless retained a basis for determining the level of some social benefits. Until the mid 1997 the government had a discretionary right to adjust the guaranteed wage level, and during that period the real value of the guaranteed wage decreased considerably. It amounted to 43% of the average gross wage in 1991 and to only 24% in 1997. Since the mid 1997 the guaranteed wage has been adjusted once a year according to the consumer price index (as a rule, by 85% of the rise in consumer prices) and currently represents some 20% of the average gross wage.

The Social Assistance and Services Act was significantly amended in April 2001. This act abandoned the concept of guaranteed wage as a numeraire for social assistance benefits and introduced the concept of minimum income. Also, the equivalence scale has been somewhat simplified and is 1 for the first adult, for every other adult 0.7, and 0.3 for every child below 18 years or older than 18 years - provided he is in regular schooling and that the parents are obliged to maintain him/her. The minimum income (per equivalent adult) is set at 45,524 dollars in 2004, and is even somewhat lower than the guaranteed wage, which was 52,699 dollars. In the case of a single parent family, the computed minimum income per family is increased by 30%.

A person or a family is not eligible if the family has savings or property whose value exceeds 24 minimum wages. It must be noted that not all property is taken into account.

The eligibility may be conditioned by signing a contract between the centre for social work and the beneficiary on active addressing of the beneficiary's socio-economic problem, in which his/her activities and obligations (inclusion in medical treatment, etc.) as well as the termination of entitlement to social assistance in case of an unjustified failure to carry out the contract.

In case of a change in the own income of the beneficiary or his family, the new level of their income is determined for the three-months period starting with the first calendar

month in which the change in own income has occurred. However, in order to stimulate the work effort of the beneficiary, not all income earned in this three-months period is taken into account. Casual income and periodical income generated on the basis of an employment contract concluded in the same period of time are not counted as own income in the first three months following their receipt, while in the subsequent three months only half of their amount is taken into account.

The 2001 Social Assistance and Services Act also redefined the social assistance benefits. By far the most important - both in terms of beneficiaries and in terms of outlays - has been the temporary cash social assistance, which can be granted for a maximum of one year. The number of beneficiaries has been rapidly increasing since 2001 and there are currently (as of May 2004) some 56 thousand beneficiaries. The largest group are registered unemployed persons (more than 80%). Probably, there is a trickle down effect: the unemployed receiving unemployment benefits (if eligible) then unemployment assistance and finally social assistance benefits. However, a number of registered unemployed were probably not eligible for unemployment benefits and thus started receiving social assistance benefits outright.

3 References

Ackrill, Dobrinsky, Markov and Pudney (2000); "Social security, poverty and economic transition: an analysis for Bulgaria"; *Economocs of Planning*

Augusztinovics, Mária (1993): The social security crisis in Hungary. *Hungary: An economy in transition* p. 296-320.

Andorka, R. and Zs. Spéder (1997), 'Poverty in Hungary – Some Results of the First Two Waves of the Hungarian Household Panel Survey in 1992 and 1993', In: Ott and Wagner (eds.) (1997), pp. 187-206.

Andorka, R., Zs. Ferge and I. Gy. Tóth (1997), 'Is Hungary Really the Least Unequal? A Discussion of Data on Income Inequalities and Poverty in Central and East European Countries', *Russian and East European Finance and Trade,* 33(6), pp. 67-94.

Bogetic, Zeljko and Hassan, Fareed M. A. (1996); "Effects of Personal Income Tax on Income Distribution: Example from Bulgaria." http://www.sigov.si/zmar/apublici/iib/iib0197/boge01ib.pdf

Borak N. and Pfajfar L. (2002), "Analiza neenakosti v delitvi dohodkov v Sloveniji v obdobju 1991-2000 (An Analysis of income inequality in Slovenia in the period 1991-2000)", Paper presented at the 34th symposium of the Association of Economists of Slovenia, Portorož, March.

Braykova. Tatiana (2003); "The New Social Security Code – Winners and Failures Groups" www.nispa.sk/news/braykova.rtf

CASE (Center for Social and Economic Research) (2004) *Operationalizing Pro-Poor Growth. Case of Romania*, World Bank Report, Varsaw.

Central Statistic Office of Hungary: Yearbook of social statistics : 1998, 1999, 2000,2001 KSH. Bp. 2000 217

Cichon, Michael (1995): Social protection in the Visegrád Countries: Four country profiles. ILO-CEET Bp. V. 172 p.

