MINIMUM WAGE AND IN-WORK POVERTY: EVIDENCE FROM BULGARIA

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Abstract: The article presents the results of a study on the relationship between minimum wage increases in Bulgaria and the dynamics of the so-called "working poor". It is assumed that setting the minimum wage amount as a fixed percentage of the national average wage – and therefore imposing it centrally through administrative channels and with limited participation of social partners – weakens the potential of this policy tool to achieve a sustainable reduction of the in-work poverty rate. Applying a single-factor regression analysis of the association between the ratio of the minimum wage to the average wage in the country (Kaitz index) and the share of working poor, it was found that there is a statistically significant positive association between the two variables. In other words, the higher the Kaitz index, the higher the share of working poor. This finding is important for the debate on the procedure for determining and updating the minimum wage in the country. It also highlights the need for public authorities to make targeted efforts in promoting the development of scientific knowledge on the economic and social effects of the minimum wage in a national context.

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Introduction

In early 2023, following an initiative by a group of parliamentarians, the National Assembly of the Republic of Bulgaria adopted amendments to the Labour Code

regulating how the national minimum wage is determined. Under these amendments, the minimum wage for each calendar year must be set by September 1 of the previous year at a level equal to 50% of the reported average gross wage for the country, based on data for the last four quarters. The law also stipulates that the new minimum wage cannot be lower than that of the preceding year (Labour Code, 1986, Art. 244). Proponents justified the reform as necessary to ensure compliance with the EU Directive on adequate minimum wages (Directive (EU) 2022/2041, 2022), to address rising living costs, and to guarantee decent pay for the lowest-paid workers (those working at the minimum wage)" (Ninova et al., 2022). However, the explanatory memorandum to the draft law did not include any quantitative impact assessments or empirical evidence to demonstrate that the adopted approach would deliver the intended outcomes.

At the time of the submission of the draft law, no formal political decision had been adopted regarding the methodology for determining and updating the statutory minimum wage in accordance with Directive (EU) 2022/2041. Although the minimum wage has consistently constituted one of the central themes in Bulgaria's system of tripartite cooperation, for almost a decade, the social partners have endeavoured, with limited success, to arrive at a consensual framework for setting its level (Kahancová & Kirov, 2021).

In this respect, the adoption of the so-called "mechanism" in the Labour Code may be interpreted as an attempt to confer a degree of social legitimacy within the national context. Nevertheless, this mechanism has already produced striking effects, leading to a 19.2% increase in the statutory minimum wage in 2024 (from BGN 780 to BGN 933) and a further 15.4% increase in 2025 (from BGN 933 to BGN 1,077). Moreover, the Bulgarian Ministry of Labour and Social Policy has recently proposed that the statutory minimum wage for 2026 be set at BGN 1,213, which would constitute yet another double-digit rise of 12.6% (Ministry of Labour and Social Policy, 2025).

These developments inevitably prompt scholarly inquiry into the substantive impact of the "mechanism" on the Bulgarian labour market, and in particular, on the incidence of in-work poverty. This line of questioning appears especially pertinent given the mechanism's underlying rationale: namely, that the imposition of a fixed ratio between the statutory minimum wage and the average wage – determined through administrative fiat rather than through autonomous bargaining among social partners or through a consensual decision reached within the framework of tripartite cooperation – will necessarily enhance the welfare of the lowest-paid workers. The

ratio in question, internationally recognised as the Kaitz index, has long been utilised in comparative labour market research and was formally institutionalised as a policy instrument by the Bulgarian National Assembly in 2023. To date, however, there is a notable absence of rigorous empirical evidence substantiating whether the reform has delivered its intended outcomes or whether it has engendered unanticipated and possibly adverse consequences.

The present article seeks to offer a modest contribution to addressing this empirical lacuna. Bulgaria continues to rank among the European Union member states with the highest levels of monetary poverty, rendering the debate on the efficacy of anti-poverty policies – and on the role of the statutory minimum wage within this broader constellation of instruments – both timely and urgent.

