

Dimitar Radev: Crisis management framework in Bulgaria

Summary of statement by Mr Dimitar Radev, Governor of the Bulgarian National Bank, at the annual meeting of governors and other central bank representatives from the countries of the Dutch-Belgian constituency of the IMF, organised by the National Bank of Belgium, Brussels, 24 February 2017.

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The closure of the fourth largest bank in Bulgaria in 2014 put to the test the country's financial stability. This incident revealed, among other things, serious limitations in our crisis management arrangements in the banking area and, more specifically, the lack of a proper institutional framework to deal with resolution of systemically important banks.

Our policy response to the 2014 crisis was incorporated in an 18-month plan adopted in mid-2015, defining concrete actions in three priority areas:

- ♦ An independent assessment of: (1) the banks in Bulgaria (through an AQR and stress tests that were completed in 2016), and (2) our crisis management framework (through a still ongoing financial sector assessment, FSAP, by the International Monetary Fund and the World Bank);
- ♦ A comprehensive reform of the Central Bank's banking supervision and regulation framework and practices, based on the Basel Core Principles (BCP);
- ♦ Introducing the BNB's new bank resolution functions compliant with the European Bank Recovery and Resolution Directive (BRRD).

The implementation of the plan helped build sound foundations for our crisis management framework. Its main elements now include:

- ♦ The Financial Stability Advisory Council (FSAC): a consultative body comprising the minister of finance, the governor of the Central Bank, and the chairman of the Financial Supervision Commission;
- ♦ The Central Bank as the designated resolution authority for banks; the resolution function of the BNB is outlined in the Law on Recovery and Resolution of Credit Institutions and Investment Firms, adopted in mid-2015, which transposed the BRRD in the Bulgarian legislation;
- ♦ A mechanism to fund resolution measures by the newly established Bank Resolution Fund (BRF) which is funded by contributions from the banks; the target level of the resources collected in the BRF is 2% of the amount of covered deposits of all banks licensed in Bulgaria and must be achieved by end-2024;
- ♦ A comprehensive resolution toolkit directly transposed from the BRRD comprising: (1) the resolution tools (sale of business; bridge institution, asset separation, and bail-in), and (2) the government stabilization tools (public equity support and temporary public ownership).

Progress has been already made in operationalizing the crisis management framework in Bulgaria. The key actions so far include:

- ♦ Regular meetings of the FSAC to assist in developing common policies, better coordination and exchange of information with a view to maintaining stability and further developing the financial markets;
- ♦ Launching a new department within the Central Bank with operational tasks and responsibilities in the area of bank resolution;
- ♦ Collection of the first contributions from the banks into the BRF, which will amount to nearly

BGN 300 million, including the upcoming 2017 installments;

- ♦ Approving the resolution plans for the foreign subsidiaries belonging to banking groups operating in Bulgaria.

We have already planned the next steps, which will further build on recent progress. Our efforts are focused on the following groups of measures:

- ♦ Expanding the FSAC mandate, including for better coordination of agencies' contingency planning in response to situations threatening financial stability;
- ♦ Creating capacity for the practical application of resolution tools, more specifically the sale of business, the bridge institution and the bail-in tools, if needed;
- ♦ Prioritising the resolution planning for domestic systemically important banks; this process is presently underway but their resolution plans are not yet adopted;
- ♦ Addressing financial and legal restrictions on liquidity support by the central bank, taking into consideration both the existing currency board regime and the EU state-aid rules and procedures for public support to banks.

We plan to apply the above measures along with further strengthening banking supervision, reducing bank nonperforming loans (NPLs), and further developing the overall financial sector safety net. To this end, we are in the process of preparing:

- ♦ An action plan for further banking supervision reforms with a focus on developing supervisory rules and procedures and the relevant IT infrastructure to improve compliance with the BCP;
- ♦ A strategy for reduction of NPLs, including the use of macroprudential supervisory review tools to promote sound bank practices for loan loss provisioning (following the IFRS but also specifying certain supervisory expectations), NPL write-downs, and collateral valuation;
- ♦ A joint BNB-MoF strategy for liquidity assistance to solvent banks facing liquidity pressure, that would ensure compliance with the Central Bank requirements for the highest quality of collateral.

After the problems in 2014, all key elements of the crisis management framework are available now in Bulgaria. This framework is built on sound foundations and is fully consistent with the most recent EU legislation in the credit institution resolution area. In spite of the progress achieved, much remains to be done, mainly for the practical preparations for the implementation, if necessary, of the new rules and procedures. Hence, our immediate efforts are aimed at making arrangements and developing solutions that would be valid and efficient in the medium and long term.