Ciupagea, Constantin 2000 Rigidities of the Labour Market in a Transition Economy: The Case of Romania, *Romanian Journal of Economic Forecasting, No. 3-4/2000*, Romanian Academy, National Institute of Economic Research, Institute of Economic Forecasting, 29 – 57, Expert Publishing, Bucharest.

Commission of the European Communities (2001) *Regular Report on Bulgaria's Progress towards Accession*, http://europa.eu.int/comm/enlargement/report2001/bu_en.pdf

Csaba, László (1995): Privatisation and distribution in Central and Eastern Europe: Theory from evidence. Kopint-Datorg Bp. 24 p. ; 29 cm Kopint-Datorg Discussion papers. Egészségügyi és szociális statisztikai évkönyv 1997 = Yearbook of health and social statistics KSH Népesedés- Egészségügyi és Szociális Statisztikai Főosztálya KSH Bp. 1999 455 p.

EBRD (2000) *Transition Report 2000*, U.K., London.

Éltető, Ödön - Lakatos, Judit - Rédei, Mária (1998): State responses to poverty and unemployment in Hungary. Hungarian Statistical Review Vol.76. Special number 92-109. p.

Employment Service of Slovenia (2004): Annual Report 2003, Ljubljana.

Gedeon, Péter (1995): Hungary: Social policy in transition. East European Politics and Societies Vol.90. No.3. 433-458. p.

Giddings, Lisa A. (2001); "Changes in gender earnings differentials in Bulgaria's transition to a mixed-market economy"

Górniak, Jaroslaw (1999) "Poverty in Transition: Lessons from Eastern Europe and Central Asia" http://www.undp.org/dpa/publications/choicesforpoor/ENGLISH/CHAP06.PDF

Hassan, Fareed M. A. and Peters, R. Kyle (1995); "Social Safety Net and the Poor during the Transition: The Case of Bulgaria" http://econ.worldbank.org/files/273_wps1450.pdf

Hermann, Zoltán - Horváth, M. Tamás - Péteri, Gábor - Ungvári, Gábor (1999): Allocation of local government functions : Criteria and conditions : Analysis and policy proposals for Hungary. The Fiscal Decentralization Initiative for Central and Eastern Europe. Washington III. 170 p.

Ilie Simona (2004) *Income Inequality and Income Policies in Romania*, Ph. D. Thesis, Faculty of Sociology and Social Work, University of Bucharest, Bucharest.

IMF, 2004, Romania: Ex Post Assessment of Longer-Term Program Engagement—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Romania, Country Report No. 04/113.

Jarvis, Sarah and Pudney, Stephen (1995): Redistributive policy in a transition economy: A case of Hungary CEPR London 47 p. ; 21 cm Bibliogr. 46-47. p.

Kollo, Janos, and Maria Vincze (1999) Self-employment and unemployment: Lessons from Regional Data in Hungary and Romania, *Romanian Economic Research Observer No.5/1999*, Romanian Academy, National Institute of Economic Research, Center for Economic Information and Documentation, Bucharest.

Kolosi, Tamás and Róbert, Péter (1993): Social effects produced by the system change. Acta Oeconomica 45. No. 1-2. pp. 23-42.

Könczei, György (1995): The story of the poor soldier: (Or: Disabled people in Hungarian Society). Society and Economy in Central- and Eastern Europe Vol. 17. No. 2. 188-224. p.

Kopasz, M. (2003) "Hungary Country Contextual Reports", in C. Wallace (ed.) *Research Report #2. Country Contextual Reports. Demographic trends, labour market and social policies*, HWF Research Consortium, www.hwf.at, Institute for Advanced Studies, Vienna, p. 199-238.

Kovacheva, S. and Pancheva, T. (2003) "Bulgaria Country Contextual Reports", in C. Wallace (ed.) *Research Report #2. Country Contextual Reports. Demographic trends, labour market and social policies*, HWF Research Consortium, www.hwf.at, Institute for Advanced Studies, Vienna, p. 239-294.

Kuhelj, J. (2000), *Zakon o pokojninskem in invalidskem zavarovanju, z uvodnimi pojasnili.* Uradni list Republike Slovenije, Ljubljana.

Kump N. (2002): "Progresivnost neposrednih davènih obremenitev fizièni oseb v Sloveniji (Progressivity of direct taxes in Slovenia)", Masters Thesis, Ljubljana: Faculty of Economics.