The minimum wage and poverty among workers: a brief review of the literature

The impact of minimum wages on labour markets and income distribution has been the subject of sustained scholarly debate since the early twentieth century. Within the neoclassical framework, it is conventionally assumed that greater elasticity of labour supply and demand leads to higher unemployment when the statutory minimum wage rises (Borjas, 2024). Firms compelled to pay wages above the market-clearing level are expected to pass on the additional costs through higher prices, which in turn depresses demand and output. As a result, the labour share in total output declines relative to capital. This dynamic reduces labour demand and generates layoffs, particularly among low-skilled workers. The adverse effects are amplified where labour represents a large proportion of production costs, where product demand is highly price-sensitive, and where labour can be readily substituted with capital (Neumark & Wascher, 2008). Unemployment pressures may also intensify as previously inactive individuals enter the labour force in response to higher wage floors, only to remain unemployed if firms are unwilling to hire them.

On the basis of an extensive review of empirical studies, Neumark and Wascher argue that the neoclassical model provides a plausible account of the relationship between minimum wage increases and low-skilled employment, while also emphasising that this represents only one dimension of the broader policy debate (Neumark & Wascher, 2006).

A second dimension concerns income distribution and in-work poverty. International labour standards assume that minimum wages safeguard vulnerable workers, protect

living standards, and mitigate poverty. This rationale underpins, for example, ILO Convention No. 131 (1970) and Directive (EU) 2022/2041 on adequate minimum wages. Yet both theory and evidence paint a more complex picture. Within the neoclassical tradition, raising the minimum wage can generate unintended consequences, including benefits accruing to workers already earning above the statutory floor. Low-skilled workers may be displaced by better-qualified employees whose labour becomes relatively more attractive. Demand for these higher-skilled workers increases, exerting upward pressure on their wages. Grossman (1983) further demonstrates that wage compression at the lower end may compel employers to increase wages further up the distribution in order to preserve relative differentials and retain skilled staff. Although output adjustments may mitigate such effects, they can also result in reduced demand for skilled labour over the longer term.

This line of reasoning has prompted a number of scholars to caution that raising minimum wages may not achieve the intended reduction in in-work poverty. Saget (2001) identifies four possible scenarios: (1) where minimum wages apply only in "covered" sectors, displaced workers may lose income entirely; (2) displaced individuals may enter informal employment, thereby reducing income security; (3) some may move to "uncovered" sectors, but at lower wages; and (4) workers retaining jobs in covered sectors enjoy higher wages, potentially widening pay disparities with those outside. Each scenario carries implications for both in-work poverty and overall poverty rates.

Other empirical findings further nuance this debate. Neumark and Wascher (1997) demonstrate that higher minimum wages can narrow the poverty gap for poor families and increase their likelihood of escaping poverty, yet at the same time, they may push non-poor families below the poverty line. Similarly, Burkhauser and Sabia (2007) contend that minimum wage increases are an ineffective anti-poverty instrument, since the majority of minimum wage earners reside in non-poor households, while many poor households depend on earnings above the statutory floor. A recent synthesis by Burkhauser, McNichols, and Sabia (2023) confirms a broad consensus among labour economists that the poverty-reducing effects of minimum wage hikes are modest at best, with studies reporting strong positive impacts remaining comparatively rare (e.g., Addison & Blackburn, 1999; Dube, 2019).

