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BULGARIA – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This is the fifth specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for Bulgaria, which in the 2017 European Semester was identified as experiencing excessive macroeconomic imbalances. In particular, those relate to vulnerabilities in the financial sector coupled with high corporate indebtedness in a context of incomplete labour market adjustment. The report reviews the latest developments and policy initiatives undertaken by the authorities relevant for the correction of the imbalances identified in the 2017 Country Report and targeted by the 2017 country-specific recommendations for Bulgaria. The cut-off date for this report is 07 November 2017.

Important steps to address the macroeconomic imbalances have been taken, facilitated by steady economic growth. Economic growth accelerated since 2015 and is expected to remain robust until 2019. Domestic demand is the main growth driver, while the contribution of net exports has diminished. Building on past progress, the authorities have made further efforts to tackle the excessive imbalances. Additionally, swift fiscal consolidation was achieved. Nevertheless, challenges to implementation remain in several areas.

Notwithstanding the progress registered, key measures need to be finalised to ensure the robustness of the banking sector and the efficiency of bank supervision. The capital buffers of the two banks, which were instructed by the central bank on the basis of the 2016 asset quality review, were reinforced. The two banks are also undergoing internal restructuring work involving external advisors. This is crucial in ensuring their robustness going forward. All banks are asked to improve their internal policies and procedures, which have to be vetted by the banking supervision department. The implementation of the plan to improve banking supervision is ongoing. Some important measures expected to be finalised by December with respect to both enhancing bank robustness and banking supervision. To address the level of non-performing loans, the central bank supervision intends to extend the guidance prepared by the European Central Bank to all banking institutions operating in Bulgaria. However, no specific steps to support the development of a secondary market for non-performing loans are envisaged.

Non-bank financial supervision is still undergoing an overhaul, while follow-up measures to the reviews in the insurance and pension fund sectors are being implemented. An action plan to improve and strengthen the supervisory body has been put forward for implementation. The timely and adequate follow-up to all issues highlighted by the non-bank financial sector reviews remains a key priority.

The insolvency framework has been improved somewhat but the overall reform remains to be completed. The authorities have introduced changes to the business restructuring legislation, with some delay. At the same time, efforts to implement the new rules and monitor their impact on streamlining restructuring and insolvency procedures do not appear to have been sufficient.

Measures have been taken to improve the functioning of the labour market, but important mechanisms are still missing. Measures to enhance the employability of the unemployed and to increase access to related services are being implemented. A comprehensive monitoring methodology of policy measures' effectiveness in the long run remains undeveloped. Transparent mechanisms for setting the minimum wage and for administrative increases of the minimum social security thresholds are missing.

In conclusion, work to reduce the identified imbalances has continued but remains to be completed. The authorities target to complete some important measures by end-2017.

Table 1: Key findings on implementation of policy reforms [1]

On track	Wait-and-see	Action wanted
• Strengthening the capital buffers of two banks as per the AQR findings; • New related-parties definition for non-banks; • Fully staffing the board of the non-bank supervisor; • Legal amendments to improve the insolvency framework.	• Balance sheet de-risking, improving corporate governance and risk management of the two banks whose capital levels needed attention as per the AQR findings; • Finalising the implementation of the plan to reform and develop banking supervision; • Follow-up measures to the independent reviews of the insurance and pension sector; • Action plan to improve non-bank supervision; • Implementation of the package of ALMP measures. • Improving the framework for supervising related-party exposures in banks;	• Measures to incentivise an active reduction of the stock of non-performing loans; • Measures to tackle valuation issues in financial sector; • Measures to improve group-level financial supervision; • Fully operationalise the insolvency regime reforms; • Mechanisms for setting the minimum wage and the minimum social security thresholds. • Methodology for monitoring ALMP.