Kump, N. and T. Stanovnik (2004), "La dynamique du revenu des pensionnés en Slovénie", *Retraite et Société,* no. 41, pp.106-127.

Dr. Loukanova. Pobeda (2000); "The welfare state. labour markets and employment policies during the prolonged transition: The case of Bulgaria" http://www.issa.int/pdf/helsinki2000/topic1/2loukanova.PDF

Maskin, Eric - Simonovits, András (2000): Planning. shortage. and transformation: Essays in honor of János Kornai MIT Press Cambridge London 439 p. ; 24 cm

Mărginean, Ioan (2000) *Economia Politicilor Sociale (Social Policy Economics)*, Ed. Ars Docendi, Bucharest.

Michel, Joachim (1997): Crisis of the welfare states: Bibliography on reforming the social security systems : German and English language literature ZBW Kiel 197 p.; 30 cm 14 p.

Milanovic, Branko (1998): *Income inequality and poverty during the transition from planned to market economy*. World Bank. Regional and sectoral studies.

Ministry of Labour, Family and Social Affairs (2000), National employment action plan for the years 2000 and 2001, Ljubljana

Ministry of Labour and Social Policy (2002) "From Guidelines to Action. Bulletin for European Integration" http://www.mlsp.government.bg/en/integration/euro/bulletin/BUL3200200.doc

Ministry of Administration and Internal Affairs (2004) *National Development Plan: Romania 2004-2006*, www.mie.ro.

National Institute for Statistics from Romania, Statistical Yearbooks (various editions), Bucharest.

National Institute for Statistics from Romania, Labour Force Survey AMIGO (various editions), Bucharest.

National Institute for Statistics from Romania (2004) *CANSTAT Statistical Bulletin*, No. 3/2003, Bucharest.

National Statistical Institute of Bulgaria, Statistical Yearbooks (various editions), Sofia.

Newbery, David M. (1994): The distributional impact of price changes in Hungary and the UK. Univ. of Cambridge, Cambridge 26 p.; 20 cm Discussion papers on economic transition /Department of Applied Economics. University of Cambridge; DPET 9402.

Noncheva, T. (1997); "Poverty in Bulgaria: Researches and Debates" http://www.warwick.ac.uk/fac/soc/complabstuds/russia/BGREP.DOC

OECD (1998); "Labour market and social policy in Bulgaria" http://www.oecd.org/dataoecd/32/4/2404415.pdf

Preda, M. (coord.), Dobos, C. and Grigoras, V. (2004) *Romanian Pensions System during the Transition: Major Problems and Solutions*, Pre-Accession Impact Studies II, European Institute of Romania.

Sahn, Younger and Meyerhoefer (2002); *Rural poverty in Bulgaria: characteristics and trends*, http://people.cornell.edu/pages/des16/sahn/wp132.pdf

Semjén, András - Csaba, Iván (1998): Welfare institutions and the transition: In search of efficiency and equity. Hungary: Towards a market economy pp. 294-343.

Sicherl, P., T. Stanovnik, N.Stropnik, J.Zorič (2002): Country context report for Slovenia (draft), Ljubljana: Sicenter.

Sik, E. and Nagy, I. (2003) "HWF Hungary Country Survey Reports", in C. Wallace (ed.) *Research Report #3. HWF Survey: Country survey reports*, HWF Research Consortium, www.hwf.at, Institute for Advanced Studies, Vienna, p. 297-340.

Simonovits, András (1995): Pensions and family allowances: A reconsideration of the social insurance paradox. Acta Oeconomica Vol. 47. No. 3-4. 357-368. p.

Stanovnik T. (2001): "Dohodki, dohodkovna neenakost in trg dela v Sloveniji: pred-tranzicija in tranzicija (Income, income inequality and the labour market in Slovenia: Pre-Transition and Transition)", mimeo, Ljubljana: Faculty of Economics.

Stanovnik T. (2001), "Dohodki; dohodkovna neenakost in trg dela v Sloveniji: pred tranzicijo in tranzicija", *IB Revija*, No. 1, vol.35.

Stanovnik, T. (2002). "The political economy of pension reform in Slovenia" in E. Fultz (editor), *Pension reform in Central and Eastern Europe.* ILO-Central and Eastern European Team, Budapest.

Stropnik, N. and T. Stanovnik (2002). *Combating poverty and social exclusion: a case study of Slovenia*. ILO Central and Eastern European Team, Budapest.

Szamuely, László (1996): The social costs of transformation in Central and Eastern Europe. The Hungarian Quarterly Vol. 37. Winter 54-69. p.