In the Bulgarian context, empirical research on the recently introduced statutory mechanism remains limited and largely descriptive (Makelova, 2024; Angelova & Ivanov, 2024). Nevertheless, debates on wage-setting procedures intensified around

the 2023 amendments to the Labour Code (Kostov & Moraliyska, 2022; Tsanov et al., 2022; Todorov, 2023). The majority of scholars concur that the problem of minimum wage determination remains unresolved, albeit with differing policy prescriptions. A distinctive contribution is offered by Nozharov and Koralova-Nozharova (2023), who identify a significant correlation between minimum wage increases and unemployment during periods of economic downturn. Earlier research by Tsanov and Shopov (2017) also examines the nexus between wage increases and labour market performance, while their analysis of 2006–2013 represents one of the few attempts to address directly the relationship between minimum wage levels and in-work poverty in Bulgaria. They report a negative correlation, interpreted as evidence that higher minimum wages reduce the share of working poor. Similar findings are presented by Tsanov et al. (2017) for the period 2006–2014.

This concise review of the scientific literature permits several tentative conclusions. First, the majority of studies indicate that increases in the statutory minimum wage exert adverse effects on employment outcomes, particularly for lower-skilled workers. Second, the evidence suggests that minimum wage adjustments may not constitute the most effective policy instrument for raising the disposable incomes of low-paid employees or for providing them and their households with a sustainable pathway out of poverty. The few studies reporting more favourable outcomes in the Bulgarian context represent notable exceptions, underscoring the significance of national specificities in shaping the effects of minimum wage dynamics.

The Study

Objectives and Hypotheses of the Study

Building on the foregoing discussion, the present study seeks to examine whether a significant relationship exists between changes in the statutory minimum wage and the dynamics of the in-work poverty rate in Bulgaria.

The research pursues three specific objectives:

1. To identify and synthesise the principal arguments and findings from existing studies on the effects of minimum wages on labour markets and income distribution;
2. To provide empirical evidence on the association between changes in the statutory minimum wage and in-work poverty trends in Bulgaria;
3. To highlight areas where further scholarly inquiry is warranted.

Drawing on the literature review and the available empirical evidence, the central hypothesis advanced here is that the statutory minimum wage in Bulgaria – at least insofar as it has been determined to date (centrally, through administrative decisions, and with constrained involvement of the social partners) – has only a limited effect in reducing poverty among the working population.

Methodology

To examine the relationship between changes in the minimum wage and the share of the working poor, a single-factor regression analysis was applied. The model is expressed as follows:

$$lnPov\_Rate_i = \beta_0 + \beta_1 lnKaitz\_Index_{i-1}, \quad (1)$$

where:

$lnPov\_Rate_i$ is the natural logarithm of the share of the "working poor" in the year of the EU-SILC i observation;

$lnKaitz\_Index_{i-1}$ is the natural logarithm of the ratio between the minimum monthly wage for the country and the average wage for the country for year *i-1,* i.e. the year preceding the EU-SILC observation year i*,* both values being before social security and health insurance contributions and taxes;

β_0 – model constant;

β_1 – regression coefficient.

In the scholarly literature, the terms “working poor,” “low-paid workers,” and “minimum wage earners” are frequently used interchangeably. However, these groups are conceptually distinct. Three key differences merit attention. First, whether a worker is classified as low-paid depends on individual earnings, whereas poverty status is determined by the total disposable income of the household in which the worker resides. Second, the measurement of poverty encompasses not only wages and salaries but also income from pensions, social transfers, family benefits, and other sources received by all household members. Third, the category of “working poor” includes not only employees in dependent employment or equivalent legal relationships but also the self-employed – both employers and own-account workers – as well as unpaid family workers. Consequently, the scope of this category may be broadened or narrowed depending on the specific research design.

For the purposes of this study, “working poor” are defined as employees aged 18 to 64 who live in households with a total disposable income below 60% of the national

median disposable income. This corresponds to the standard definition of the poverty threshold used in the EU-SILC survey (Eurostat, n.d.). Other categories of employed persons are excluded insofar as the statutory minimum wage does not directly determine their earnings.

The empirical analysis draws on three main data sources:

1. Official data on the statutory minimum wage in Bulgaria for the period 2008–2024 (NSSI, n.d.);
2. Data on the average wage across all sectors of the economy for the same period (NSI, n.d.);
3. EU-SILC survey data on the proportion of "working poor" employees (aged 18–64), following the above definition, for the period 2009–2024 (Eurostat, 2025).

