

## Standard Project Fiche

### 1. Basic Information

**1.1 CRIS Number: 2005/017-353.08.07**

**1.2 Title: Adjustment of the Bulgarian National Bank to operate as a full-fledged member of the European System of Central Banks and the Eurosystem**

1.3 Sector: Finance

1.4 Location: Sofia, Bulgaria

1.5 Duration: 21 months

### 2. Objectives

2.1 Overall Objective(s):

To prepare the Bulgarian National Bank to carry out effectively its functions as a National Central Bank participating in the European System of Central Banks and the Eurosystem.

2.2 Project purpose:

Establishment of modern operational systems necessary for proper functioning of the BNB as a full-fledged member of the ESCB and the Eurosystem (accounting and reporting systems, payment system, system for monitoring of portfolio capital movements, risk management system, etc.).

2.3 Accession Partnership (AP) and NPAA priority (and implementing measures envisaged by the Action Plan for AP priorities related to strengthening administrative and judicial capacity)

One of the Economic criteria of the Accession Partnership of 2003 requires that: "the high degree of macroeconomic stability achieved over recent years should be maintained".

Another Economic criterion is: "Developing financial intermediation and the non-banking financial sector".

In the area of free provision of services the priority is to "fully align legislation on financial services with the acquis, including with the new directives or regulations adopted as part of the financial services action plan. Pursue the strengthening and independence of the financial supervisory bodies"

In the area of free movement of capital it is necessary to "develop programmes in financial institutions against money laundering" and to "take further steps to complete alignment of legislation on payment systems".

2.4 Contribution to National Development Plan (and/or Structural Funds Development Plan/SDP)

Not Applicable

## 2.5 Cross Border Impact

Not Applicable

### 3. Description

#### 3.1 Background and justification:

According to the Law on the BNB (adopted on June 10, 1997, last amended State Gazette, issue 10 of 2005), the Bulgarian National Bank is the central bank of the Republic of Bulgaria. Its primary objective is to maintain price stability through ensuring the stability of the national currency and implementing monetary policy as provided for by the Law. The Bank also assists in establishing and functioning of efficient payment systems and oversees them. The BNB regulates and supervises other banks' activities in Bulgaria for the purpose of ensuring stability of the banking system and protecting depositors' interests.

The future membership of the BNB in the EU central banking community is a big challenge, which affects the bank's regulatory and supervisory function, the conduct of monetary policy, the handling of a substantial volume of information between the BNB and the European Central Bank (ECB), the development of the payment system and accounting system and, respectively, the bank's structural development which should implement a smooth and stable transition to the EMU. The ongoing process of adopting and implementing the *acquis* triggers the need for reinforcing the administrative capacity and enhancing the skills and competencies of the human resources. In order to be prepared for its full-fledged membership in the ESCB and the Eurosystem the BNB has drawn up a "Strategy for the development of the BNB" which was adopted by the BNB Governing Council on September 9, 2004. The Strategy lays down the BNB's medium-term objectives and tasks, as well as the measures necessary for attaining them. The full-fledged membership in the ESCB requires that the BNB should identify and eliminate the existing deficiencies that would impede its smooth functioning first as a member of the ESCB and later as a part of the Eurosystem. To this end the Strategy addresses the following areas which are of crucial importance for the good functioning of a central bank:

- banking supervision
- preparation for the future BNB activities related to monetary operations
- formulation of a Communication Policy
- payment system
- accounting system
- balance of payments statistics
- internal audit
- human resources management
- cash operations
- financial markets

It has to be noted that the BNB has made a substantial progress in terms of strengthening its capacity to implement the EU *acquis* in the above mentioned areas.

A lot has been achieved through the expertise provided within EU PHARE 2001 Twinning Project which helped the BNB to be fully prepared to meet its obligations ensuing from the observer status at the ESCB. Now it is a priority for the Central Bank to continue to put efforts that will ensure effective functioning of the BNB first as a full-fledged member of the ESCB and then as a National Central Bank member of the Eurosystem. Taking into account that most of the BNB commitments will arise as of the date of accession to the Eurosystem, the BNB Strategy focuses mainly on the activities that will enable the Bank to meet these commitments at an early stage which will contribute to the smooth transition to the Eurosystem.

However, such timely preparations necessitate additional assistance so that the BNB is ready to fulfill its obligations and meet the challenges lying ahead. At present, no further assistance for the BNB or the banking sector provided by the EU has been planned following the completion of EU PHARE 2001 twinning project.

