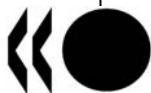


Unclassified

DAF/COMP/GF/WD(2008)49



Organisation de Coopération et de Développement Économiques  
Organisation for Economic Co-operation and Development

04-Dec-2008

English - Or. English

DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS  
COMPETITION COMMITTEE

DAF/COMP/GF/WD(2008)49  
Unclassified

## Global Forum on Competition

### COMPETITION POLICY AND THE INFORMAL ECONOMY

#### Contribution from Bulgaria

-- Session II --

*This contribution is submitted by Bulgaria under session II of the Global Forum on Competition to be held on 19 and 20 February 2009.*

Contact: H el ene CHADZYNSKA, Project Manager of the Global Forum on Competition  
Tel: 33 1 45 24 91 05; email: [helene.chadzynska@oecd.org](mailto:helene.chadzynska@oecd.org)

JT03256947

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

English - Or. English

## COMPETITION POLICY AND THE INFORMAL ECONOMY IN BULGARIA

-- Bulgaria --

### 1. The Informal Economy in Bulgaria

1. The grey economy is one of the main constraints to investment and growth in Bulgaria. Lower tax and social security rates and increased control intensity introduced by the Bulgarian government since 2003 and continued credit and FDI-based economic growth have reduced the share of the grey economy by some 30% between 2002 and 2008.

2. The grey economy has emerged as a top concern to businesses operating in Bulgaria prompting an increasing number of proposed corrective policy actions on the side of the government, the business community, trade unions and think-tanks. Recent tax and social security contribution cuts and increased government control intensity have resulted in a de-shadowing of some parts of the grey economy.

### 2. Size and Scope of the Grey Economy in Bulgaria

3. Although grey economy is notoriously difficult to measure and understand it is easily identifiable by businesses when they face partners and competitors who operate outside the law by not paying taxes, social security and health contributions, hiding actual employment, circumventing product quality, safety or environment regulations, infringing copyrights, etc. According to the latest Enterprise Survey of Bulgarian firms performed by the World Bank in 2007 **informal practices** have topped the list of constraints to firm investment in Bulgaria.

4. Notwithstanding differences in concepts and methodology, estimates of the size of the grey economy in Bulgaria since 1990 have ranged from 16% to 38% of GDP, which has consistently ranked the country among the “top” new EU member-states. According to different estimates the size of the grey economy in Bulgaria in 2007/2008 ranges between 20% and 35% of GDP, with some sectors, such as construction and real estate, reporting less than 50% of the actual value of transactions. While the National Statistical Institute imputes and adds part of the grey economy into national accounts and these numbers need to be interpreted with great caution when making conclusions about policy actions, they send a clear signal to policy makers that grey economy is a sizable challenge to Bulgaria’s economic development. The most hardly hit sectors are the labour intensive construction, tourism, agriculture and services (e.g. repairs, private education and healthcare, etc.) but research has also shown that there are also considerable grey pockets in manufacturing, in particular in excise industries (alcohol and cigarette production and fuels), textiles and transport.

### 3. Dynamics of the grey economy

5. In response to business concerns and initiated policy action to reduce the level and scope of the grey economy in Bulgaria, the Center for the Study of Democracy and Vitosha Research constructed a **Hidden Economy Index** in 2002. The *index*, published annually since 2002, aims to track the dynamics of the hidden economy in Bulgaria. It is important to note that the *index* does not measure the size of the grey economy but its dynamics, giving important feedback to the policy makers and the business community on the effectiveness of measures to curb grey economy. According to the *index* there has been a rebound in the grey economy in Bulgaria in the first year of EU accession. This might reflect both reform fatigue on the side of the Bulgarian government following intensive efforts in 2006 to join the EU, but also the rising concern of the business community in the country over unfair competition from the grey economy as international competitive pressure squeezes down its margins.

#### 4. Measures to reduce the level of grey economy

6. Since 2003 the Bulgarian government has undertaken a number of economic incentive measures and increased control intensity to reduce the level of grey economy in the country, such as the sizable reduction in corporate and personal income taxes, as well as social security contributions, the integration and modernisation of tax collection under the National Revenue Agency, the introduction of compulsory labour contract registration, etc. These measures to improve the business environment compounded by sustained high economic growth have resulted in a gradual reduction in the share of grey economy in the country. According to CSD estimates based on the *Informal Economy Index* the hidden turnover of companies in Bulgaria decreased from 29% in 2002 to 17% in 2007.

#### 5. Competition law enforcement

7. The Bulgarian Competition Law is applied to all undertakings and natural persons and consequently small firms operating within the informal economy do not remain outside the scope of competition enforcement.