[1] The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. "On track" are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. "Wait and see" are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. "Action wanted" are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

Introduction

On 16 November 2016, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its fifth Alert Mechanism Report[2] to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent In-Depth Review in the Country Report on Bulgaria – published on 22 February 2017[3] – examined the nature, origin and severity of macroeconomic imbalances and risks in Bulgaria. In its Communication published on 22 February 2017[4], the Commission concluded that "Bulgaria is experiencing excessive macroeconomic imbalances". In particular, the Commission emphasised the vulnerabilities in the financial sector coupled with high corporate indebtedness in a context of incomplete labour market adjustment. In April 2017, Bulgaria submitted its Convergence Programme[5] and National Reform Programme (NRP)[6], respectively outlining fiscal targets and policy measures to improve its economic performance and unwind imbalances. On the basis of an assessment of these plans, the Commission proposed four country-specific recommendations (CSRs)[7], which were subsequently adopted by the Council on 11 July 2017[8]. The CSRs addressed to Bulgaria concern: sustainable public finance, strengthening supervision of the financial sector, improvements to the insolvency framework and labour market and social policy issues. CSRs 2 and 3 were considered to be MIP relevant.

The present report assesses the latest key policy initiatives[9] undertaken by Bulgaria[10]. For this purpose, a specific monitoring mission to Bulgaria was conducted on 10-11 October 2017.

1. Outlook and recent developments on imbalances

Recent economic developments and outlook

The steady economic growth of the last two years is expected to continue in the near term. Real GDP growth accelerated to 3.6% in 2015 and 3.9% in 2016 after a protracted period of low growth over 2010-2014. Domestic demand has replaced net exports as the main growth driver in 2016 and 2017 is projected to remain the main growth driver until 2019. Private consumption has been particularly strong, outpacing overall GDP growth. In 2018 and 2019 investment is also expected to rise, partly due to an expected increase in the realisation of projects funded by the European structural and investment funds. The labour market appears to have recovered as the unemployment rate is expected to decrease to below 6% in 2019, coming from above 11% in 2014. Employment has recovered more slowly as activity rates remain low and negative demographic developments put pressure on the labour force. The government reached a balanced budget in 2016 due to improved tax collection and higher-than-projected nominal growth. The budget is expected to remain around balance until 2019.

[2] https://ec.europa.eu/info/sites/info/files/2017-european-semester-alert-mechanism-report_en_0.pdf
[3] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-bulgaria-en_3.pdf
[4] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-reports-comm-en.pdf
[5] https://ec.europa.eu/info/sites/info/files/2017-european-semester-convergence-programme-bulgaria-en_0.pdf
[6] https://ec.europa.eu/info/sites/info/files/2017-european-semester-national-reform-programme-bulgaria-en.pdf
[7] http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_bulgaria_en.pdf
[8] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017H0809(02)&from=EN
[9] Details on the policy measures taken can be found in the overview table in the Annex.
[10] The previous MIP specific monitoring report was published in November 2016. See: https://ec.europa.eu/info/sites/info/files/file_import/201611_bg_imbalances_epc_report_en_1.pdf

Developments as regards imbalances

Financial sector

Over the last year, developments in the banking sector have been marked by a steady expansion of the balance sheet, improved quality of assets and unchanged capital levels. Commercial banks' total assets grew by 5.9% in September 2017, compared to twelve months ago. Banks' funding has been driven entirely by the significant increase in deposits. Household deposits grew by 5.1%, while the growth rate of non-financial corporate deposits was 13%.[11] Depositors showed stronger preference for the domestic currency, thereby signalling a positive confidence effect. As a result of the positive liquidity developments, the customer loan-to-deposit ratio declined further from 78% in September 2016 to 74.8% in September 2017. Even though the pre-tax return on average equity shrank from 14.9% to 12.5%, profitability remained strong. The system's capital did not follow the overall sector expansion and remained practically flat at EUR 6.3 billion. Nevertheless, the ratio of total regulatory capital to risk-weighted assets declined only marginally, from 22.7% to 22.6%, inter alia thanks' to de-risking efforts which help to reduce assets' risk weights.

Domestic credit growth returns to dynamism. The monetary base continued expanding at broadly steady rates - broad money grew by 8.2% y-o-y in September 2017, while the growth rate in M1, i.e. currency in circulation and overnight deposits, was twice higher at 16.3%. In 2016, the abundant funding had been predominantly used to acquire foreign assets and invest in Bulgarian government bonds. Since the end of 2016, however, banks increased more substantially their claims on the non-government sector and to a lower extent their foreign assets. The growth of claims to the private sector reached 5% in September 2017 - its highest levels since 2009.

