TWINNING NEWSLETTER

Quarterly newsletter of the EU Twinning Project “Strengthening of the National Bank of Belarus”.

TWINNING: MISSION POSSIBLE

– Of all the Twinning projects completed since the introduction of this initiative in 1998, how many have you personally helped to implement? What were the unique and distinguishing features of these projects compared to others?

– Since the beginning of its engagement in Twinning projects in 2004 the Bundesbank has implemented 8 of these EU funded projects for partner central banks. I personally have acted as project leader in two of these – one for the Central Bank of Serbia and the other for the Central Bank of Bosnia and Herzegovina. In 2017, a call for proposals was announced for a project with the National Bank of the Republic of Belarus. Together with Narodowy Bank Polski and Lietuvos Bankas we submitted our bid as a sign of our commitment to strengthen the central bank community and, in particular, to support the European Neighbourhood Policy.

Our project with the National Bank of Belarus is the second largest ever and includes six components. The earlier (and smaller) projects focused mainly on one particular area such as Human Resources issues.

The MS project leader from the DeutscheBundesbank - the senior partner in the project consortium - is Martin Dinkelborg, Director of the Centre for International Central Bank Dialogue who looks back on more than 30 years of central bank experience.

After graduating from the Bundesbank’s University of Applied Sciences in 1991, Martin Dinkelborg joined the Human Resources Department at the Bundesbank’s largest regional office in Düsseldorf and became its Deputy Director in 1999. In 2003 he moved in his new capacity as Deputy Director of the Centre for Technical Central Bank Cooperation to the Bundesbank’s Central Office in Frankfurt. From 1 February 2018 he took over the new position of the Director of the Centre for International Central Bank Dialogue which comprises the former Centre for Technical Central Bank Cooperation and the two representative offices of the Bundesbank in New York and Tokyo as well as the network of financial attachés based at the German diplomatic missions abroad.

Martin Dinkelborg is married and has two children.
– How were the partners for the project selected?

– Cooperating with our partners from Poland and Lithuania suggested itself as they are the closest neighbouring countries to Belarus. Together with our colleagues from Poland, we had already implemented a similar project for the benefit of the National Bank of Ukraine a couple of years ago. We knew that our colleagues from the National Bank of Belarus were also interested in a similar project.

– Based on the progress made so far in the project with the National Bank of Belarus, which of its six components are similar, and which are the most different to the practices of the other central banks?

– Five out of the six components correspond to the core business areas of any central bank. The only component that is somewhat different from a traditional European perspective is financial consumer protection, especially with regard to the financial ombudsman. To develop the agenda for the study visit on this topic for officials from the National Bank of Belarus, we had to involve a large number of experts from outside the Deutsche Bundesbank. Some central banks, however, cover the function of financial ombudsman as part of their mandate. But there is a great deal of variation even between those that do so.

– Have there been any occasions in the course of the project that have required direct intervention on your behalf?

– Overall, I would compare our collaboration to a flower, seeded three years ago and now in full bloom. The most important thing was to get the project off to a good start – to foster the growth of the seeds – or ideas – that we had planted in the beginning, so to speak. We took the first steps by writing the project proposal, putting together a good team – thanks to which we were selected – and making sure that the office of the Resident Twinning Adviser (RTA) was running smoothly. These substantial initial efforts have made the flower grow and blossom, but that doesn’t mean it won’t need more water or sunlight at some point. That being said, we are all one team, and I have not yet encountered an occasion which could not be resolved through joint efforts.

– In general, how satisfied are you with the progress of the project so far?

– I am very satisfied. I would say that we are now entering the final stage in the project. The great amount of work completed to date is a reason for great optimism and confidence in our ability to complete the project successfully.

– You coordinate Bundesbank’s central bank cooperation activities worldwide since 15 years. Have you noticed large differences between countries?

– Over the years I have come to the conclusion that all central banks around the world are more or less part of one big family. Peer-to-peer contacts and the facilitation of such contacts remain very important aspects even for working in a digitalised world.

Central banks have many things in common, regardless of country or culture. This is something that I discover anew every time we welcome staff members of central banks from different countries representing a wide variety of mind-sets and cultures. However, nowhere outside the world of central banking I have encountered such strong similarities in the common understanding of our mission.

Let’s do everything we can to keep the central bank family together. Projects like this provide Belarusians with opportunities to become acquainted with the western part of Europe and enable many of us to become better acquainted with Belarus. In the long run, this is extremely life-enhancing for all of us.
COMPONENT 1. PAYMENT SYSTEMS

Result: Establishment of a revised legal and regulatory framework for payment systems in Belarus.

The draft law «On Payment Services and Payment Systems» is complete, and has been reviewed by the relevant agencies. The finalised version of the draft law incorporates the recommendations made during the expert forum. The comments and suggestions made during inter-agency approval process have been responded to, and the draft has been submitted to the Council of Ministers, a body with the power of legal initiative.

The Directorate of the Payment System and Digital Technology of NBRB has prepared the outline of the Annual Supervision Report of the Belarusian payment system, and a regulation governing the involvement of the relevant structural divisions of NBRB in the Report's preparation.

At present, work is in progress on the third activity of the component – enhancing the macro-prudential policy toolkit. As a part of this work, STEs are expected to provide recommendations on improving the existing, and developing new macro-prudential tools, following a review of the relevant best international practices.

