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

Table of contents

Executive summary

The 2019 Specific Monitoring Report for Bulgaria reviews policy initiatives that are relevant for the correction of macroeconomic imbalances identified in the 2019 in-depth review. In 2019, Bulgaria was found to be experiencing imbalances related to vulnerabilities in the financial sector coupled with high indebtedness and non-performing loans in the corporate sector. This report reviews the latest developments and policy initiatives undertaken by the authorities relevant for the correction of the imbalances identified in the in-depth review published in the 2019 country report and targeted by the second 2019 country-specific recommendation for Bulgaria. The cut-off date of this report is 11 November 2019.

The economic environment has been favourable. Real GDP grew by 3.1 % in 2018 and is set to grow by an estimated 3.6 % in 2019 and by around 3% in the next two years. Domestic demand has been and is expected to remain the main growth driver, while the contribution of exports has been diminishing. The unemployment rate has fallen to historic lows and is expected to drop further, albeit marginally. Building on past progress, the authorities have made further efforts to tackle weaknesses in the financial sector. Non-performing loans (NPLs) ratio remains comparatively high, in particular for loans of domestic banks to the corporate sector, although it has been steadily decreasing. The private sector deleveraging continues, facilitated by the strong economic growth, despite the positive credit flows.

Several important new regulatory guidelines have been introduced in the banking sector, coupled with follow-up on already adopted acts. In 2019, the Bulgarian National Bank (BNB) adopted a number of European Banking Authority (EBA) guidelines on banks' internal governance rules and the management of non-performing and forborne exposures. Work on banks’ resolution plans has advanced and internal rules and procedures introduced in July 2018, including new reporting requirements for related parties, shall undergo a review and possible fine-tuning. The increase by the Bulgarian National Bank of a counter-cyclical capital buffer (CCyB) rate from zero to 0.5% and its forthcoming further increase to 1% from April 2020 are welcome initiatives. The ECB conducted a comprehensive assessment – comprising an asset quality review (AQR) and a stress test – of six banks. According to the results, published in July 2019, four faced no capital shortfalls. The two banks with shortfalls, First Investment Bank and Investbank, were required to develop and implement by April 2020 plans to strengthen their balance sheets and credit portfolios.

The regulatory and supervisory framework in the non-banking financial sector has improved and important market inefficiencies have been addressed but some challenges still await a long-term solution. Primary legislation amendments strengthened supervision and changes to two ordinances tackled valuation issues. Nevertheless, the adequacy of technical provisions, the proper valuation of non-listed assets and the effectiveness of governance in the insurance sector remain to be fully addressed. Risk-based supervision manuals in the insurance and pension insurance sectors entered into force as of beginning of 2019. The government plans to introduce a bonus-malus system and to adopt a methodology for compensation of victims of car accidents by December 2019. However, the Bulgarian Green Card Bureau is still under monitoring and the sectoral reinsurance cover is yet to be underwritten. Group-level supervision might become an issue for one particular insurance group.

The insolvency framework reform has been advancing. The government adopted a roadmap for improving the insolvency framework on 19 June 2019, following a comprehensive assessment. The full implementation of the roadmap as well as continued capacity building will be crucial to secure a positive outcome of the reform.

In sum, further policy measures were introduced to address the identified imbalances, while tackling some outstanding issues is still underway. Reforms in banking and non-banking supervision continued, including through the adoption and implementation of manuals and rules based on best practices. Existing gaps in the insolvency framework were identified and future steps were outlined. The authorities' firm commitment to completing all measures prior to Bulgaria's application to ERM II provides further impetus to reforms in important economic areas. Positive effects from the new policies, their follow-up and possible improvement and fine-tuning are expected and welcome. Issues with specific undertakings in the banking and insurance sectors are to be addressed, while long-term solutions are needed for motor vehicles insurance.

