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Macroeconomic development and emigration: A comparative analysis of Bulgaria and the EU

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Abstract. The paper examines the macroeconomic developments since 2007 in Bulgaria and Germany, the United Kingdom, Spain, Italy and Greece which are the main destinations for Bulgarian emigrants. We aim at tracking macroeconomic changes across different phases of the economic cycle that affect migration processes. We also focus on the differences and economic relations between Bulgaria and the developed European countries that matter in emigration. The main conclusions are: 1) after joining the EU Bulgarian emigration has been increasing while the cyclical fluctuations in Europe have changed the most preferable emigration destinations; 2) low level of incomes in Bulgaria have continued to be a major factor motivating emigration; 3) Bulgarian emigrants will continue to target core EU countries as the expected pace of Bulgarian economic development does not give rise to a permanent reversal of emigration.

Keywords: emigration, macroeconomic development, real convergence, income disparities, EU Single Market

Introduction

The paper aims at tracking changes in the macroeconomic development in Bulgaria and Germany, the United Kingdom (UK), Spain, Italy and Greece as main destinations for Bulgarian emigrants. According to the official Eurostat data, in 2018 116,536 Bulgarians live in Spain, 85,379 in the UK and 60,244 in Italy. In 2018, the German statistical office reports that 310,000 Bulgarians live in Germany and their number increased by 27,000 as compared to 2017. The official data for Bulgarians who live and work in Greece is currently missing in the Eurostat and the Organisation for Economic Co-operation and Development (OECD) but unofficially some organizations (e.g., The Bulgarian Media Portal in Chicago) mention about 300,000 Bulgarians.

These migration outflows from Bulgaria also attract the attention of a number of Bulgarian researchers. The historical, economic and other related factors contributing to the increase of Bulgarian immigrants to Germany as well as their ability to integrate into German society are analysed by Iskra Christova-Balkanska and Pavlinka Naidenova (Naidenova, Christova-Balkanska 2010). Irena Zareva (Zareva 2012) explores the participation of Bulgarians in the labour market of Spain taking a special emphasis on low skilled workers. The Bulgarian community in Spain is being studied also by Vesselin Mintchev and Venelin Boshnakov (Mintchev, Boshnakov 2015). Rossitsa Rangelova (Rangelova 2017) studies the impact that emigration from East to the West EU countries causes on labour force (human capital) quality and respectively on the economic development.

Theoretically, migration processes are largely dependent on the macroeconomic fundamentals in home and host countries (Piesse 2014) and different theories can explain the main economic factors influencing migratory movements. The neoclassical economic theory argues that real wage differences and employment conditions are the basic factors pushing emigration (Massey 1988). The relative deprivation theory also indicates that income differential between home and host nations are the main reason behind such decisions (Stark, Taylor 1991). According to the dual labour market theory, the shortage of labour force in developed countries creates pressure for higher wages which stimulates emigration from less developed countries (Castles, Miller 2009). The new economics of labour migration theory suggests that emigration decisions are not made by highly rational individuals who seek for maximizing their personal utility but by larger groups of people who act collectively. The proponents of this area of academic research also focus on the role of remittances (Taylor 2002) and poverty (World Bank 2007) in the emigration process and consider emigration as a way of ensuring relative income stability for individual households. Another bunch of macroeconomic factors for attracting emigrants is development of social system, which is directly dependent on government spending on transfer payments, healthcare and education. On the contrary, the world system theory says that international migration has little to do with pure economic and employment conditions at individual level. This theory emphasizes on the dynamics of market creation and the structure of the global economy and explains migration as a natural consequence of different economic development of countries (Wallerstein 1974).

As the economic theories show emigration is mainly related to the real sector conditions in both home and host countries. Our main hypothesis is that despite the preserved macroeconomic stability in crisis and currently ascending economic development, the main reasons for migration outflows are the persisting significant income disparities with the EU. The lack of comparable and sufficiently data on Bulgarian emigration does not allow us to employ an in-depth econometric research on testing this hypothesis and leads us to comparative analysis. We precisely focus on the economic activity level - economic growth, inflation and unemployment - in Bulgaria as a home country and the most preferable EU host countries by Bulgarian emigrants. We also outline the differences between the processes in Bulgarian economy against the background of the European one that matter in emigration. The period under review is between 2007 and 2018. Its choice is motivated by the accession of Bulgaria to the EU that makes the commercial and financial integration with the EU and the euro area stronger[1] and the easing of the emigration procedures. This is also a period of clearly differentiated phases of the business cycle which allows us to examine the migration flows under the global economic and financial crisis and the subsequent recovery of the global economy.