Statistical Office of the Republic of Slovenia:, Statistical Yearbook (various editions), Ljubljana.

Stănculescu, M. S. and Ilie, S. (2001) *Informal Sector in Romania*, UNDP and RIQL, Bucharest, http://www.undp.ro/news.htm.

Stănculescu, M. and Berevoescu, I. (2003) "Romania Country Contextual Reports", in C. Wallace (ed.) *Research Report #2. Country Contextual Reports. Demographic trends, labour market and social policies*, HWF Research Consortium, www.hwf.at, Institute for Advanced Studies, Vienna, p. 295-349.

Teşliuc, C. M. and Pop, L. (1999) 'Poverty, Inequality, and Social Protection', in *Economic Transition in Romania: Past, Present and Future*, Ruhl, C. and Dăianu, D. (eds.), The Romanian Center for Economic Policies and World Bank, Bucharest.

Teşliuc, C. M., Pop L. and Teşliuc, E. (2001) *Sărăcia şi sistemul de protecţie socială* (*Poverty and Social Protection System)*, Ed. Polirom, Bucharest.

Dr. Tomev. Luben; Dr. Daskalova. Nadezda; Michailova. Tatiana and Ivanova. Violeta (2002); "Bulgaria" http://www.etuc.org/ETUI/CBEurope/Creports/2003/REPBulgEN.pdf

UNDP (1999a), Stănculescu, M. S. (ed.) *Sărăcia în România 1995-1998* (*Poverty in Romania 1995 – 1998)*, Vol. I. Coordonate, dimensiuni şi factori (Coordinates, Dimensions and Factors), Poverty Alleviation Project, Bucharest.

UNDP (1997-2004) *National Human Development Reports*, Bucharest.

UNICEF (1999) *Women in Transition*, Regional Monitoring Report 6. Florence: International Child Development Centre.

UNICEF (2004) *Social Monitor 2004*, Innocenti Social Monitor CEE/CIS/Baltic States.

United Nations (1996); "Implementation of the International Covenant on Economic. Social and Cultural Rights" http://www.hri.ca/fortherecord1999/documentation/tbodies/e-1994-104-add16.htm

Uršič, C. and T. Stanovnik (2003). "Invalidity pensions in Slovenia" in C. Prinz (editor) *European disability pension policies,* Ashgate, Aldershot.

Vodopivec M., A. Wörgötter and R. Dhushyanth: 'Unemployment Benefit Systems in Central and Eastern Europe: A Review of the 1990s', *Social Protection Discussion Paper Series* No. 0310, World Bank.

Voszka, Éva (1994): The revival of redistribution in Hungary. Acta Oeconomica Vol.46. No. 1-2. 63-78. p.

Wallace, C. (2003) "HWF Survey: Description and Technical Notes", in C. Wallace (ed.) *Research Report #3. HWF Survey: Country survey reports*, HWF Research Consortium, www.hwf.at, Institute for Advanced Studies, Vienna.

World Bank (1992): *Hungary: Reform of social policy and expenditure*, Washington D.C..

World Bank (1996), *Hungary: Poverty and Social Transfers*, World Bank Country Studies, Washington, D.C.

World Bank (1997) *Romania: Poverty and Social Policy*, Report No. 16462-RO.

World Bank (1999); *Bulgaria, Poverty During the Transition Report* http://www.worldbank.bg/data/poverty.phtml

World Bank (2000), *Making Transition Work for Everyone: Poverty and Inequality in Europe and Central Asia*, Washington D.C.

World Bank (2003), *Romania Poverty Assessment. Volume II: Background Papers*, World Bank Report No. 26169-RO, Washington D.C.

World Bank (2004) *Country Economic Memorandum. Romania: Restructuring for EU Integration – The Policy Agenda*, Washington D.C.

Zafír, Mihály ed. (1998): Életszínvonal. 1988-1997 = Living standard: 1988-1997 KSH Bp. 217 p.

Zamfir, C., Pop, M. A. and Zamfir, E. (1994) *România '89 - '93: dinamica bunăstării şi protecţia socială* (*Romania '89 - '93: The Dynamics of Welfare and Social Protection*), UNICEF Report, Ed. Expert, Bucharest.

Zamfir, C. (ed.) (1999) *Politici sociale in România: 1990-1998* (*Social Policy in Romania: 1990 – 1998*), Ed. Expert, Bucharest.