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

On track	Wait-and-see	Action wanted
• Adopted EBA guidelines on the management of non-performing and forborne exposures. • Adopted EBA guidelines on banks' internal governance rules. • Precisions to the supervisory review and assessment manual. • Amendment to the FSC Act to strengthen supervision. • Amendment to Social Insurance Code concerning related parties. • Amendments to ordinance 53 on valuation of assets and liabilities and technical reserves of insurers, reinsurers and the Guarantee Fund. • Amendments to ordinance 9 on valuation of the assets and liabilities of the pension funds and pension insurers. • The government plans to introduce a bonus-malus system by December 2019. • The government plans to adopt a methodology for compensation of victims of car accidents by December 2019.	• Finalising banks' resolution plans. • Planned amendments adjusting the definition of default. • Preparations for MREL. • Revisiting the impact of adopted regulations and business practices of banks. • Implementation of follow-up measures from the 2019 ECB Comprehensive Assessment. • The risk-based supervision guidelines, in force in 1 January 2019, may be revised reflecting past experience. • Notwithstanding progress with the valuation of assets and liabilities of insurance undertakings, some weaknesses in valuation practices remain. • Group-level supervision may become an issue for one insurance group. • Following the adoption of the insolvency roadmap on 19 June 2019, legislative amendments are forthcoming and capacity-building activities are ongoing.	• The Bulgarian Green Card Bureau is still under monitoring and the sectoral reinsurance cover is yet to be underwritten.

[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.

1 Introduction

On 21 November 2018, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its eight Alert Mechanism Report. It identified Bulgaria as requiring an in-depth investigation into the evolution of its macroeconomic imbalances. The in-depth review, published on 27 February 2019 as part of the 2019 Country Report[2], examined the nature, origin and severity of macroeconomic imbalances and risks in Bulgaria. In its Communication published the same day[3], the Commission concluded that Bulgaria is experiencing macroeconomic imbalances. In particular, the Commission emphasised vulnerabilities linked to the financial sector coupled with high indebtedness and non-performing loans in the corporate sector.

On 24 April 2019, Bulgaria submitted its Convergence Programme[4] and National Reform Programme (NRP)[5], respectively outlining the fiscal strategy and policy measures undertaken or planned to improve its economic performance and to unwind imbalances. Based on an assessment of these programmes, the Commission proposed four country-specific recommendations (CSRs)[6], which were subsequently adopted by the Council on 9 July 2019[7]. The CSRs relevant in the context of the MIP related to ensuring the stability of the banking sector and the non-banking financial sector, anti-money laundering framework, implementing the roadmap on the insolvency framework.

The Commission conducted a specific monitoring mission within the framework of the MIP to Bulgaria on 21-23 October 2019. Also based on the findings of the mission, the present report assesses the latest key policy initiatives[8] undertaken by Bulgaria[9].

2 Outlook and recent developments on imbalances

Recent economic developments and outlook

Economic growth in Bulgaria remained strong in 2018 and the first half of 2019. In parallel with continued labour market improvement, favourable financing conditions and growth prospects, domestic demand became the main growth driver. Exports underperformed in 2018 mainly due to temporary factors and became more volatile in the course of 2019, registering a decline of 3% in the second quarter, as external demand slowed down. Following a strong performance in the first half of the year, real GDP growth is expected to reach 3.6 % in 2019. Looking ahead, economic growth is set to remain close to 3 % in 2020 and 2021, a more moderate rate of expansion compared to the one envisaged in the 2019 in-depth review. Domestic demand is expected to lose some growth momentum, but remain the main growth driver. In the next two years, investment is expected to grow at a moderate pace, against the backdrop of elevated economic uncertainty abroad and somewhat worsened growth prospects. Following a small negative growth in 2019, exports are projected to regain modest growth rates ahead, in line with foreign demand developments. The negative NIIP is