Bulgarian and European economy during the global financial and economic crisis

In the years before 2008, Bulgarian economy seems to overheat. The average annual inflation was 11.95% in 2008, unemployment rate was 5.7%, current account deficit was 22% of GDP and foreign direct investment inflow amounted to 28% of GDP in 2007. However, to a large extent the Bulgarian economic model before the crisis was similar to the other European developing countries. The substantial presence of foreign banks in Bulgaria was coupled with opportunities for cheap external lending that stimulated household consumption and non-financial corporations' activities. As a result, the current account deficit widened which was negatively influenced also by growing imports of consumer and investment commodities financed by high inflows of foreign capital due to the EU membership perspectives. The combination of sustainable global economic growth, low inflation and low interest rates fuelled market optimism for a continuous ascending trend that was interrupted by the global financial and economic crisis of 2008. During this period, migration outflows to Spain, Italy and the UK increased despite of the initially imposed restrictions on some labour markets in the EU and the favourable economic development in Bulgaria. Between 2007 and 2008 Bulgarian emigrants in Spain grew by 26,000 people, in Italy by approximately 14,000 people while the number of Bulgarian emigrants in the UK almost doubled (15,000 people in 2007 compared to 29,000 people in 2008 according to the National Statistical Institute (NSI) data, Demographic and social statistics, International migration). Hence, the employment opportunities outside Bulgaria were a much stronger motivating factor for emigration.

According to the International Monetary Fund (IMF 2009) a model of economic development based on high external financing and low national level of incomes and savings made the Central and Eastern Europe (CEE) countries extremely vulnerable to external shocks. Hence, the IMF experts concluded that Bulgaria risked being one of the countries that would be the most severely affected by the crisis when the first signs of collapse in the global financial markets appeared. However, these gloomy forecasts did not come true. An economic downturn in Bulgaria was recorded only in 2009 when the real GDP decreased by 3.6%. In the following years sustained levels of low economic growth were being recorded indicating that the impact of the global crisis on Bulgarian economy was depressed and delaying economic development rather than manifesting a significant loss of well-being. With the exception of the Baltic Countries and espe-

[1] The different aspects of Bulgarian integration into the EU can be tracked in Georgiev, Velushev 2018.

cially Latvia where the real GDP cumulatively shrank by 25%, the CEE region as a whole was low affected by the crisis with a total contraction of production by 5% while Poland, Albania and Kosovo even avoided recession. On the one hand, the tracking of the reasons for the weaker crisis effect on Bulgaria allows us to highlight the main channels of dependence of the local economy from the developed European countries which are the main destinations for Bulgarian emigrants. On the other hand, identifying the differences in the manifestation of the crisis by countries - the home country (Bulgaria) and the host countries (Germany, the UK, Spain, Italy and Greece), make it possible to explore why they have remained a preferable emigration destination for Bulgarians and how the changes in their macroeconomic conditions have redirected the migration outflows from Bulgaria.

The global financial crisis of 2007-2008 began with the collapse of the US mortgage market at the end of 2006. These processes initially affected mainly developed countries and the lack of confidence triggered a recession in European economy. The subdued consumption and investments due to the uncertainty about future earnings, rising savings and tight financial conditions caused a foreign trade collapse coupled with a sharp drop in foreign capital inflows. In the context of foreign trade and financial relations the crisis has spread to the developing European countries, which in the summer of 2007 still showed resilience in maintaining stable credit growth and foreign capital inflows. For Bulgaria, the underdeveloped capital market and low levels of securitization have determined the low dependence of Bulgarian economy on the factors underlying the financial crisis globally. Thus, locally, the effect of the financial turmoil on international markets was shifted by shrinking external investment (FDI was 28% of GDP in 2007 and 6.5% of GDP in 2009), which led to a lack of domestic investments (real decline in gross fixed capital formation in 2009 was 9%) and lower demand for loans for investment purposes (growth of corporate loans slowed down in 2009 to 2.3% y-o-y compared to 32.4% in 2008).

The Figure 1 also illustrates the conclusions we have already drawn. As a catching-up country, the economic growth in Bulgaria outpaced the average growth rates of real GDP in the EU and the euro area before the crisis. Despite the lagged effects of the crisis in Bulgaria vis-à-vis the developed euro area Member States, the global crisis most severely affected the real sector of Bulgarian economy with a 20% annual decline in the production by the mid-2009 and a decline in exports of goods and services by 19% in the first quarter of the same year. It was precisely the processes in the real sector of the economy that motivated growing migration outflows from Bulgaria in the period under review. The official Bulgarian emigrants grew by 15,000 in Germany in 2008-2010 while a clear decline of emigration to Spain and Greece was visible where labour markets were heavily affected by the crisis according to the OECD Database on Migration, Inflows of foreign population by nationality. The domestic consumption in Germany remained unchanged in times of crisis and the current account surplus cushioned the negative effect of curbing foreign trade. For comparison, in Spain and the UK, the impact of the crisis was much more shifted through the sharp fall in real estate demand and property prices. The economic problems in Greece were due to the high levels of government debt and budget deficits that led to a general macroeconomic instability in the euro area as a whole.