The selected period reflects the availability of Eurostat data, which cover the years 2009–2024 for the indicator in question. It is important to emphasise that in EU-SILC, income refers to the calendar year preceding the survey year (Eurostat, n.d.). Accordingly, estimates of the in-work poverty rate for a given survey year should be compared with the Kaitz index values for the preceding year, corresponding to the reference period of the income data.

Results

Data from international comparisons show that Bulgaria is the country with the lowest statutory minimum wage in the EU. In 2024, it was €477, and in 2025, €551. Romania is ahead with €663 for 2024 and €814 for 2025 (Eurofound, 2025, p. 6). The gap with other Member States is still large despite significant absolute annual increases since 2015. As regards the ratio between the minimum wage and the average wage in the country, it has been growing significantly since the new "mechanism" for its determination entered into force (Table 1).

It is logical to expect that as the minimum wage increases at a faster rate than the average wage, the in-work poverty will steadily decrease. However, the data show exactly the opposite: despite some periods of decline, the share of working poor has been steadily increasing, reaching its highest values in 2023 and 2024 (11.5% and 11.4% respectively), precisely when some of the highest values of the Kaitz index were recorded (Table 1). In addition, in 2024, Bulgaria ranks second (after Luxembourg with 13.3%) in terms of the highest share of working poor among all EU Member States. The EU-27 average is 6.3%, almost half that of Bulgaria (Eurostat, 2025).

Table 1. Minimum wage and average wage in Bulgaria, and share of the "working poor" (2008–2024)

Year	Minimum wage for the country (BGN)	Average wage for the country (BGN)	Minimum to average wage for the country (%)	Share of the "working poor" in Bulgaria (%)
2008	220.00	544.83	40.4	–
2009	240.00	609.08	39.4	7.3
2010	240.00	648.08	37.0	7.0
2011	247.50	685.83	36.1	7.8
2012	283.33	731.08	38.8	7.1
2013	310.00	775.08	40.0	6.4
2014	340.00	821.67	41.4	8.8
2015	370.00	877.92	42.1	7.0
2016	420.00	948.25	44.3	11.3
2017	460.00	1037.33	44.3	10.1
2018	510.00	1146.25	44.5	10.0
2019	560.00	1267.42	44.2	8.7
2020	610.00	1390.58	43.9	9.6
2021	695.00	1561.08	44.5	9.5
2022	780.00	1770.17	44.1	9.4
2023	933.00	2040.42	45.7	11.5
2024	1077.00	2323.42	46.4	11.4

Note: Data on the minimum wage are obtained by averaging its monthly value, while data on the average wage are obtained by converting annual data into monthly data.

Source: National Social Security Institute, National Statistical Institute, own calculations.

The results of the regression analysis provide a quantitative representation of the dynamics described above. The findings indicate that the value of the Kaitz index is a statistically significant predictor of the in-work poverty rate, $F(1,14) = 18.81$, $p < 0.001$. Both the model constant ($\beta_0 = -5.291$, $p = 0.008$) and the regression coefficient for the Kaitz index ($\beta_1 = 1.999$, $p < 0.001$) are statistically significant at the 95% confidence level. The estimated regression equation can thus be expressed as:

$$lnPov\_Rate_i = -5.291 + 1.999 lnKaitz\_Index_{i-1} \quad (2)$$

The adjusted coefficient of determination (R^2 = 0.543) indicates that 54.3% of the variation in in-work poverty among employees can be explained by changes in the Kaitz index. This proportion of explained variance exceeds what is typically considered a medium effect size, suggesting the existence of a substantive and statistically significant relationship.

Within the model, the regression coefficient reflects the elasticity between the Kaitz index and the in-work poverty rate. Its positive sign implies that increases in the ratio of the minimum to the average wage are associated with higher levels of in-work poverty.