In the fourth quarter of 2018, a report was submitted to the Board of National Bank outlining recommendations towards the strengthening of financial stability surveillance. The document focused on the methodology of macro-prudential analysis, ways of using more fully and efficiently the relevant qualitative information – including survey data from the enterprises, households and financial market participants, use of statistical data at the micro-level, development of a comprehensive set of indicators, and improvement of the early warning system.

The main focus of the STE mission conducted within the component on October 23-25, 2018 was on finalising the Supervisory Review and Evaluation Process (SREP) methodology in light of the SREP's piloting in five selected banks. The debate continued on developing approaches to formation of the early warning system, including the application of the early warning system indicators. The document that implemented the SREP methodology was approved by the Board of the National Bank on 27 December 2018.

COMPONENT 2. FINANCIAL STABILITY

Result: The NBRB will have enhanced capacity to effectively monitor risks, take mitigating action and manage systemic problems that nonetheless occur, so as to maintain financial stability.

In November 2018 the reports on the institutional and legal framework for financial stability in Belarus and on strengthening the system for financial sector stability surveillance were presented to the Board of the National Bank of Belarus. The Report was presented by the Short term experts from the Bank of Lithuania’s Financial Stability Department, and the head of the Financial Stability Department of the National Bank of Belarus. The EU short-term experts outlined the key recommendations, while their NBRB counterpart proposed the arrangements for their implementation. The proposals and recommendations concerning the monitoring of risks to financial stability and reduction of systemic threats received broad support from the Board of the National Bank.

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In turn, the Financial Stability Department and their EU counterparts have finalised the outlined of the internal handbook on improving the framework for financial stability surveillance. Work is under way on preparing the first draft of the handbook.

COMPONENT 3. BANKING SUPERVISION

Result: Enhancement of the NBRB’s capacity to supervise banks’ internal capital & liquidity assessments (ICAAP and ILAAP), conduct off-site surveillance and compare bank prudential reports with those resulting from the application of International Financial Reporting Standards (IFRS).

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**COMPONENT 4.**
**FINANCIAL RISK MANAGEMENT**

*Result:* The introduction and full implementation of a revised system for managing the NBRB's overall financial risk, which incorporates best international practice.

On 2-5 October 2018 the three-day STE Mission combined with the second workshop on financial risk management took place to the National Bank under the Financial Risk Management component of the Twinning Project. Discussion during the meetings focused on recommendations on improving the financial risk management system framework at the National Bank of Belarus as well as on the draft Action Plan. STEs presented their assessment of the current status of the financial risk management at the NBRB and identified areas of further development. Draft recommendations were discussed in details and Belarusian experts explained some organizational and market determinants of current/planned financial risk management framework and particular solutions. Building on the outcomes of the discussion, the Polish STEs prepared and shared with their Belarusian counterparts in December 2018 a final version of the Recommendations.

Besides, the Action Plan on further development of the Financial Risk Management Framework at NBRB was drafted during the meetings. The scope and layout of the Action Plan was agreed and the priority tasks together with their milestones were determined.

**FINANCIAL RISK MANAGEMENT COMPONENT 4.**

The recommendations and the action plan will be presented to the NBRB Board in due course.

During the workshop STEs from the National Bank of Austria and National Bank of Romania shared the experience of their institutions in financial risk management focusing on decision making process, market and credit risk measures, reporting system, IT systems supporting risk monitoring and management, techniques to mitigate risk connected with monetary policy operations and emergency liquidity assistance.

**COMPONENT 5.**
**FINANCIAL CONSUMER PROTECTION**

*Result:* The legal and practical arrangements for the Financial Ombudsman are revised as necessary to reflect lessons from Twinning Partner(s) experience with its Financial Ombudsman.

As a part of Component 5, the National Bank hosted in October 2018 a series of two workshops titled «Financial Consumer Protection: EU Best Practices and their Relevance to Belarus». Participants in the seminars included representatives of the relevant government agencies, members of the bank community, Belarusian association of insurers, and the Belarusian Society for Consumer Rights Protection. During the workshops, the STEs from Germany, Poland and Lithuania shared the experience of their respective EU member states in providing financial consumer protection, including through alternative dispute resolution. Through the seminars, the participants developed a shared understanding of the need for further strengthening of the financial consumer protection system with the view to enhancing public trust in the banking system and strengthening financial stability.

**FINANCIAL CONSUMER PROTECTION COMPONENT 5.**

**COMPONENT 6.**
**COMMUNICATION POLICY**

*Result:* A new Communication Policy (CP) designed with and implemented by the NBRB to help it in pursuing its core mission - to deliver price stability, financial stability, and robust efficient payment systems - which includes a new system for assessing performance of the communications department. The CP will also enable key Twinning information to be conveyed effectively to relevant stakeholders.

Under Component 6 of the Twinning project, a draft Communication Policy of the National Bank has been finalised and shared with the short-term experts of the Twinning Project. In the STEs’ judgement, the final draft was a comprehensive and well-structured document and much better focused on the core aspects of Central Bank Communication. The STEs also acknowledged that the new Communication Policy incorporates most of their comments.

The communication policy was approved by the Board of the National Bank on 19 December 2018 and published at the official web site of the National Bank on December 2018.