In this context, asset prices have started to recover. In Q2 2017, house prices grew by 8.6% y-o-y on average. Prices in the capital Sofia grew by 10.6% according to the national statistics and by 15-18% y-o-y according to data by real estate companies. Rapid growth was also seen on the domestic stock exchanges with the main index, SOFIX, gaining 36% in one year, as of the end of September 2017. The recovery of the market appears to be supported by fundamental economic improvements, such as the decline in unemployment, demographic factors and the increase in disposable income, as well as by the decreasing bank interest rates. However, the pace of the asset price increase suggests that purely monetary factors might be at play too.

Corporate debt and deleveraging

The economic environment has supported continuous deleveraging. Consolidated private sector debt decreased from 110.5% of GDP in 2015 to 104.9% of GDP in 2016. The overall deleveraging from the peak reached in 2009 amounts to 29pps. as share of GDP. Quarterly 2017 data suggests the deleveraging process has continued in the first half of the year. The majority of debt continues to be on the books of non-financial corporations – 84% of GDP in 2016 compared to 89% of GDP in 2015, in consolidated terms. Nominal economic growth outpaced corporate credit growth in 2014-2016, facilitating the deleveraging process. The

[11] According to Financial Supervision Reports Data, http://www.bnb.bg/BankSupervision/BSCreditInstitution/BSCIFinansReports/BSCIFRBankingSystem/BS_201709_EN

trend is expected to continue in 2017 but slowly reverse in 2018 and 2019 as investment accelerates and at least part of it is debt-financed.

Labour market

Labour market improvement has continued but structural problems persist. The unemployment rate and youth unemployment have decreased further, but persistent structural issues continue to impact the functioning of the labour market. The unemployment rate dropped to 7.6% in 2016, from a peak of 13% in 2013, and retained its decreasing path in 2017, reaching 6.3% in the second quarter. Youth unemployment dropped from 28.4% in 2013 to 17.2% in 2016 and further declined to 13.2% in the second quarter of 2017, less than the EU average. Long term unemployment, however, is proving more resilient. Despite recent improvements, in the first half of 2017 around 55% of those unemployed have been in this situation for more than a year, one of the highest incidences in the EU.

2. Policy implementation and assessment

2.1. Banking sector

The most vulnerable banks have made progress in implementing the recommendations addressed after the asset quality review, but more remains to be done. The asset-quality review (AQR) conducted by the BNB in 2016 found that two banks needed to replenish their capital buffers, although they still complied with the regulatory minimum capital requirement.[12] The two banks have complied with the deadline to strengthen their buffers. In addition, work is ongoing to strengthen their robustness. The two banks are working with external advisors to improve risk management practices, in particular as regards their non-performing portfolios and de-risk their balance sheets, including through selling off repossessed collateral. Removing the risk associated with large exposures will be key for strengthening the balance sheets and enhancing the resilience of the banks in general. In addition, First Investment Bank has hired an external consultant to assist in raising fresh capital. Binding offers by potential investors, if any, are to be submitted by the end of 2017.

Banks are working on improving their internal policies and procedures and preparing for the coming into force of the new IFRS 9. The Bulgarian National Bank (BNB) recommendation to improve internal policies and procedures was addressed in particular to banks that underperformed in the 2016 stress tests and thus needed to strengthen their resilience to shocks. The banks concerned are about to submit their revised internal policies and procedures to the BNB for approval. In addition, all banks are preparing for the coming into force of the new International Financial Reporting Standard (IFRS) 9 in January 2018. The BNB has put in place a two-stage review of banks' level of preparedness, with the second stage expected in November 2017. The new IFRS 9 credit loss provisioning rules could result in higher loan-loss provisions in some banks. It underscores the importance of cleaning bank balance sheets.

There has been progress in improving bank supervision, but some important measures remain to be fully implemented. The BNB adopted a detailed plan to improve banking supervision in 2015. Important progress has been made in many areas, although some of the original targets for finalising the planned measures have been missed. Key measures that

[12] http://www.bnb.bg/BankSupervision/BSAQR/BSAQRResults/index.htm

remain to be finalised include finalising the revision of the supervisory review and assessment manual, strengthening the resolution framework and approving banks' resolution plans. In addition, the process of upgrading the ITC tools available for the banking supervision department is taking longer than expected.

To decrease the level of non-performing loans, banking supervision intends to mirror the approach adopted by the European Central Bank. In March 2017, the ECB published guidance to euro-area banks on dealing with non-performing loans (NPLs), asking the institutions to establish internal strategies to tackle the NPLs on their books (particularly so for banks with high levels of NPLs). [13] This guidance would also apply to the subsidiaries of euro-area banks operating in Bulgaria. The BNB plans to extend this guidance also to the domestically-owned institutions. These instructions would ensure a level-playing field.