In the area of banking supervision within the BNB has been established and is operating an efficient structure. However, the BNB banking supervision needs assistance for improving the banking legislation in order to achieve full harmonisation with the Basle II Capital Accord and the related recast EU Directive 2000/12/EC. In fact, one of the recommendations given by the 2004 EC Peer Review highlights that: “CAD I and II (EU directives) should be fully implemented, with special regard to the calculation of market risk. The BNB should particularly take into account the recent developments in the practices of measurement, monitoring, management and control of market risks (internal models) and the supervisory approaches pertaining to this issue, to the extent that they are relevant to the Bulgarian banks and to the *acquis communautaire*. ...Preparations to implement the Basle II requirements effectively and in a timely manner should be given due priority. Enhanced professional skills could be necessary”. In order to implement these recommendations the BNB repealed the existing Regulation No.8 and adopted new Regulation No.8 which transposed the requirements of the CAD I and CAD II Directives. Now the BNB should focus on the implementation of the recast EU Directive 2000/12/EC which is expected to be adopted in the first half of 2005 and to enter into force as of the beginning of the 2007. Consequently the assistance provided within this Project will supplement the BNB’s own efforts to transpose the requirements of the Directive and to effectively implement it while meeting the deadline pertaining to the MS NCBs.

A high priority for the BNB is the preparation for participation in formulating and implementation of a single monetary policy after attaining Eurozone membership. The Republic of Bulgaria maintains Currency Board Arrangement (CBA) whose rules restrict the conventional monetary policy instruments and their scope. Therefore monetary policy functions have been out of practice and it would take a long time to get them back in operation. Normally, the process takes up to six years. For this reason it is very important for the BNB employees who will be responsible for the future monetary policy activities of the bank as a national central bank in the Eurosystem to receive assistance for improvement of their theoretical knowledge and practical skills as early as possible.

Moreover, the BNB has to increase its potential for analyses and projections of the processes and trends in the development of the national economy, assessing the influence of the external environment and economic policy, including the common EU economic policy. At present, the BNB is not ready to meet the ESCB requirements in terms of regular analyses and projections the BNB has to submit to

the ECB following membership in the ESCB. Currently projected macroeconomic indicators as GDP growth, inflation, balance of payments, monetary aggregates should be prepared with a greater quality and precision. Thus, after becoming a member of the Eurosystem, the BNB will be able to meet its obligation to submit to the ECB regular forecasts for price indexes, deflators, GDP by real terms, labor market statistics projections, etc. For this reason, assistance for increasing the BNB capacity in the area of Research is needed.

The period ahead will also be very demanding in terms of communication because of the challenges the BNB is facing and tackling these challenges. Therefore, the preparation of the BNB Communication Strategy is a topical issue. The BNB mission is to increase the public awareness of the ECB related requirements, such as: adoption of euro, independence of the central bank, participation in the ERM II and the Eurozone and their impact on the Bulgarian economy and general public.

On the other hand, following membership in the ESCB the BNB will be responsible to translate and convey the ECB decisions to the domestic markets and the national public. Communication of ESCB decisions is very important, as it aids the Eurosystem to be transparent and to satisfy the need to effectively explain policy decisions.

To achieve these aims the BNB will need assistance to prepare its Communication strategy and develop a set of communication policy instruments, appropriate for the BNB communication activities. In addition, increased administrative capacity of the translation center and the communication policy unit at the BNB will be needed in order to develop the necessary skills to communicate ESCB decisions to the national public and markets.

In the area of payment system, the main objective of the Bulgarian National Bank is reducing systemic risk and creating necessary conditions for integration of the national payment system in the Euro area.

By design and settlement process organization Bulgarian RTGS system named RINGS (Real time Interbank Gross Settlement System) conforms with the internationally recognized and adopted standards. In order to meet its oversight duties in the field of payment and securities settlement systems, the BNB established an oversight division. The legal framework was last amended with the commissioning of RINGS, and new initiatives to improve it are currently under way. One of these initiatives is the new Law on the non cash payments, payment systems and electronic payment instruments which will be soon passed by the National Assembly.

Upon entry into the EMU, participation in TARGET 2 will become mandatory. The BNB will have the status of a direct participant in TARGET 2. It must be directly addressable in TARGET 2 in order to receive payments from other participants and it must be able to submit payments on its own behalf and on behalf of its customers to TARGET 2. All Central banks in the euro area will participate in the Single Shared Platform (SSP) offered by TARGET 2. SSP is seen as a technical vehicle for the Central banks in order to provide an improved more-harmonized and cost-efficient payment service to their users. All participating Central banks will maintain fully responsible for the business relations vis-à-vis their domestic banks (all contacts and provision of any kind of support to its customers). Taking into account the above stated role of each participating Central bank in TARGET 2, the Bulgarian National Bank needs assistance to fulfill several tasks such as: developing technical and organizational policies and means for participation in TARGET2; achieving

harmonization with the EU legal framework in the payment and settlement systems field; bringing the European practice, know-how and experience to the Bulgarian banking and financial community; enhancing the expertise and qualifications of staff, working in the domain of payments systems within the BNB

The future membership in the ESCB implies certain changes in the BNB accounting framework. At present, according to article 46 of the Law on the BNB the Bulgarian National Bank keeps accounts and records in compliance with the Law on Accountancy and in connection with International Financial Reporting Standards.