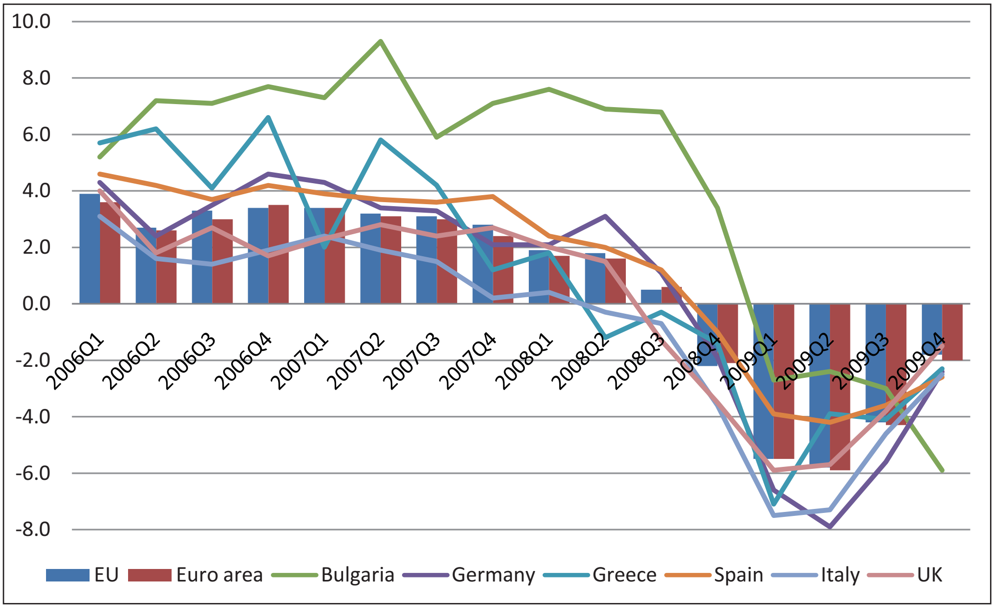

Fig. 1. Real GDP growth in the EU and selected Member States (%)

Source: Eurostat.

The increase in unemployment rate was also cyclically driven in the crisis period, which was observed in all EU Member States. Young people were the most affected while job losses were significant in industry and construction. In regional terms, the worsening of EU labour market situation was particularly strong in the Southern Europe Member States such as Spain, Greece, Portugal and Italy. The unemployment rate in Spain began to accelerate as early as 2007 mainly due to the declining demand for real estate and the prevailing employment in low-skilled sectors such as construction and tourism over the last decade. Indeed, the employment in low-skilled sectors was a dominant motive for emigration from Bulgaria in the pre-crisis period and before joining the EU. At the same time, the impact on the labour market in Italy and Germany was lagged. For Germany, this was due to the significant investments made by German enterprises in human resources and their policy of prioritizing the retention of skilled workers. On this background, migration outflows to Germany continued to increase (average by 8,000 people y-o-y in 2007-2011) while the migration inflows to Spain and Italy began to decrease respectively by 5,000 and 2,000 people yearly according to the OECD. In Bulgaria, the unemployment rate started to accelerate from the first quarter of 2009 to 6.4% and reached 13% at the end of 2013. The slower adjustment of Bulgarian labour market was due to the relatively good financial condition of the enterprises before the crisis and the gradual shift of the shock from the export industries to the domestic market. The mostly affected by growing unemployment were construction workers, which was also observed in the UK. The unemployment rate also grew in the mining and manufacturing industries due to the shrinking export volumes and output (Fig. 2).