Zamfir, C. (ed.) (2001) *Poverty in Romania*, RIQL and UNDP, Bucharest, http://www.undp.ro/news.htm.

Žnidaršič, E. (2000), Poverty analysis on the basis of the Household Budget Survey, Republic of Slovenia, 1997/98. *Rapid reports, no. 270,* Statistical office of Slovenia.

Databases used for this report:

UNICEF TransMONEE databases: *Public Policies and Social Conditions: Monitoring the Transition to the Market Economy in Central an Eastern Europe Project* (MONEE).

HWF Dataset collected within the EU project *Household, Work and Flexibility*, SERD-1999-00178, coordinated by Claire Wallace. For description and technical notes see C. Wallace (2003).

4 Annex

Table A 1. Total population (thousand persons), 1989-2003

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bulgaria	8,987	8,767	8,669	8,595	8,485	8,460	8,427	8,385	8,341	8,283	8,230	8,191	8,149	7,891	7,846
Hungary	10,589	10,375	10,373	10,374	10,365	10,350	10,337	10,321	10,301	10,280	10,253	10,222	10,200	10,175	10,142
Romania	23,112	23,211	23,192	22,811	22,779	22,748	22,712	22,656	22,582	22,526	22,489	22,455	22,430	22,392	21,773
Slovenia	1,996	1,996	2,000	1,999	1,994	1,989	1,989	1,990	1,987	1,985	1,978	1,988	1,990	1,994	1,995

Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 56.

Note: Data refer to stable population. Data based on Census: 2001 in Bulgaria, 1990 in Hungary, 2002 in Romania, and 1991 in Slovenia.

Table A 2. General secondary enrolment (gross rates, percent of population aged 15-18)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2002/ 1990
Bulgaria	30.9	29.8	28.9	29.6	30	31.6	32.5	32.2	31.4	32	32.6	33.1	35	38.3	1.28
Hungary (a)	17.3	17.6	18.2	19.6	20.8	22.1	23.2	24.4	25.7	26.8	27.8	34.3	35.4	36.5	2.07
Romania	-	11.5	15.9	17.2	18.6	19.6	20.1	21	21.4	21.4	26.3	26.1	26.3	26.2	2.28
Slovenia	-	-	-	-	19.5	20.1	20.5	21.6	22.7	25.6	29	31.9	35.1	37.5	1.92

Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 84.

Note: Data refer to normally 4-year programmes. (a) Children aged 14-17.

Table A 3. Vocational/ technical secondary enrolments (gross rates, per cent population aged 15-18)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2002/ 1990
Bulgaria	47.3	47.2	45.4	43.4	42.2	43.1	43.6	43.3	42.2	41.8	41.5	42.3	44.1	47.3	1.00
Hungary (a)	55.3	55.8	55.8	57	58.8	60.3	62.8	65.5	67.4	68.3	68.5	69.2	70.4	71.1	1.27
Romania	-	78.4	57.9	47.7	45.6	47.1	49.1	49	48.9	48.2	43.9	46.1	46.9	47.4	0.60
Slovenia	-	-	-	-	61	62.2	63.6	65.5	66.4	67.7	66.6	65.6	63.9	63	1.03

Source: UNICEF, TransMONEE Database, Innocenti Social Monitor 2004: 84.

Note: Data refer to normally 4-year programmes. (a) Children aged 14-17.

Table A 4. Number of pensioners by country

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Bulgaria (a)			2752	2672	2669	2509	2534	2696	2825	2688	2759	2728	2565
Romania (social insurance pensions) (b)	2380	2817	2996	3174	3359	3519	3652	3875	4020	4181	4359	4544	4665
Romania (farmers' pensions)	985	996	979	1139	1478	1587	1612	1649	1682	1713	1751	1767	1677
Slovenia (social insurance pensions) (c)	356					445			462	467	474	481	491
Slovenia (farmers' pensions)	28					18			13	11	10	9	7
Slovenia (national pensions)	-	-	-	-	-	-	-	-	-	-	50	5	13

Sources: Countries Statistical Yearbooks (various editions).

Notes: (a) Total persons receiving pensions; (b) Social insurance pensioners include old-age, disability, survivors', military, and for 1997-2002 social aid pensioners and war, invalids, orphans and widows pensioners; (c) Comprise old-age, disability, survivors', military, and since 1991 military pensions and advances on pensions asserted in other countries of former Yugoslavia; (d) National pensioners were introduced in 2000.

