

Methodology for Estimation of Flows due to Unofficial Employment

The unemployment in some areas of Bulgaria as well as the opportunity to stay in the most of the EU countries for 3 months without a visa triggered an unofficial migration. Due to its specifics – short term (within the permitted 3 months stay) and shuttled (repeated unofficial employment for another 3 months) – it leads to inflow of funds in the country via unofficial channels.

Compensation of employees comprises wages, salaries, and other benefits (in cash or in kind) earned by individuals in economies other than those in which they are residents – for work performed for and paid by residents of those economies. Employees, in this context, include seasonal or other short-term workers, (less than one year) and border workers who have centers of economic interest in their own economies. (Balance of Payments Manual, Fifth edition, para 269).

There are several groups of problems in collecting data for the compensation of employees:

- The practical implementation of the concept of residence.
- The high threshold applied by the countries with settlement based BOP collection systems. The threshold applied by the Bulgarian National Bank – 5000 BGN (approximately EUR 2500) do not allow most of the remittances related transactions to be recorded properly. According to the ECB, direct collection of data via settlement system has only partial results.
- The diversity of methods of money transfers. Along with the banking transfers and mainline money transfer business such as Western Union there are significant informal transfers. However, there is no unified methodology or guidance for collecting data or estimating the flow via informal transfers.

Because of these problems in collecting data for the compensation of employees many countries implement estimations based on the number of residents temporary working abroad and average wages.

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The estimation of flows due to unofficial employment is based on multiplication of the number of residents working unofficially abroad and their incomes and expenditures per capita. The number of workers is an estimation based on the number of Bulgarian citizens leaving the country with reason "Travel" (Border Police data), on a survey among Bulgarian tour-operators about the number of Bulgarians who bought package holidays and made reservations for traveling abroad, run by the BNB at the end of 2005, and on separate survey through households.

The model allows estimation of the monthly incomes and expenditures, by country of employment. The incomes are included on the credit side of item *Compensation of employees* and the expenditures are included on the debit side of item *Travel*.

The incomes are estimated as a multiplication of number of workers and the minimum wages for the respective economy of employment. As the workers are unofficially employed it is

assumed that they receive the minimum wage in the respective country and they do not pay any taxes, insurance, etc. The source for the levels of minimum wages is the report "Minimum Wages 2005 - Major Differences between EU Member States", Eurostat, 1 August 2005.

The expenditures are estimated as a multiplication of number of workers and the cost of living for the respective country. It is assumed that Bulgarians unofficially employed abroad stay for 3 months in the respective country and then return to Bulgaria (the legally allowed period to stay for tourist purposes is 3 months). However, in practice estimated expenditures might be lower as most of the shuttle employees can rely on the informational, financial, and logistic support provided by Bulgarians already working abroad.

The unofficial status of these employees determines the use of informal channels for transferring the income. Transporting the own funds is the most frequently used method. Unofficial workers also use bus drivers, relatives and friends to carry money.

At present data are revised for 2004 and 2005. Revisions will be made also for the period April 2001 – December 2003 and will be published with Balance of Payments data for February 2006. The starting month for revision is April 2001 as it was the first month in which Bulgarian citizens were allowed to travel to most of the European countries without visa.