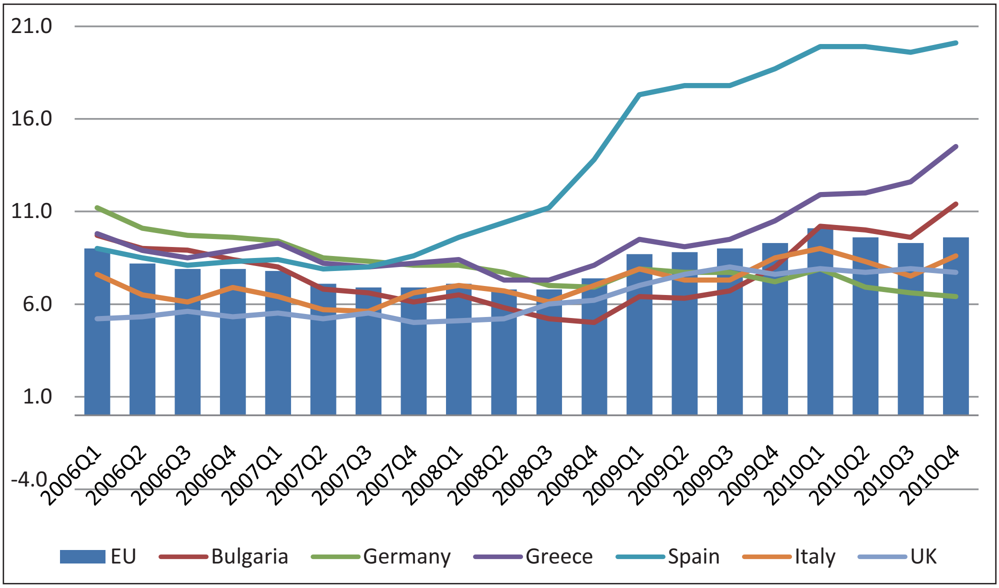

Fig. 2. Unemployment rate in selected EU Member States (%)

Source: Eurostat.

The worsening of the overall macroeconomic situation during the global financial and economic crisis was coupled with specific problems related to the government debt increase, the reduction of liquidity of banking systems and the concerns about fiscal stability. The developed euro area Member States undertook common fiscal and monetary measures while non-euro area Member States relied mainly on self-actions to mitigate the effects of reduced foreign capital inflows. Preserving the sustainability of public finances increasingly became a systemic problem for the EU as a whole. By the beginning of 2012 almost all EU Member States were in excessive deficit procedure with a budget deficit above 3% of GDP and/or government debt over 60% of GDP except Estonia, Finland, Luxembourg and Sweden. The reduction in budget spending and/or increase in the tax burden inevitably had its negative impact on economic activity and subsequently affected the migration inflows to the countries under investigation. The ultimate goal of these measures was to restore confidence in the financial markets and maintain fiscal stability in individual countries through fiscal consolidation. The structural adjustments through wage cuts, weakening of public services and social protection, directly affected the post-crisis development of European economy and the environment for Bulgarian emigration.

In Greece and Spain, the government decreased public investment expenditures and public sector wages while the VAT rates were increased, similarly made in the UK. The pressure on public finances in Italy, Spain and Greece urged pension reforms for increasing the retirement age and posing restrictions on early retirement and some social benefits. The reduced public spending on health in Spain caused a widening gap between regional health systems. In

Greece the reduction of budget spending for health by half in the period 2009-2013 was combined with an increase in child mortality and morbidity among the population (Petmesidou, Guillén 2015). A number of expenditure cuts in the social welfare system of the UK were also made as regards the tax benefits for children, tax credits and benefits for households. The Bulgarian government decreased capital expenditure and public sector wages while social security funds continued to be a major part of budget spending in the context of high unemployment and steadily rising pension expenditures due to aging population. Although the processes described have primarily social consequences, in their essence they present macroeconomic measures that directly affect the attractiveness of certain emigration destinations in comparison with others. In this vein, such measures have already had a visible effect on emigration to Spain and Greece where they can limit the emigration of low-skilled Bulgarian workers. At the same time, the relative retention of social privileges in Germany and the weak effect of the crisis on its economic development explain the ever-increasing emigration pressure (10,623 people in 2010 and 12,573 people in 2011 emigrated from Bulgaria to Germany according to the official OECD data).

According to the IMF (IMF 2011) consolidation of public finances lowered prospects for economic growth in Greece and Spain in 2011 by 0.5 to 2 percentage points and about half a percentage point in Germany. Despite this the euro area countries recorded a real GDP growth of about 2% and almost all CEE countries returned to positive economic growth in 2010 and 2011 following the initial impetus provided by fiscal stimulus on a regional and global scale and the relative recovery of confidence in financial markets. However, the weak investment activity (in Bulgaria, the only component of GDP in 2010 with negative growth was the gross fixed capital formation) and the emerging debt crisis in the euro area led to a reversal of observed positive signals and a slowdown of economic activity. Thus, European economy entered a double-dip recession, which was again generated by the strong interconnection between the economies within the EU and the sovereign debt crisis. Initially, the sovereign debt crisis in the euro area appeared in Greece but later Greece's financial problems spread to other economies and financial stabilization programs were developed also for Ireland and Portugal. Spain received funds from the European Stability Mechanism for restructuring its banking sector.

Government debt problems in the euro area were another difference between the development of Bulgarian and European economies over the period under review. In contrast to Bulgaria, whose government debt as a ratio of GDP was even declining until 2013, Greece and Spain directly experienced financial difficulties and entered EU and IMF rescue programs (Fig. 3). Especially for Bulgaria this interconnection caused a slowdown of economic growth to 0% in 2012 and around 1% in 2013 and 2014. The financial sector in Bulgaria was not stabilized due to liquidity restraints relying more on a traditional banking model and a lack of large-scale investment activity. However, lending in the crisis period shrank (a decline of 11% in 2008-2013) due to the pressure to hold liquidity in parent banks and the increasingly unfavourable credit conditions for households and non-financial corporations.