Volumes on the secondary market for NPLs remain low. Notwithstanding a steady, albeit gradual, downward trend, the aggregate NPL ratio for the Bulgarian banking system remains elevated. It stood at 11.45% at end-September 2017, representing mainly the legacy of the credit-led boom before the 2009 recession.[14] The secondary market for NPLs continues to be very shallow, consisting almost entirely of deals involving unsecured consumer loans.[15] In addition, the market is almost entirely driven by a few subsidiaries of euro-area banks, whereas domestic institutions generally tend not to participate. Despite the long average period of delinquency of the NPLs, market participants indicate that there remains a large gap between the prices offered by the market and those that banks are willing to accept to part with the overdue assets.

Overall, important steps have been made towards reducing potential macro-financial risks stemming from the banking sector. Nevertheless, the work on ensuring a comprehensive follow-up of the AQR/ST and improving banking supervision will have to be continued in order to put the sector on a firmer footing going forward.

2.2. Non-banking financial sector

The non-bank supervisor has made first steps towards improving its functioning. Following an unsuccessful first attempt in the summer of 2017, two new members were appointed to the Board of the Financial Supervision Commission (FSC) in October 2017, replacing members with long-expired mandates. The FSC, in cooperation with the European Insurance and Occupational Pensions Authority (EIOPA), has prepared an action plan aimed at reforming non-bank financial supervision. The plan draws on the shortcomings identified during the independent pension funds' asset quality review and insurance balance sheet review as well as the findings of the Financial Sector Assessment performed by the IMF (banking) and the World Bank (non-banking), published in 2017. The full and timely implementation of this action plan, which includes the implementation of risk-based supervision fully supported by an improved supervisory approach in cooperation with EIOPA, would be an important step towards ensuring adequate supervision.

Legislative changes aimed at improving non-bank financial supervision have recently been submitted to parliament. Changes to the Social Insurance Code, including a broader

[13] https://www.bankingsupervision.europa.eu/ecb/pub/pdf/guidance_on_npl.en.pdf

[14] The risk that NPLs pose to banks' balance sheet is somewhat mitigated by loan-loss provisions. The aggregate coverage ratio was 51.2% as of September 2017, bringing the ratio of net NPLs to risk-weighted assets to 5.9%.

[15] Consumer non-performing loans represent less than 10% of the total stock of NPLs.

definition of related parties in line with international standards, have been adopted by the national parliament in November 2017. Amendments have also been proposed for the Law on the FSC and submitted to the parliament. Those include measures to enhance the decision-making process, executory powers and legal protection as well as steps to ensure its financial independence from the state budget through direct collection of levies from the industry. If passed in its proposed form, the changes will provide sufficient funding for the FSC to strengthen and expand its supervisory practices, by helping in particular to attract experienced professionals to the FSC.

The implementation of follow-up measures to the independent reviews is expected to continue in the coming period. The reviews in the insurance and pension funds' sectors were completed in February 2017. A number of follow-up measures, including capital strengthening, was requested by the FSC and implemented by the respective companies. Capital levels at those institutions remain to be monitored closely also with a forward-looking perspective. The licence of one small insurer has been withdrawn. The treatment applicable to specific reinsurance contracts was clarified by EIOPA through a Q&A published on its website. The FSC expects the companies concerned to make the necessary adjustments, including capital strengthening by the end of 2017 and has committed to take corrective measures in case of non-compliance. The timely implementation of those measures would have important implications for the overall assessment of progress achieved in strengthening the insurance sector. The issue of hard-to-value assets, including both traded securities with low liquidity and low free float as well as non-traded assets,[16] has been identified in the reviews of both banking and non-bank financial sectors and has not yet been fully addressed. For cases where insurance undertakings are relying on transitional measures under the Solvency II framework,[17] the supervisor would need to ensure that they have robust and credible plans for meeting the specific requirements by the end of the transitional period, in line with the framework.