[2] https://ec.europa.eu/info/sites/info/files/2019-european-semester-country-report-bulgaria_en.pdf
[3] https://ec.europa.eu/transparency/regdoc/rep/1/2019/EN/COM-2019-150-F1-EN-MAIN-PART-1.PDF
[4] https://ec.europa.eu/info/sites/info/files/2019-european-semester-convergence-programme-bulgaria_en.pdf
[5] https://ec.europa.eu/info/sites/info/files/2019-european-semester-national-reform-programme-bulgaria_en.pdf
[6] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019DC0502&from=EN
[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019H0905(02)&from=EN
[8] Details on the policy measures can be found in the overview table in the Annex.
[9] For previous MIP Specific Monitoring Reports, see: https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-performance-country/bulgaria/macroeconomic-surveillance-bulgaria_en

on a very rapidly decreasing path. It reached -36.2 % of GDP in 2018 (down from -44.2% in 2017). The structure of net external liabilities is favourable, as it comprises mostly FDI equity. The stock of reserve assets is large, exceeding net external debt liabilities, and provides stability to the currency board arrangement. Fiscal performance was strong for the third consecutive year, with a positive budget balance and low debt. The positive budgetary position and the fiscal buffers built in recent years have created space for new policy initiatives.

Financial sector

The banking sector strengthened its capital and liquidity ratios, supported by economic growth. The system-wide CET 1 ratio on consolidated basis[10] was 18.5 % at the end of 2019 Q2 and funding was comfortable, with the loan-to-deposit ratio at 77.4 %. Total assets in June 2019 were 8.1 % up on one year earlier. Banks' profitability slightly improved in 2018 and remained at a high level. The favourable trend continued in 2019 and return on equity reached 12.1 % for Q2 2019. The overall ratio of non-performing loans is still well above the EU average and remains the fifth-highest in the EU, despite a further decline to 6.9 % at the end of 2019 Q2. On aggregate, non-performing loans by non-financial corporations dropped further in the second quarter of this year, but remain high at 11.1% of total loans to NFCs. NPL ratios for loans to corporations in domestically-owned banks stood even higher at 19.4%, with a coverage ratio at 38%.

Credit activity strengthened further, with growth rates of respectively 7.7 % for non-financial corporations and 10.1 % for households in September 2019 (y-o-y). This could support higher private investment and stronger potential growth. Driven by the positive economic environment and higher incomes, mortgage loans grew very strongly, by 14.2 % (y-o-y) in September. Should asset prices increase and credit growth rise persistently above fundamentals, this would lead to the accumulation of cyclical risks associated with deteriorated debt servicing capacity of borrowers or hikes in lending rates.

House prices continued to rise, albeit at a slower pace and in line with fundamentals[11]. House prices grew by 5% y-o-y in Q2 2019. The largest rises have been in Plovdiv (9%), while in the capital, Sofia, prices increased by 5.9%. Mortgage credit picked up strongly, while building permits declined in Q3 2019 after a period of buoyant growth, warranting close attention to future developments.

Corporate debt and deleveraging

The private sector continues to deleverage despite the positive credit flows. The consolidated private sector debt decreased from 99% of GDP in 2017 to 95% in 2018. The gradual alleviation of debt burden benefits from the strong economic growth. The majority of debt liabilities continues to be on the books of non-financial corporations. Their indebtedness declined from 76.4% of GDP in 2017 to 72% in 2018. Households' stock of debt grew more rapidly due to intensified mortgage lending, but still remains among the lowest in the EU.

[10] The data source for the banking system is the ECB Consolidated Banking data (CBD) as of Q2 2019.

[11] The deviation of house prices from fundamentals is computed as an average of the price/income, price/rent and fundamental model valuation gaps. For more details on the methodology, see Philiponnet & Turrini (2017), https://ec.europa.eu/info/sites/info/files/dp048_en.pdf

3 Policy implementation and assessment

3.1 Banking sector

Several important new regulatory guidelines have been introduced, with ongoing follow-up action on already adopted acts in several areas. In 2019, the BNB adopted a number of EBA guidelines, e.g. regarding banks' internal governance rules[12] and the management of non-performing and forborne exposures[13]. The BNB has already communicated to the banks general supervisory expectations regarding the implementation of the EBA Guidelines for the management of non-performing and restructured exposures, which entered into force on 30 June 2019. Individual compliance will be assessed during the forthcoming Supervisory Review and Evaluation Process (SREP) cycle. As regards previously adopted acts, BNB Ordinance 37 on the internal exposures of banks, from July 2018, defined the scope of banks' internal rules and procedures, and rules for calculating exposures to related parties and reporting requirements to the supervisor. Banks were requested to implement their internal rules and procedures within a six-month period. Follow-up steps encompass the evaluation of the effectiveness of the amended framework and reporting requirements for related parties, including further fine-tuning of the framework and the reporting forms. Continuous follow-up and assessment of banks' implementation of the adopted regulatory acts will remain key.