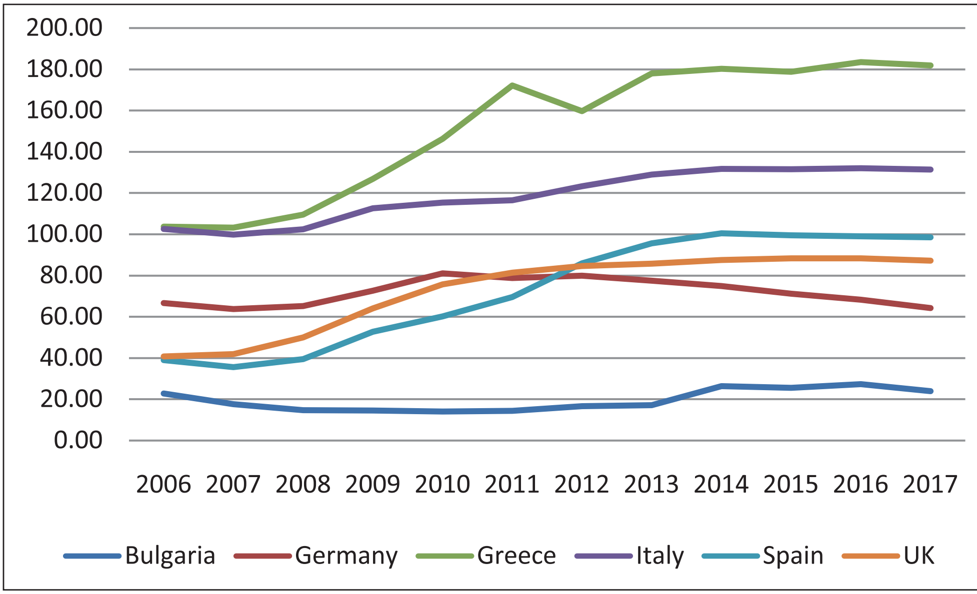

Fig. 3. Gross government debt in selected EU Member States (% of GDP)

Source: Eurostat.

Although Bulgaria preserved its macroeconomic stability, the number of Bulgarian emigrants was steadily increasing between 2008 and 2012 and they grow by 142,000 of which 128,000 people went to the EU according to the OECD Database on Migration. Hence, the emigration processes were driven much more by the possibilities of compensating for the low-income levels in Bulgaria. Despite the limited effect of the economic downturn compared to the developed European countries incomes in Bulgaria remained at substantially lower levels. In 2012 the real GDP per capita in Bulgaria amounted to 70% of this in Greece and 55% of the real income per capita in Spain to which the outflow of Bulgarian emigrants declined most during the global financial and economic crisis. At the same time, the pace of emigration from Bulgaria during the crisis was slowing down. In 2010 the emigrants increased by 9% on an annual basis while the annual increase of Bulgarian emigrants was about 5% per year in 2012 and 2013 compared to 15% increase in 2007 and 2008 according to the NSI. The decrease of migration outflow was due to the shrinking working population in Bulgaria and already realized high levels of emigration from in the first years of EU accession.

Bulgarian and European economy in the period of ascending economic development since 2014

A moderate recovery in European economy began in 2014 with 1.3% economic growth in the euro area and 1.8% in the EU. The average unemployment rate in the EU also began to decline even among young people. In 2014, the economic growth in Greece, Spain and the UK was the highest since the beginning of the crisis respectively 0.7%, 1.4% and 3.1%. The real peak of European economy began in the fourth quarter of 2016 when economic growth on a quarterly basis exceeded 2.6%. The recovery of European economy was led by domestic demand and favourable global economic environment. By 2016 the unemployment in all euro area countries fallen below pre-crisis levels retaining large differences - in Spain was 16.7%, Italy 11.1%, and Germany 3.6%. Among the five largest economies in the EU Spain and Germany recorded the highest economic growth in 2016 respectively 3.1% and 2.6%, followed by France (1.8%), Italy (1.6%), and the UK (1.6%). Only the Greek economy continued to be in recession in 2015 and 2016 but with gradual declining unemployment rate (23.6% in 2016 compared to 27.5% in 2013, when the country's peak of unemployment was). After 2013, the unemployment rate in Bulgaria fell steadily and in 2015 it reached its 2006 level of 9% (Fig. 4). A major factor behind the positive post-crisis economic development in Bulgaria was exports of goods and services due to the accelerating domestic demand in the euro area. This was another difference in Bulgarian economy compared to the euro area economies under consideration. The existence of a global business cycle and a globally synchronized decline in developed economies made export opportunities within the euro area limited but created conditions for a bigger supply of Bulgarian goods in European markets.