In order to achieve compliance with the ECB accounting guidelines, the BNB has to adopt the ESCB format for the annual balance sheet and P&L.

The BNB's obligation to draw up financial statements compliant with the accounting guideline will not occur **before the entry in the Eurozone**. However, for transparency and comparability reasons, the BNB has decided to adopt the ESCB accounting framework for its annual accounts at an early stage. For this purpose, assistance is needed for drafting and adoption of the revised accounting regulations and training the BNB staff on the ECB reporting requirements. The ultimate objective is to have BNB ready to apply the requirements of the ECB guideline of 5 December 2002 (ECB 2002/10) as of the date of the adoption of euro.

Another important task of the BNB is bringing Balance of Payments statistics in line with the EU standards and ECB requirements. According to Article 42 of the BNB Law, the central bank is responsible for compiling balance of payments of the country. Balance of payments is compiled in accordance with the basic principles of the V-th IMF BOP Manual and with the Guideline of the ECB. The BNB has started to design a settlement based system that will allow the bank to meet better the international and domestic users' requirements. This system, along with direct reporting for selected BOP items, are to be one of the two major sources for balance of payments, external debt and international investment position compilation.

The free capital movements in Bulgaria have to be accompanied by an efficient system for monitoring the different capital flows, including portfolio flows. Capital flows, including portfolio flows, play a very important role in each emerging economy, including one with the Currency board, by reallocating foreign savings into the domestic economy and therefore by increasing the liabilities of the economy to the rest of the world.

For this reason, and in order to meet the ECB requirements at the end of PHARE 2001 Twinning Project the French twinning partners recommended the BNB to set up a security-by-security data base. The creation of such database also has become an important issue taking into account the developments in the domestic security market. This database will enable the BNB to submit to the ECB the following data: (i) monthly and quarterly flow data on portfolio investment, assets and liabilities by instruments and geographical breakdown; (ii) quarterly and annual data by sectors and by stocks for compilation of the international investment position. The first data related to the fourth quarter of 2007 should be submitted at the end of March 2008; (iii) data on securities by instruments and by currency which have to be submitted two times a year. This information is necessary for analysis of the international role of the euro as an investment currency.

In the area of Internal Audit a Framework for implementation of Risk Management System within the BNB was elaborated and approved by the BNB Governing Council.

Now, the Internal Audit of the BNB is facing a topical issue common for many EU central banks - the implementation of Risk Management System. Currently, the ECB is setting up such a system. The mapping of the risks will provide a general view of all the risks faced by the Bank and will help in the process of setting priorities and timely control measures, as well as decreasing the level of incidents. By 2008 most of the central banks will have in place a wide-ranging formal and integrated approach focused on all inherent risks for the Bank. The experience of Central Banks in Europe indicates that the implementation of a risk management system is a process requiring significant effort and time for the development of the necessary structures and procedures. Therefore, we believe that in order for the BNB to have such a system in place before the membership in the Eurozone the process of its implementation should start in 2006 at the latest.

One of the main tasks of the BNB is currency circulation management. Until the accession to the euro area the BNB is the only issuing institution on the territory of the Republic of Bulgaria. The bank organizes, controls and reports banknote and coin production. Currently the Cash operations Directorate is operating fragmented, partially automated systems designed by local experts. BNB experts maintain the system. The systems do not allow an automatic collection of statistics and analytical information, suitable for analysis and decision making. For this purpose, assistance is needed for developing Automated System for monitoring and control of all cash operations.

Strengthening the BNB capacity in the area of financial markets monitoring and harmonization with the ESCB practices are of vital importance for the smooth accession to the ESCB. The objective is twofold. First, this will ensure forwarding of adequate information on the Bulgarian segment of European financial markets to the ECB for the purposes of decision-making, including the necessary analytical inputs and assessments. Second, this will enable the BNB to participate adequately in ESCB decision-making and to implement the ESCB monetary policy on the Bulgarian territory following Bulgaria's membership in the Eurozone.