Further progress is expected in the coming months in several important areas. The application of the definition of default[14] and the alignment of its definition with the Single Supervisory Mechanism (SSM) approach would necessitate amendments to BNB Regulation 7 on banks' risk management process. Work on resolution plans has advanced, in particular regarding the analysis of critical functions, feasibility and credibility of insolvency proceedings and public interest test and the identification of preferred strategy and resolution tools. For the local banks that are subsidiaries of EU parent undertakings and are included in the group resolution plans, the 2018 resolution planning cycle has almost been closed. There are already signed joint decisions on two group resolution plans, two are pending for decision by the end of November 2019, one is planned by the group resolution authority for beginning of 2020 (in total 5 group resolution plans for 7 subsidiaries). For the rest of the banks formal resolution plans are being prepared in several waves until early 2020, based on banks' total assets and strategy. While not yet binding, the minimum requirement for own funds and eligible liabilities (MREL) is calculated and communicated to all banks in order to assist their preparation and future business decisions. The SREP manual adopted by the BNB in 2018 is being applied, whereby some further clarifications to banks would be warranted.

Non-performing loans (NPLs) remain high, but have been steadily decreasing and the secondary market has become more dynamic. The NPL ratio has been on a downward trend across individual banks and segments, declining to 6.9 % at the end of 2019 Q2 (from 9.2 % a year earlier), but remains the fifth-highest in the EU (well above the EU average of just below 3 %).[15] The quality of assets remains rather heterogeneous across institutions, depending on their business model and practices.[16] Non-performing loans by non-financial

[12] BNB Ordinance 10 on the Organisation, Governance and Internal Control in Banks of 24 April 2019.
[13] EBA/GL/2018/06.
[14] EBA/GL/2016/07, which was notified to EBA in March 2017 and will be enforced from 1 January 2021.
[15] According to ECB Consolidated Banking data.
[16] For example, the published detailed results from the 2019 ECB Comprehensive assessment for six banks in Bulgaria entailed NPL ratios ranging from 3.5 % for UniCredit Bulbank to 21.9 % for Investbank (https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/index.en.html?skey=ECB%20concludes%20comprehensive%20assessment%20of%20six%20Bulgarian%20banks).

corporations (NFCs) also decreased, but still stood at 11.1 % of total loans to NFC's in 2019 Q2 (as compared with 15.4 % a year earlier) and were even higher for domestically-owned banks (19.4%). The current stock represents mainly the legacy of the credit boom prior to the 2009 recession. Increased lending activity with reduced new stock contributed to the NPL decline, amidst favourable cyclical and low interest rate conditions. This development has been supported also by a more dynamic secondary market for NPLs, notably for retail loans, with some improvement in the NFC segment as well. Ample liquidity is generating demand for NPL portfolios and collateral sales and large international companies have entered the market.

As of the beginning of 2019, the application of the International Financial Reporting Standard (IFRS 9) led to changes in the banks' loan-loss provisioning model and capital ratios. The existing credit risk framework was enhanced with models for exposure at default and loss given default, estimation of present value of the expected credit losses and taking into account the predefined macroeconomic scenarios. The transition to IFRS 9 resulted in a limited initial CET1 ratio reduction at the aggregate level, as some banks decided to apply the standard gradually. At the same time, the IFRS 9 implementation coincides with a cyclical upturn which could result in the underestimation of the risk from future unfavourable economic developments.