#### 6. Examples of CPC practice:

1. In 2005 the Commission approved the **sectoral analysis** of three related markets: **production of and trade in milling wheat, wheat flour and wheat bread for mass consumption.**

An inquiry into the bread sector revealed that the huge “grey economy” in the bread production and distribution market is the most frequently outlined problem by the market operators. Part of bread manufacturers, mainly small bakeries, produce and sell bread without having registered their firms and consequently have no obligations to the State budget and the insurance funds. They buy flour and grain without the proper documentation and invest no resources to improve working conditions. Their cost price is 20 – 30% lower than that of legitimate bread producers. The manufacturing process of illegitimate bakeries is done in poor sanitary conditions and through under-reporting of income. These firms undercut product costs which hinders sector development and creates market chaos.

A conclusion was made that the “grey economy” in the sectors for production and trade in wheat flour and wheat bread for mass consumption stemmed from the VAT-free trade in wheat and that the relatively strong “grey” economy in the sector generated unfair competition.

As a result of the initiated inquiry, the CPC came out with some recommendations:

- A suggestion to develop, with the help of branch organisations, an effective control system to fight unfair competition in the sector. The aim was to restrict the informal economy by prohibiting grain trade without the proper documentation resulting in under-reporting of turnover, tax and insurance evasion, and harm to the State budget.
- The CPC advised the State to introduce mandatory registration under the VAT law of all flour producers. The objective was to place market participants in an equal position and “de-shadow” illegitimate producers.
- The CPC advised market participants to diminish the silent or explicit prevention, restriction or distortion of competition on the relevant market, namely the unfair attraction of customers by selling flour at prices below the actual production and realisation costs, as well as the direct or indirect fixation of prices and allocation of markets and supply sources.

- The CPC called for joining the efforts of State bodies and branch organisation to enforce the rules of fair business and market behaviour.
2. In 2008 the Commission on Protection of Competition approved the concentration between Holsim Bulgaria AD and Remos Beton OOD. The assessment of the **concentration in the market of ready-mixed concrete** suggested evaluating the size of the market. The Commission had reasonable grounds to believe that part of the production of concrete is made without the necessary documentation at lower prices or without regular and accurate accounting. The existence of “grey sector” was indicated by the Association of producers of concrete in Bulgaria as well as by independent producers.

The lack of official statistics on regional markets in the concrete production and the existence of unregistered transactions raised serious doubt about the accuracy of the assessment based on individual reports from participants in the market, since there is no certainty about the market players and the completeness of the accounting documents. All this called for an alternative indirect assessment through tracking shipments of materials for concrete production, namely cement and inert materials.

The indirect assessment of the regional market of ready-mixed concrete, on the basis of consumption of inert materials, is not sufficiently accurate due to the existence of grey sector in the delivery of inert materials: many companies produce inert materials without authorisation and sell them at low prices without documents. The statistical reporting of transactions is seriously hindered by the presence of unregistered sales, illicit mining and the related difficulties in actual control of the yields available on municipal concessions.

Regarding the assessment of the regional market volume of concrete, based on the consumption of cement as the main ingredient used in concrete production, information on sales of the national producers of cement to the concrete producers in the region provided relatively detailed information on the total consumption of cement in concrete production in the region. At the same time, additional information from national statistics on the imports of grey cement in the country can not refer to consumption in a given geographical area, but should be viewed as an indication that the designated market volumes may be higher.

3. In 2007, the Commission on Protection of Competition reviewed a proposal made by the taxi associations to the Ministry of Transport for the introduction of minimum uniform tariff of the taxi service, determined through a coordination of the legitimate branch representatives and the local authorities, valid for the territory of each municipality.

The CPC opposed to any form of fare regulation. Nevertheless the Commission proposed measures to decrease the informal economy in the sector. The CPC reckons that the municipal councils should exercise their powers envisaged in the Law for the road transport to determine the number of the taxi automobiles, working on the territory of the municipality, as well as the conditions and the order for their distribution between the carriers. Although this restricts the entry in the market, at the moment this is the most suitable way for balancing the interests of the consumers and of the carriers. These powers should be exercised after consultations with the taxi associations. The entering of new participants in the market without any control is connected with risk of disregarding technical requirements. The determination of the number of taxis should go together with enhanced control with regard to the requirements and severe sanctions in cases of infringements. The number of the taxis should be reviewed every year on the basis of the changes in circumstances and the needs of the population. Thus there will not be market

foreclosure for a long period and the potential competition will continue to play its disciplining role.