Table A 5. Ratio of different types of pension, Hungary 1988-2002

Year	Old–age	Disability	Pre-. miners	Accident	Widowhood, children, parents	Changes in total. 1990=100	Ratio of pensioners to total population
1988	56	22	4	1	16	91	n.a.
1989	57	23	6	1	14	97	n.a.
1990	56	21	5	4	14	100	22
1991	54	22	6	5	13	105	23
1992	55	22	5	5	13	108	24
1993	54	24	4	5	14	111	25
1994	53	24	4	5	13	113	26
1995	53	25	4	5	13	115	26
1996	53	25	4	5	13	116	26
1997	53	25	4	6	13	118	27
1998	52	24	3	8	12	119	28
1999	53	24	3	7	12	118	27
2000	53	25	3	7	12	117	27
2001	54	25	2	7	12	116	27
2002	54	26	2	7	11	116	n.a.

Source: CSO of Hungary: Yearbooks.

Table A 6. Number of recipients of pensions by type of pension, Romania 1990-2002 (thousand persons)

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
Pensions TOTAL	3365	3813	3975	4313	4837	5106	5264	5524	5702	5894	6110	6311	6342
Social insurance pensions	2380	2817	2996	3174	3359	3519	3652	3875	4020	4181	4359	4544	4665
Farmers' pensions	985	996	979	1139	1478	1587	1612	1649	1682	1713	1751	1767	1677
Old-age pensions								2753	2851	2961	3087	3206	3216
Old-age with due complete stage								1921	2018	2125	2247	2352	2381
Disability pensions								493	527	567	609	660	706
Survivors' pensions								629	642	653	663	668	672
Social aid pensioners								13	11	10	8	7	6
War invalids, orphans and widows pensioners								46	42	37	35	33	30

Source: Statistical Yearbook (2003).

Note: (a) Social insurance pensioners include old-age, disability, survivors', military, and for 1997-2002 social aid pensioners and war, invalids, orphans and widows pensioners. Social aid pensions are included in the public pension system and they are granted to people of retirement age and at least 5-year contributory time.

Table A 7. Number of recipients of pensions, pension supplements and other benefits disbursed by the Institute for Pension and Disability Insurance (annual average), Slovenia 1985 -2002

	1985	**1989**	**1990**	**1995**	**1998**	**1999**	**2000**	**2001**	**2002**
Pensions total[1)]	274,752	335,129	356,274	444,643	461,910	467,408	474,436	481,357	490,608
Old-age pensions	137,441	180,367	197,259	263,669	275,571	280,193	285,835	291,622	298,851
Disability pensions	67,645	79,317	82,289	97,275	98,644	98,493	98,902	98,780	98,665
Survivors' pensions	69,666	75,445	76,726	83,699	87,695	88,722	89,699	90,955	93,092
Disability allowance	34,366	40,371	42,332	47,211	49,712	50,383	49,769	50,611	51,712
Allowances for care and help	15,370	19,323	19,381	20,442	22,177	22,471	22,662	23,506	24,360
Wage compensations	24,423	27,934	26,836	24,419	33,032	36,231	39,152	41,334	43,674
Farmers' pensions	35,838	29,929	27,820	17,671	12,533	11,059	9,744	8,560	7,420
National pensions	-	-	-	-	-	-	50	4,538	12,970
Pension income supplement	41,951	53,825	55,355	53,565	45,296	45,524	46,418	44,832	47,386

Source: Statistical Yearbook (1999, 2000, 2003)

Notes: 1. Pensions: since 1991 military pensions and advances on pensions asserted in other countries of former Yugoslavia are included. National pensions and farmers pensions are not included; 2. Disability allowance: is granted to persons with physical impairment; 3 Wage compensations are disbursed to active persons with various degree of disability: these are disability: allowance for part-time work, allowance for reassignment, rehabilitation benefit, disability benefit.