The implementation of a counter-cyclical capital buffer (CCyB) methodology and the increases of the buffer rate are welcome initiatives. In September 2018, the BNB decided to set the CCyB at 0.5 % as of October 2019. According to several subsequent BNB decisions, the CCyB will increase to 1 % in April 2020. The value of the reference indicator (deviation of the credit-to-GDP ratio from the long-term trend) would have corresponded to maintaining the buffer at zero but the decision to introduce positive value of CCyB constituted an important signalling tool. The rationale behind the measure is to avoid periods of excessive credit growth that are frequently associated with the gradual accumulation of cyclical risks, which could materialise as borrowers' debt servicing capacity declines in an economic downturn and/or an increase in lending rates. In addition to the existing capital-based measures, recourse to the recently introduced macroprudential tools for borrower-based measures may offer additional policy options.

Bulgaria requested to enter into close cooperation with the ECB. In July 2018, Bulgaria announced its intention to apply for ERMII membership in 2019. At the same time, Bulgaria announced a set of commitments to improve the economy's resilience in areas of high relevance for a smooth transition for ERM II participation[17]. In this context, Bulgaria formally notified its intention to establish close cooperation with the Single Supervisory Mechanism on 18 July 2018. The ECB conducted a comprehensive assessment – comprising of an asset quality review (AQR) and stress tests – of six banks in Bulgaria. According to the results published on 26 July 2019[18], based on end-2018 data, four of the six banks faced no capital shortfalls.[19] Capital needs on the basis of the maximum shortfalls in the various components of the exercise amounted to EUR 262.9 million for First Investment Bank (FIB) and EUR 51.8 million for Investbank.[20] The two banks with shortfalls are required to

[17] See https://www.minfin.bg/upload/37885/letter-by-bulgaria-on-erm-ii-participation.pdf.

[18] https://www.bankingsupervision.europa.eu/press/pr/date/2019/html/ssm.pr190726~1b474e3467.en.html.

[19] Any need for further strengthening of capital positions was identified using the same threshold ratios that had been applied in previous exercises: a Common Equity Tier 1 (CET1) ratio of 8% for the AQR and the stress test's baseline scenario, and a CET1 ratio of 5.5% for the stress test's adverse scenario.

[20] Starting from an initial CET1 ratio at 15.7%, First Investment Bank fell below the 8% CET1 ratio threshold for both the AQR and the stress test's baseline scenario, as well as below the 5.5% CET1 ratio threshold used in

implement their capital plans by April 2020. The balance sheets of FIB and Investbank were reviewed in the context of the AQR/stress test conducted by the BNB in 2016, whereby their capital adequacy ratios fell significantly after balance sheet corrections, but remained above regulatory levels.[21]

Overall, important steps have been taken to strengthen the resilience of the banking system, including the application of several EBA guidelines for credit institutions and the increase in the counter-cyclical capital buffer. Still, some follow-up actions to the 2019 ECB Comprehensive Assessment are expected, together with regularly revisiting the impact of recently adopted regulation on banks and their business practices and in taking stock of how it unfolds over time.

3.2 Non-banking financial sector

The legal and regulatory framework has improved. The government amended the Financial Supervision Commission Act and the Social Insurance Code aiming to increase the FSC's independence, decision-making process and effectiveness, as well as the framework applicable to the pension funds including in terms of the definition of related parties. Moreover, the FSC adopted important amendments to two ordinances in the field of insurance and pension insurance: Ordinance 53 on the requirements for accountability, valuation of assets and liabilities and formation of technical reserves of insurers, reinsurers and the Guarantee Fund and Ordinance 9 laying down detailed rules for valuation of the assets and liabilities of the supplementary pension funds and the pension insurance company. The FSC is monitoring implementation of these ordinances which it considers appropriate so far.

Supervision has been enhanced in several respects, but some weaknesses remain. The risk-based supervision manuals in the insurance and pension insurance sectors became applicable as of 1 January 2019. The new rules may be reviewed in 2020 based on experience and new data available. Further enhancements to the new approach may be necessary to reap the full benefits of the measure. Notwithstanding the progress achieved, there are still weaknesses concerning the adequacy of technical provisions, appropriateness of the valuation of non-listed assets and effectiveness of the system of governance in the insurance sector. Further supervisory measures by the FSC will be necessary to fully address these issues.