Accordingly, the analysis suggests that minimum wage increases during the period under review did not lead to a sustainable reduction in in-work poverty. This finding does not imply that higher minimum wages fail to support the incomes of low-paid workers and their families; rather, it highlights that the measure, as currently designed and implemented within Bulgaria's institutional framework, is insufficient to lift working households out of poverty. The results further suggest the possibility of spillover effects, whereby minimum wage increases generate income gains for individuals residing in non-poor households.

In light of the broader body of empirical research documenting adverse labour market consequences of minimum wage hikes, it appears unlikely that substantial reductions in in-work poverty can be achieved solely through administrative mechanisms that fix the minimum wage at a constant proportion of the national average. A more effective strategy would involve a policy mix that combines minimum wage regulations designed to avoid labour market distortions, adequate income protection for the lowest-paid workers, and targeted social protection measures addressing the needs of households situated at the lower end of the income distribution.

Discussion

The regression analysis reveals a statistically significant and positive relationship between the examined variables. Specifically, the higher the ratio of the minimum wage to the national average wage, the higher the observed level of in-work poverty.

This finding has direct relevance for ongoing debates on the procedures for determining and updating the statutory minimum wage. In 2024, the ratio was 46.4%,

while the Labour Code already prescribes an even higher ratio of 50%. It is therefore reasonable to expect that, in the absence of additional policies, the statutory minimum wage will continue to rise at a faster pace than the average wage. In the Bulgarian context, such developments are unlikely to exert a strong poverty-reducing effect and may even contribute to a deterioration in the relative living standards of precisely those labour market groups the minimum wage is designed to protect.

Several mechanisms underlying these dynamics warrant further scholarly investigation. First, it is important to examine what share of the lowest-paid workers live in households below the poverty threshold, and whether minimum wage increases disproportionately benefit households that are not at risk of poverty, thereby widening the gap between them and low-paid workers in poor households. This issue may be particularly relevant when considering the distribution of low-paid workers by sector (public vs. private), region, and economic activity.

Second, the reactions of firms to changes in the cost of low-skilled labour deserve attention. An empirical assessment is needed of the extent to which higher minimum wages result in the long-term exclusion of workers with low or no education from formal employment, thereby reducing their chances of labour market integration.

Third, the ongoing digital transformation raises concerns about whether low-skilled workers are increasingly being replaced by technological solutions and whether sharp increases in the minimum wage indirectly trigger wage growth among higher-skilled workers, thereby deepening labour market segmentation.

Finally, it is crucial to evaluate the degree of coordination between minimum wage policies and other areas of social and economic policy. The intended benefits of higher minimum wages may be undermined if complementary measures are absent. For instance, reforms in personal income taxation (e.g., introducing tax-free thresholds or targeted tax relief) or more generous family allowances may have a greater impact on the disposable incomes of low-income households than maintaining a fixed ratio between the minimum and average wage. A comprehensive policy mix – one that simultaneously supports the disposable incomes of low-paid workers, sustains labour demand for the less-skilled, and addresses demographic and regional disparities – is essential. Such an approach is particularly important in light of demographic ageing, as it would help maintain high labour force participation among youth and vulnerable groups, reduce regional inequalities, and curb the expansion of the informal economy. Moreover, it would contribute to the long-term sustainability of public systems such as pensions, healthcare, and long-term care.

To advance both policy and academic debate on these issues, state authorities could play a proactive role in improving data accessibility. A useful first step would be the creation of a publicly available database containing information on the profile of low-wage workers and the characteristics of the firms employing them. The reporting practices of the U.S. Bureau of Labour Statistics offer a relevant example of good practice (U.S. Bureau of Labour Statistics, 2025). Additionally, linking administrative registers maintained by public institutions and ensuring systematic access to anonymised individual-level data for research and educational purposes would significantly enhance the evidence base on the effects of minimum wage dynamics.

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Conflicts of interest

The author declares no conflicts of interest.

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