Table A 8. Basic characteristics of the 1992 and 1999 pension and disability insurance acts, Slovenia

1992 PDIA	**1999 PDIA**
Eligibility criteria	
Men:[1] age = 58, p.q.p. = 40	Men: age = 58, p.q.p. = 40
Women:[2] age = 53, p.q.p. = 35	Women:[2] age = 58, p.q.p. = 38
Men:[1] age = 63, p.q.p. = 20	Men: age = 63, p.q.p. = 20
Women:[2] age = 58, p.q.p. = 20	Women:[2] age = 61, p.q.p. = 20
Men: age = 65, ins.p. = 15	Men: age = 65, ins.p. = 15
Women: age = 55, ins.p. = 15	Women:[2] age = 63, ins.p. = 15
Minimum insurance period	
15 years	15 years
Pension base	
Best 10-year average of net wages[3]	Best 18-year average of net wages[3]
Accrual rates	
Men: 35% of pension base for first 15 years, then 2% for each additional year, up to 40 years of p.q.p.	Men: 35% of pension base for first 15 years, then 1.5% for each additional year of p.q.p.
Women: 40% of pension base for first 15 years, 3% for each additional year up to 20 years, then 2% for each additional year up to 35 years of p.q.p.	Women: 38% of pension base for first 15 years, then 1.5% for each additional year of p.q.p.
Pension indexation	
Growth of net wages	Growth of net wages
Minimum pension base	
64% of national net wage	Set nominally, but effectively at approx. 64% of national net wage
Maximum pension base	
310% of national net wage	4 times minimum pension base
Early retirement	
Men: age = 55, p.q.p. = 35 Women: age = 50, p.q.p. = 30 and other required conditions[4]	No special provisions, but certain categories of workers can obtain a pension without deductions for retirement before full pension age.[5]
Deductions for early retirement	
1% for each 'missing' year of insurance. Deductions temporary and lifted when age criteria fulfilled.	n.a.
Purchase of insurance period	
Employer can purchase (for employee) up to five years, under certain conditions.[6] Employee can purchase years of university education and military service.	Employer can purchase (for employee) up to five years, under certain conditions.[7] Employee can purchase years of university education and military service.

Source: Kuhelj (2000), and the 1983, 1992, and 1999 PDIAs.

Abbreviations: p.q.p. = pension qualifying period; ins.p. = insurance period; n.a. = not applicable

Notes: (1) The increase of pension age for men under the 1992 PDIA was gradual, and was completed in 1998. All figures refer to final values. (2) The increase in the pension age and pension qualifying period for women was very gradual. Figures refer to the final values, which will in some cases be achieved in 20 years. (3) Indexed for inflation. (4) 'Other conditions' include bankruptcy of firm, disability, and long-term unemployment. (5) Article 55, 1999 PDIA. (6) Article 214, 1992 PDIA. (7) Articles 195–199, 1999 PDIA.

Table A 9. Groups of registered unemployed persons, Slovenia 1987–2002

Year	Registered unemployed	Categories of unemployed persons (in % of all unemployed)					
	Average number	Under 26	First-time jobseekers	Women	Unemployed for over one year	No qualifications	Over 40
1987	15,184	50.6	30.1	48.8	33.1	57.7	17.0
1991	75,079	47.8	22.2	44.7	41.8	46.1	19.0
1993	129,087	37.4	19.0	43.8	54.8	45.3	28.2
1995	121,483	32.2	19.7	46.7	59.0	46.6	34.0
1996	119,799	31.4	19.4	48.1	53.8	47.0	37.7
1997	125,189	29.1	18.3	48.8	59.6	47.1	43.0
1998	126,080	26.3	18.1	49.9	62.4	46.9	46.7
1999	118,951	25.8	18.7	50.6	62.9	47.5	50.5
2000	106,601	23.4	17.9	50.7	61.4	47.2	50.7
2001	101,857	24.1	18.8	50.8	54.7	47.0	48.9
2002	102,635	24.0	19.6	51.2	52.2	47.0	46.5
2003	97,674	26.1	23.2	52.8	48.6	44.2	44.1

Source: ESS, Annual report (2003).

Table A 10. Structure of the registered unemployed by education level (percent in total), Romania 1996-2002

	1996	1997	1998	1999	2000	2001	2002
Primary, secondary, professional	83.5	80.4	79.0	73.6	72.1	72.5	76.8
Medium education and post-high school education	15.4	17.8	19.0	23.5	24.7	24.1	20.0
Higher education	1.1	1.8	2.0	2.9	3.2	3.4	3.2
Total registered unemployment	100	100	100	100	100	100	100

Source: National Agency for Employment, 2003.

Table A 11. The structure of the unemployed persons receiving benefits, by gender, age groups and education, Romania 2002

	Total	Below 25 years	25-29	30-39	40-49	50-55	Over 55
Total	343688	75111	36066	89380	97115	39288	6728
of which women	160219	35150	17376	43585	47494	15223	1391
Workers	232561	44585	22127	60169	71227	29215	5238
of which women	93303	17198	8798	24788	31478	9937	1104
Medium education graduates	93363	25149	9956	25929	22341	8794	1194
of which women	56614	14572	6130	16689	14145	4825	253
Higher education graduates	17764	5377	3983	3282	3547	1279	296
of which women	10302	3380	2448	2108	1871	461	34

Source: National Agency for Employment, 2003.