Group-level supervision might become an issue for one particular insurance group, depending on the outcome of its ongoing restructuring process. The FSC, the European Insurance and Occupational Pensions Authority (EIOPA) and a particular insurance group have tried for some time to find an agreement on the kind of group-level supervision that should apply to that entity. This group is now undergoing restructuring, since it is in the process of acquiring a significant company active outside the non-banking sector. When this process is completed, a new procedure of identification of the group will start, which can result in the group being identified either as an insurance holding company (which involves full group supervision) or a mixed-activity insurance holding company (which involves a more limited supervision).

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the stress test's adverse scenario. While Investbank faced no capital shortfalls for the AQR, it fell below both the 8% CET1 ratio threshold used in the stress test's baseline scenario and the 5.5% CET1 ratio threshold used in the stress test's adverse scenario.

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

Motor third-party liability deserves attention. MTPL represents a high share in the portfolio of Bulgarian insurers. Its profitability had remained insufficient for a long time due to strong price competition in the sector. After insurance premia increased substantially in 2018 the financial results of the MTPL line of business have strengthened. The solvency of some players relies on the validity of the assumptions underlying the valuation of their assets and liabilities. The impact of the introduction of a bonus-malus system, the adoption of a methodology for compensations of victims of car accidents and the situation of the Bulgarian Green Card Bureau will need to be monitored.

The government plans to introduce a bonus-malus system by December 2019. The FSC has proposed a draft of the bonus-malus system that should soon undergo public consultation. It builds upon the feedback received during the discussions of the previous version in 2018 and aims at both efficiency and practicality. Reducing car accidents and improving road safety is the ultimate desired outcome of the measure. A close monitoring of the system since inception will be necessary to identify and address swiftly any potential shortcomings.

The government plans to adopt a methodology for compensation of victims of car accidents by December 2019. The heterogeneous court practices on defining compensation of victims of car accidents and their families present challenges to non-life insurers who need consistency and stability to be able to correctly estimate their technical provisions and determine their premiums. After the National Assembly imposed temporary ceilings on the amounts of compensation in November 2018, a working party was established and drafted a methodology to serve as guidance by judges when assessing the amounts of damages. The current version, which should soon undergo public consultation, borrows some elements from the Spanish and French systems of quantification of damages but is customised to accommodate Bulgarian specificities.

The Bulgarian Green Card Bureau is still under monitoring and the sectoral reinsurance cover is yet to be underwritten. One Bulgarian insurer has not been paying the correspondents/claims-handling entities in time for cross-border MTPL claims, potentially creating pressure over the financial stability of the Bulgarian Green Card system. Furthermore, in December 2018, the international Council of Bureaux fined the Bulgarian Green Card Bureau and put it under monitoring.One of the requirements of the Council in order to keep the Bulgarian Bureau in its system was that the sector signs a sector-wide re-insurance contract by April 2019. No reinsurance cover is in place yet and the Bulgarian Green Card Bureau is awaiting a decision by the competition authority before proceeding with the underwriting the contract, the details of which still need to be worked out.

The non-bank financial regulatory and supervisory environment has improved in several respects, also in line with Bulgaria's commitments prior to ERM II application. Amendments to ordinances concerning valuation rules have been adopted. More are expected to follow by the end of the year. Still, some questions in the insurance sector remain regarding the adequacy of technical provisions, the proper valuation of assets and the effectiveness of governance. There are also persistent issues with the Bulgarian Green Card Bureau that need to be resolved.

3.3 Insolvency framework

Since 2018, the Bulgarian authorities have been working in close collaboration with the Commission's Structural Reform Support Service (SRSS) on the reform of the

insolvency framework. The aim was to identify the existing gaps in the insolvency framework and to prepare a roadmap listing the steps that will address these gaps.[22] The measure is also part of the commitments that Bulgarian authorities announced in view of their intention to apply for ERM II accession. The government adopted the insolvency framework roadmap on 19 June 2019 and established a dedicated steering body, the so-called 'Coordinating Council', which will be in charge of the overall management and coordination of the roadmap's implementation.