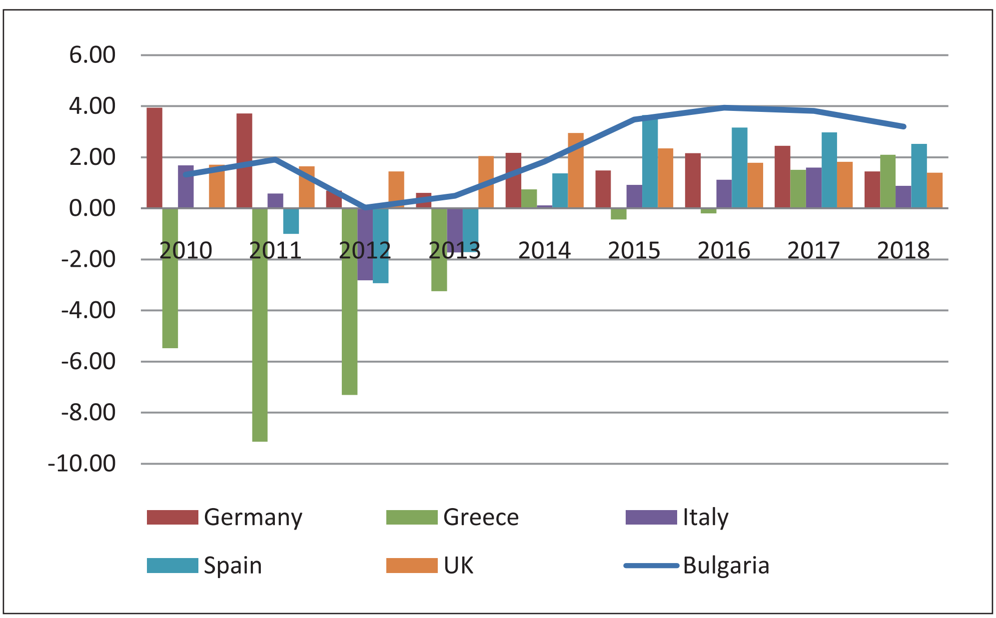

Fig. 4. Economic growth in selected EU Member States (%)

Source: Eurostat.

These processes explained the continuing increase of Bulgarian emigrants to the developed EU countries, which was particularly noticeable in Germany. Between 2014 and 2016 Bulgarian emigrants in Germany grew by 20,000 people, in the UK with 10,000, while for the same period the number of returning emigrants from Spain amounted to 9,500 based on the Eurostat data. This clearly shows the change of emigration destinations due to the economic and social processes observed since the global financial and economic crisis.

The European economy continued its upward trend as real GDP grew by 2.8% in 2017 compared to 1.8% in 2016 largely by virtue of the strong domestic demand. For the first time since the global financial and economic crisis, in 2017 all EU economies registered positive economic growth owing to the recovery of global investments that stimulated global production and trade. A slowdown was recorded only in the UK due to the depreciation of the British pound, the high budget deficit and the uncertainty about the exit parameters of the EU. Also, for the first time since 2007, unemployment in the EU was below its historical average, with the exception of France, Italy and Spain. The euro area unemployment rate fell to 9.1% and 5.8 million new jobs were created in 2013-2017. As a result, in the end of 2016 Bulgarian emigrants in Germany rose by 305% compared to 2007 and their number fell by 17% in Spain as compared to 2009 as OECD reported. In absolute terms the official Eurostat statistics on migration reported that 122,642 Bulgarians lived in Spain, 82,960 in Germany, 69,820 in the UK and 59,144 in Italy in 2016.

A specific process that caused a direct effect on migration processes was the slowdown in wage growth in the euro area Member States against the backdrop of rapidly accelerating unit labour costs (ULC) in CEE countries (in 2014-2017 the ULC average growth was 8% in Bulgaria, 5.3% in Estonia, 4.2% in the Czech Republic and 3% in Poland). The wages showed a clear upward trend in Germany in 2014, which negatively affected the country's competitiveness. In Spain, the current account deficit before the crisis transformed into a surplus due to the retention of labour costs. The decreasing labour remunerations also impacted the employment opportunities of economic immigrants in Greece. In 2014-2017 the nominal compensation per employee in Germany increased by 2.5% which was closer to a growth of 1.9% in the UK while in Italy and Spain the increase in nominal wages for the same period was 0.6% and in Greece even negative (-0.8%). Such low wage growth rates in the euro area countries could not offset the substantial decline in median income in the crisis years, which in real terms decreased by 36% in Greece, 11% in Spain and 6% in Italy and caused an outflow of emigrants, including Bulgarians. Meanwhile, the increase in labour costs in home countries, as Bulgaria, largely reflected the overheating of local labour markets and high emigration in the first years of EU membership. The differences in regional wage dynamics within the EU were also due to the differences in labour productivity, wage setting mechanisms and inflation expectations, as well as the still higher levels of unemployment in developed countries while the CEE countries almost reached levels of full employment (unemployment rate in Bulgaria for the first quarter of 2019 is 5% which is the lowest level since the beginning of the 1990 transition to market economy).