Table A 12. The length of the working history needed and the unemployment allowance after December 1991 and since 1993, Hungary

The length of the working history in days		I. period in days		II. period in days	
After 1991	Since 1993	After 1991	Since 1993	After 1991	Since 1993
360-479	360-479	90	23	45	67
480-599	480-599	120	30	60	90
600-719	600-719	150	38	75	112
720-839	720-839	180	45	90	135
840-959	840-959	210	53	105	157
960-1079	960-1079	240	60	120	180
1080-1199	1080-1199	270	68	135	202
1200-1319	1200-1319	300	75	150	225
1320-1439	1320-1439	330	83	165	247
1440	1440	360	90	180	270

Source: Labour Market Review and Analysis: IE-HAS, 2000.

Table A 13. Child-care fee and allowance, Hungary 1985-2001

Year	Average monthly number of recipients		As percentage of women of fertile age		Changes in the percentage of women		Expenditures	
	child-care fee	child-care allowance	child-care fee	child-care allowance	child-care fee	child-care allowance	child-care fee	child-care allowance
1985	43		2.6		43		17	
1990	100	100	6.1	3.7	100	100	100	100
1995	83	125	4.9	4.5	80	122	68	97
1996	76	131	4.5	4.8	74	130	60	98
1997	37	192	2.2	7.0	36	189	29	158
1998(a)	6	247	0.4	9.0	7	243	0	20
1999	–	259	–	9.5	–	257	–	21
2000	35	204	2.1	7.5	34	203	34	16
2001	41	193	2.4	7.2	39	195	45	15

Source: CSO of Hungary: Social Yearbook, 2001. Note: (a) Up to 15 April, 1998.

Table A 14. Child raising support, Hungary

Year	Average monthly number of recipients (a)	As percentage of women of fertile age	Changes in the percentage of women	Total payments, million HUF	Payments as percentage of the previous year
1993	100	0.46	100	100	100
1994	319	1.47	320	313	373
1995	483	2.23	485	417	170
1996	518	2.38	517	413	123
1997	569	2.62	570	459	132
1998	609	2.82	613	512	128
1999	573	2.67	580	491	105
2000	439	2.06	448	410	92
2001	429	2.02	439	387	103

Source: CSO of Hungary: Social Yearbook, 2001. Note: (a) Calculated data until 1999 (from the state budget).

Table A 15. Main regular benefits granted by local governments, Hungary

Year	Ratio of income supplement for the unemployed		Ratio of Regular social assistance		Ratio of old age allowance		Ratio of supplementary family allowance (a)	
	to living standard	real value, previous year = 100.0	to living standard	real value, previous year = 100.0	to living standard	real value, previous year = 100.0	to living standard	real value, previous year = 100.0
1993	37	–	44	99.5		–		–
1994	43	117.2	41	91.7		–		–
1995	48	91.5	42	84.2		–		–
1996	53	89.6	46	89.2		–		–
1997	57	106.8	50	109.3		–		–
1998	53	103.0	46	99.5	56	–	13	–
1999	64	121.5	46	101.9	60	106.9	14	102.1
2000	65	99.9	44	95.1	58	97.1	14	100.3
2001	66	103.4	47	107.8	59	102.3	15	111.8

Source: CSO of Hungary: Social Yearbook, 2001. Note: (a) Up to 2000 regular child protection benefit.

Table A 16. Main irregular benefits granted by local governments, Hungary

Year	Temporary support		Home maintenance support		Regular child protection benefit	
	ratio per case					
	to the living standard	real value, previous year = 100.0	to the living standard	real value, previous year = 100.0	to the living standard	real value, previous year = 100.0
1993	22	87.6	60	..	–	–
1994	16	71.8	14	23.8	–	–
1995	17	86.9	16	92.8	–	–
1996	19	91.6	21	108.8	–	–
1997	18	88.4	22	101.8	–	–
1998	17	102.8	16	78.3	14	–
1999	16	99.5	15	97.2	12	85.8
2000	17	103.6	15	96.6	12	100.4
2001	16	96.1	14	92.9	12	97.1

Source: CSO of Hungary: Social Yearbook, 2001.