The implementation of the insolvency framework roadmap has already started. The Ministry of Justice has set up an interagency working group to draft the necessary legislative amendments by the end of June 2020. This group will have a wide stakeholder participation with representatives of the government, the judiciary, law professionals and the academia. In addition, the Ministry of Justice has requested technical assistance from the SRSS for the establishment of an early warning tool to detect a deteriorating business situation and ensure restructuring in companies, as envisaged in the roadmap. The process for conducting the technical feasibility assessment of the Commercial registry is also underway, which is a step towards tackling issues with publicity and access to information. The roadmap will also facilitate the transposition of Directive 2019/1023 on Restructuring and Discharge of Debt, for which the transposition period of two years started **to run on 16 July 2019**.

In addition to the legislative changes, a number of capacity building activities have been envisaged in the roadmap. A session dedicated to training of insolvency trainers took place in July 2019 and six more pilot trainings are to be finalized by December. The authorities have clarified that the outcomes of these trainings will be taken into account when preparing the future education programs and materials. Additionally, the regular training of Insolvency Practitioners, provided by the Ministry of Justice on a yearly basis, will take place in early December. The National Institute of Justice will also continue to provide training according to their curriculum.

Overall, the insolvency framework reform is progressing. However, a proper implementation of the roadmap as well as continued capacity building are crucial to secure a positive outcome of the reform.

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[22] For more details, see the 2018 Specific Monitoring Report for Bulgaria: https://ec.europa.eu/info/sites/info/files/economy-finance/bg_sm_report_december_2018.pdf

4 Annex 1: Overview table 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 2019-2020: Precisions to the supervisory review and assessment manual. **Expected in 2019-2020:** Planned amendments to BNB Regulation 7 on banks' risk management process, in order to adjust the application of default definition. **Expected in 2020:** Finalising banks' resolution plans. **Expected in December 2019:** Introduction of a bonus-malus system. **Expected in December 2019:** Adoption of a methodology for compensation of victims of car accidents.	**April 2019:** Adoption of the EBA guidelines on banks' internal governance rules (BNB Ordinance 10 on the Organisation, Governance and Internal Control in Banks). **April 2019:** Amendment of BNB Ordinance 7 on the Organisation and Risk Management of Banks. **May 2019:** Adoption of the EBA guidelines for credit institutions on how to effectively manage non-performing exposures and forborne exposures.	**2018 and early 2019**: The risk-based supervision manuals in the insurance and pension insurance sectors became applicable as of 1 January 2019. **November 2018**: Entry into force of the amendments to the Social Insurance Code including a new related-parties definition **November 2018**: Entry into force of amendments to FSC Ordinance 9 on the valuation of the assets and liabilities of the pension funds. **End 2018:** Adoption of amendments to FSC Ordinance 53 on the requirements for accountability, valuation of assets and liabilities and formation of technical reserves of insurers, reinsurers and the Guarantee Fund	CSR (2) – 2019 " Ensure the stability of the banking sector by reinforcing supervision, promoting adequate valuation of assets, including bank collateral and promoting a functioning secondary market for non-performing loans. …. Strengthen the non-banking financial sector by effectively enforcing risk-based supervision, the recently adopted valuation guidelines and group-level supervision. …Foster the stability of the car insurance sector, by addressing market challenges and remaining structural weaknesses."
Public administration and business environment			
Insolvency framework			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Expected end of 2019: Completion of all pilot trainings in the context of the SRSS insolvency framework project.	**June 2019:** The government adopted the insolvency framework roadmap and has started to work on its implementation.	**July and October 2019:** Training of trainers was finalized in July and two pilot trainings took place in October.	CSR 2 - 2019: "… Implement the forthcoming roadmap tackling the gaps identified in the insolvency framework."

Expected end of 2020: Updated draft legislative proposals for the insolvency framework reform to be approved by the Council of the Ministers.			