According to the international institutions (IMF, OECD, EC, etc.) the peak in the global economy after the global financial and economic crisis of 2007-2008 was in 2017 and in 2018 and especially in 2019 a slowdown in the economic growth and a gradual transition into a descending phase of the economic was observed. The positive economic dynamics in Europe in 2017 and 2018 were supported by the recovered lending activity of European banks that allowed them to regain their profitability, especially in reducing the non-performing loans in Ireland, Spain and Italy. The employment and investments, including in the construction sector, increased in Spain where favourable financing conditions for households and non-financial corporations were observed. Nevertheless, the recovery in Italy was hampered by the troubled financial sector and weak lending and Italian economy fell into recession in the final quarter of 2018. In November 2018, there were first signs of a contraction in Germany since 2015 due to the subdued domestic demand, the negative effects on the automobile sector of new environmental standards, and the slowdown in exports growth. The upward pace of European economy is still sustained by the ECB's strong expansionary monetary policy course - almost zero interest rates and liquidity inflows into the European banking system, which has been consistent since 2014. However, the weaker global demand for goods and services due to the uncertainties surrounding world trade conflicts and the policy of trade protectionism, volatile oil prices, the already staggered rise in US interest rates, the still high government debts of developed countries and the shocks of stock exchanges in some of them, and even environmental risks may pose substantial risks to European economies. In April 2019 for the third time since the end of 2018 the IMF lowered its forecast for world economic growth to 3.3% at 3.5% in January 2019 and 3.7% in October 2019. The World Bank projections are for economic growth of 2.9% in 2019. The European Commission (EC) also revised its forecasts for economic activity in the EU and the euro area several times. The current forecast is for economic growth of 1.2% in the euro area and 1.4% in the EU in May 2019 while the EC expected 1.9% for both regions in November 2018. The frequent changes in the forecasts of international institutions are indicative of the high uncertainty and unpredictability of the world economy in conditions of increasing interdependence between countries. The risks to the EU as a whole are again explained by the existence of a global economic cycle of foreign trade and financial relations which is also extremely relevant for migration processes and preferable emigration destinations as our analysis confirms.

The Bulgarian case: General macroeconomic conditions do not matter in emigration

Despite the macroeconomic stability demonstrated in times of crisis and currently ascending economic development, Bulgarian migration outflows over the last 12 years are increasing. Our main hypothesis is that the main factor behind this process is the persisting significant income disparities in the country and abroad. Bulgaria has managed to cope with the negative consequences of the global financial and economic crisis without serious disturbances and significant loss of well-being. This conclusion is also confirmed by the assessment of the ECB and the EC on the level of convergence towards the euro area as Bulgaria has unconditionally fulfilled the nominal economic criteria for the adoption of the euro 8 years in a row (Bobeva 2017).

However, the fundamental problem, both before and after the crisis, is the real convergence of Bulgaria towards the average EU level, which is measured by real GDP per capita and labour productivity. The crisis has decelerated the real GDP growth rates in Bulgaria. Although the economic growth rates of Bulgaria are still higher than the developed European countries, they are not yet sufficient to offset the differences and to reverse the emigration trends permanently. Bulgarian economy grew 2.5 times faster than the EU average prior to the global financial and economic crisis of 2008 while the post-crisis economic growth slowed to 1.9 times faster than the EU average. According to the estimates of the Economic Research Institute at the Bulgarian Academy of Sciences these growth rates will take 44 years Bulgaria to reach the average GDP per capita for the EU (Yotzov 2019). As regards the labour productivity, the differences with the countries under consideration are even more serious. In 2007, the effectiveness of Bulgarian labour was five times lower than in Greece and Spain and seven times lower than in the UK, Germany and Italy according to the Eurostat data. By 2018, this trend is maintained for the UK, Germany, Italy and Greece while the gap with Spain was widened to six times.

In 2007, the economic growth in Bulgaria of 7.34% was the highest since 1990. Bulgarian income per capita accounted for 43% of the EU average, the same as a percentage of the average income in Greece, Spain and Italy but lower than the UK (39%) and Germany (36%). In 2000-2018, the real GDP in Bulgaria doubled and the nominal GDP - four times. For the first time the nominal GDP in Bulgaria reached over BGN 100 billion in 2017 and the GDP per capita at 1,752 euro in 2000 rises to 7,883 euro in 2018. In 2019, the purchasing power in Bulgaria is expected to grow to 52% of the EU average at around 75% of one person's income in Greece, about 55% in Spain and Italy, and between 40 and 45% in Germany and the UK. According to the IMF forecasts (IMF 2018) these trends will be preserved and the Bulgarian income per capita will be around 60% of the average income per capita in the EU, the UK, Spain and Italy, and about 85% of that in Greece in 2023 (Fig. 5).