A second round of reviews was organised by the FSC to check the implementation of follow-up actions originating from the first reviews. Following the publication of the results of the first reviews, the FSC organised a second round of reviews aimed at covering the period between the cut-off point for the first – 30 June 2016 and 31 December 2016. The purpose of those reviews was to take stock of the changes that took place on the companies' balance sheets in response to the first reviews' findings. This second round was guided by the FSC alone and was similar in scope to regular on-sight inspections. Reflecting the nature of the exercise, the companies' statutory auditors were allowed to act as reviewers, unlike in the independent first-round reviews. As the results of the second round reviews were not made public, the implementation of measures cannot be directly monitored from outside.

Group-level supervision remains a crucial challenge to ensure adequate risk-based insurance supervision. The group-level assessment of two insurance groups was not completed neither under the original nor the second round reviews. Disputes over the definition of groups and scope of the review, including the systematic use of courts as a way to avert applicable supervisory actions, prevented the independent reviewers from completing their task. So far, the supervision of insurance groups, which is a crucial aspect of the risk-based supervisory approach under the Solvency II framework, has not been adequate, especially for those undertakings where the groups initiated court disputes,

[16] Hard-to-value assets may include majority and minority stakes in subsidiaries, insurance receivables, land plots, industrial plans and other types of commercial real estate.
[17] The other provisions under Solvency II apply to insurers as of 1 January 2016.

Overall, non-bank financial supervision is in the process of being reformed. Some measures to strengthen the supervised sectors have been implemented, while important others are expected to be finalised in the coming months.

2.3. Insolvency framework

Some legislative amendments aimed at improving the insolvency framework have been passed but elements of the reform remain missing. In December 2016 the national parliament adopted changes to the Commercial Act and Pledge Registry, introducing new legislation on restructuring of a merchant. The procedure entered into force on 1 July 2017. Still some important elements of a fully functioning framework remain missing, including debt discharge and second chance to single entrepreneurs.

Further efforts are needed to ensure the new restructuring procedure fulfils its purpose. The legal amendments have set the necessary basis for streamlining business restructuring. It remains to be seen if the trainings, organised in the period before 1 July 2017, have been sufficient to equip the judges to adequately apply the new restructuring procedure. While employers' associations were consulted in drafting the legislation, no efforts have been made to familiarise the business community with the possible benefits of the new procedure. No follow up has taken place in the period after the amendments were legislated and before they came into effect, nor is it planned for the future. Thus, the new procedure remains relatively unknown, especially to smaller businesses which may stand to benefit the most from it.

Lack of adequate monitoring tools does not allow for a proper analysis of both existing and new procedures, including for business restructuring. At present, no data are collected on the number of cases filed and completed under the new procedure, nor their duration. Furthermore, lack of data also prevents comparisons with the use of alternative procedures that existed so far. This presents a serious obstacle to analysing the usefulness of court procedures, estimating the impact of legislative changes and ultimately formulating and implementing sound policies. No performance monitoring is available for judges and other practitioners. No plans for improvements in data collection have been signalled by the authorities at this stage.

Overall, the insolvency framework reform has started but is progressing slowly and more remains to be done both on the legislative and implementation fronts.

2.4. Labour market

Various active labour market policies (ALMP) are in place but a comprehensive monitoring methodology of policy measures' effectiveness in the long run remains undeveloped. The continued programmes, measures and schemes target the long-term unemployed and young NEETs through vocational training, re-skilling and temporary employment. The assessment of the net impact of current measures performed by the authorities seems to confirm some positive effects. However, a comprehensive monitoring system is still lacking, limiting the potential to improve the targeting of measures. An effective monitoring would support increasing the (cost-) effectiveness of ALMP. It could also provide a basis for strategic choices about new policies. Further measures were announced, targeting in particular the long-term unemployed.

A transparent mechanism for setting the minimum wage (MW) is still missing. The increase of the MW for 2017 was decided administratively, without following a mechanism that takes into account economic and social fundamentals. The government announced continued negotiations; however there is still no consensus between and with the social partners on a concrete mechanism. Bulgaria plans further discretionary increases of the MW for the period 2018-2020.