Although the average wage in Bulgaria increased more than 4 times since 2000 (up to 600 euro in 2018), according to the Eurostat 21% of the Bulgaria's population, which for the 18-year period since 2000 has decreased by 14%, suffers severe material deprivation. Hence, the poverty is a critical factor for emigration, which explains why Bulgarian emigrants change their destinations for emigration but not their decision to leave the country.

According to the Eurostat, the nominal compensation of one employee in Bulgaria in 2006 was six times lower than the nominal compensation in Greece; ten times lower than labour remunerations in Italy and Spain; twelve times lower than labour payments in Germany and fifteen times lower than these in the UK. In 2018 these differences narrow and they can explain the change of emigration destinations: the average nominal wages in Bulgaria are now two

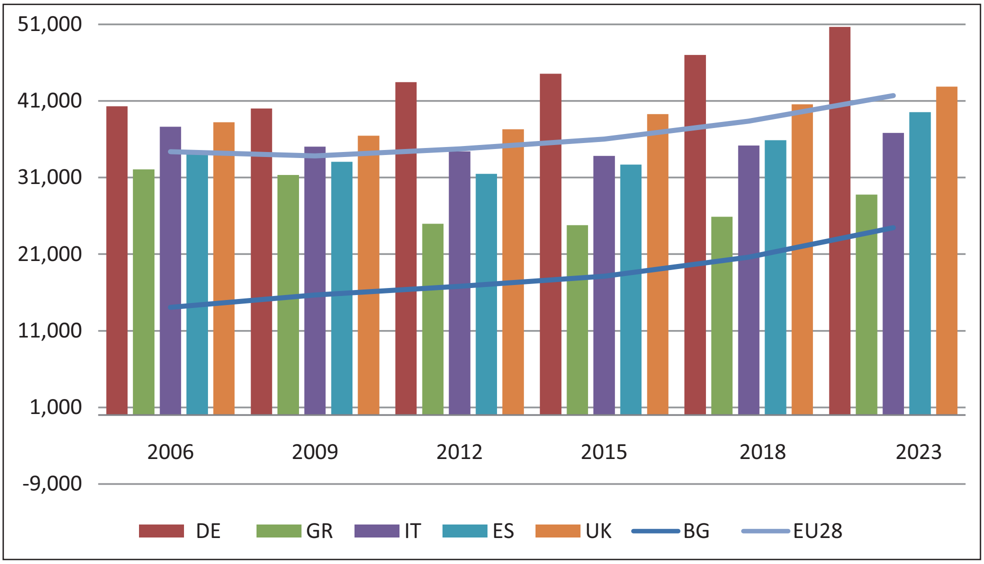

Fig. 5. GDP per capita, constant prices, PPS, US dollars

Source: IMF, World Economic Outlook Database.
Note: Estimates for 2018 and 2023 are based on data from the World Economic Outlook as of April 2019.

times lower than in Greece; five times lower than labour remunerations in Italy and Spain, and six times lower compared to Germany and the UK. When real wages in the countries under review are compared, the differences are striking. The real wage for 2006 was 15% compared to the average for Greece; 10% of the real compensation in Spain and Italy; 8% in Germany and 6% in the UK. By 2018, in real terms, purchasing power in Bulgaria has already been 43% of that in Greece; 22% in Spain and Italy; 18% in the UK and 16% in Germany.

However, the process of increasing of the purchasing power in Bulgaria is also associated with ever more income inequality. In 2017, the income ratio of the richest and poorest 20% of the population in Bulgaria reached 8.2 times while the same indicator in the EU was 5.2 times. This fact demonstrates one of the specifics of Bulgarian economy where the social inequality is growing and stimulates emigration despite of the favourable macroeconomic conditions.

Conclusions

As we have already pointed out, the lack of complete and comparable data on emigration from Bulgaria does not allow us to employ specific econometric methods in order to estimate the link between the macroeconomic environment of Bulgaria and host countries. Nevertheless, on the basis of the statistical data presented in a comparative way, we conclude Bulgarian economy still remains at substantially lower levels of income and productivity than developed

European countries which create preconditions for increasing emigration. Despite demonstrated macroeconomic stability and nominal convergence in times of crisis, the low levels of incomes in Bulgaria appear to be the leading factor for emigration, which is also proved by the change of emigration destinations across the EU. During the crisis, Bulgarian emigrants preferred core EU countries as Germany and the UK where disparities in economic development remain significant while Spain and Greece were less preferred due to the narrowing of income differences with Bulgaria. The persistent migration outflows are also due to the accelerated financial and trade integration into the EU and the euro area and free movement of people within the EU Single Market. Last but not least, there are already established networks of emigrants and contacts which also make the core EU Member States a preferable emigration destination for Bulgarians.

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