The authorities still need to introduce a mechanism for administrative increases of the minimum social security thresholds (MSST) for activities for which no agreement is reached. For a second consecutive year the nationally representative employers' organisations refuse to participate in the negotiations and continue insisting on removing the MSST system altogether. This leads to a discretionary setting of MSST, increase of all MSST of 3.9% introduced within the draft law on the National Social Security Budget. Hence the need for a MSST-setting mechanism that properly takes into account their impact on job creation and competitiveness as well as on the phenomenon of undeclared work. Still, the proposed administrative increase is announced as based on the forecast for growth of the average insurable income (6.4% for 2018), and on the estimate of the annual average harmonised consumer price index (1.4% for 2018). In addition, it is expected that the 10.9% increase in the MW as of 2018 will lift the MSST for some activities and professions, given that the MW is the floor for any MSST. This raises the pressure on some low-skilled workers and generally limits the labour market adjustment. On the other hand, the fact that the MW has grown faster than the MSST makes the latter less relevant, especially for some activities and professions.

Overall, ALMP appear to have a positive influence on the labour market. At the same time, mechanisms to determine the growth rates of the minimum wage and MSST have been lacking for several years.

Annex 1: Overview of MIP-relevant reforms

Stabilise the banking and non-banking financial sector			
Financial sector			
Financial services			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2017: The BNB will adopt a strategy to reduce the level of non-performing loans, mirroring the guidance adopted by the ECB in March 2017. **Expected in 2017:** Group-level review for the insurance undertakings that did not complete the first-round. **Expected in 2017:** Follow-up measures to the insurance and pension fund sector reviews, including on the treatment of certain reinsurance contracts.	**October 2017:** Changes to the Social Insurance Code, including a new related-parties definition. **October November 2017:** Changes to the Social Insurance Code, including a new related-parties definition, adopted by parliament. **November 2017:** Law on FSC adopted by the Council of Ministers and submitted to parliament.	**February 2017:** The FSC completed the insurance balance sheet review and pension funds' assets review and published their results. **April 2017:** Two banks announced successful strengthening of their capital buffers, as per the recommendations addressed by the BNB on the basis of the AQR/ST results. **October 2017:** Replaced FSC board members with expired mandates.	CSR (2) – 2017 "Take follow-up measures on the financial sector reviews, in particular concerning reinsurance contracts, group-level oversight, hard-to-value assets and related-party exposures. Improve banking and non-banking supervision through the implementation of comprehensive action plans, in close cooperation with European bodies. Facilitate the reduction of still-high non-performing corporate loans, by drawing on a comprehensive set of tools, including by accelerating the reform of the insolvency framework and by promoting a functioning secondary market for non-performing loans." NRP – 2017: "In addition to the steps already implemented (AQR and ST) and in line with … the IMF and the WB for assessment of the entire financial sector in Bulgaria (FSAP)… the BNB develops measures in the following areas: • expanding reasons for imposing supervisory measures; • a review of current regulations, internal rules and guidelines governing supervisory activities; and

			• drafting and adopting guidelines for activities in the various directorates of the Banking Supervision Department. " NRP – 2017: "The results of the pension funds' asset review will be taken into consideration when drafting the amendments to the SIC…FSC decided to carry out an inspection…of the balance sheets of insurers and reinsurers…including at the insurance group level"
Competitiveness, business environment and institutional capacity			
Labour market policies			
Wages and wage setting			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2018: Minimum wage setting mechanism proposed by the government, but not yet agreed on by the social partners.			CSR 3 – 2017 "In consultation with social partners, establish a transparent mechanism for setting the minimum wage."
Active labour market policies (ALMP)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected in 2018: Implementation of individual profiling and agreement for employment integration. **Expected in 2018:** New service for long-term unemployed – consulting and		**October 2017:** Schemes for training and employment of young people and long-term unemployed are being implemented, benefitting from EU funding.	CSR 3 – 2017 "Improve the targeting of active labour market policies and the integration between employment and social services for disadvantaged groups."

mentoring after start of work. **Expected in 2018:** Introduction of family labour consultant for vulnerable groups.		**2017:** Creation of additional centres for employment and social affairs.	
Public administration and business environment			
Insolvency framework			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	November 2016: New law on supervising financial auditing companies. The objective of the new law is to create a stable and independent legal basis for supervision and control over the financial auditor's activities and to send out a clear message to international investors. **December 2016:** Amendment to the Commercial Act, introducing a procedure for restructuring of a merchant. This procedure entered into force on 1st of July 2017. **December 2016:** Amendment to the Pledge registry.	**June 2017:** Three trainings of judges on the new restructuring procedure were organised.	CSR 2 – 2017 "[…] accelerating the reform of the insolvency framework […]"