All activities undertaken by the Bulgarian National Bank related to the preparation for participation in the ESCB take into account the importance of improving the effectiveness of human resource management. Human resource management is a complex and responsible activity involving a lot of risks - some of them known and others - insufficiently studied. Risk analysis and finding ways and mechanisms to analyze and minimize risks is the ultimate facet in the personnel management system. Its development is an important phase in establishing the BNB as a modern European central bank. For this reason, assistance for the elaboration of a System for Risk Control in Human Resource Management would be invaluable.

The new project will support the BNB's own efforts aimed at achieving compliance with the ECB/ESCB standards and requirements and the best practices applied by the National Central Banks within the ESCB in the above mentioned areas. Thus, the new project will also contribute to maintaining a sound banking system in Bulgaria which is of fundamental importance for the financial stability - a precondition without which both Bulgaria's accession to the EU and the BNB integration into the ESCB would be impossible.

### 3.2 Sectoral rationale

*Not Applicable*

### 3.2.1 Identification of projects

*Not Applicable*

### 3.2.2 Sequencing

*Not applicable:*

## 3.3 Results

### 3.3.1 Project 1

Adjustment of the Bulgarian National Bank to operate as a full-fledged member of the European System of Central Banks and the Eurosystem

#### 3.3.1.1 Purpose

Establishment of modern operational systems necessary for proper functioning of the BNB as a full-fledged member of the ESCB and the Eurosystem (accounting and reporting systems, payment system, system for monitoring of portfolio capital movements, risk management system, etc.).

#### 3.3.1.2 Results:

The overall immediate objective which has to be achieved by the project's completion date is development and implementation of efficient tools allowing the BNB to enforce the acquis to the same standards as the current MS Central Banks. The project shall have one component with the following key results in each of its subcomponents:

#### **Component I: The administrative capacity of the BNB with regard to the participation in the ESCB further improved**

- **Sub-component 1** “Banking Supervision”
  - Methodology for assessment and management of credit risk in compliance with Basle II Capital Accord and the recast EU Directive 2000/12/EC developed;
- **Sub-component 2:** Research and preparation for monetary policy operations in line with the ECB best practices
  - A functional macroeconomic model available; Improved analytical skills of the Economic Research and Projections Directorate staff;
  - BNB staff prepared to conduct monetary policy operations within the ESCB.
- **Sub-component 3:** Communication Policy related to the membership in the ESCB formulated
  - Communication Strategy prepared. An efficient translation service organised at the BNB, related to the communication of Eurosystem decisions.

- **Sub-component 4: Payment System**
  - Compliance of legal framework with the EU standards in the area of payment and settlements system achieved;
  - Methodology for risk assessment in payment and securities settlement system implemented and used by the BNB experts;
  - BNB and participants in the payment system acquainted with the requirements of the new payment organisation.
- **Sub-component 5: Compliance of accounting and reporting system with the ECB guidelines**
  - Accounting and Reporting System capable of producing and sending daily to the ECB an accurate Daily turnover and balance report on a timely basis at the beginning of 2008.
  - BNB staff trained and capable of applying ECB accounting guidelines by the end of the project.
- **Sub-component 6: Balance of Payments Statistics**
  - Improved System for monitoring of portfolio capital movements.
- **Sub-component 7: Risk Management System compliant with the ECB requirements**
  - Risk Management system implemented;
  - Risk register and Risk map in the pilot project areas developed.
- **Sub-component 8: Improved system for Risk Control in Human Resources Management in line with the best practices in EU Central Banks**
  - System for Risk Control in the human resources management implemented.
- **Sub-component 9: Improved system for monitoring of all types of cash operations in compliance with the ECB requirements**
  - Automated System for monitoring and control of all cash operations developed; Platform upgraded and the system for monitoring and control of all cash operations integrated;
- **Sub-component 10: Harmonisation of financial markets monitoring with the ESCB practices**
  - Unified approach to financial markets;
  - Appropriate indicators selected to serve the market stability purpose under current and under future circumstances.

### 3.4 Activities (including Means)

The following activities will be carried out within each sub-component in order to achieve the results targeted:

#### **Component I: Further improvement of the administrative capacity of the BNB with regard to the participation in the ESCB**

- **Sub-component 1 “Banking Supervision”**



- Activity 1.1 – Preparing the BNB staff for supervisory validation of banks’ internal models for credit risk;
- Activity 1.2 – Selecting a supervisory approach for reviewing banks’ internal policies and procedures with respect to Basle II;
- Activity 1.3 - Developing of a reporting system (set of reporting forms) for assessing the capital adequacy according to the recast ER Directive 2000/12/EC (CADIII).
- **Sub-component 2** “Research and preparation for monetary policy operations in line with the ECB best practices”
  - Activity 2.1 - Assessment of the existing model and recommendations for its improvement through an external evaluation;
  - Activity 2.2 - Identification of feasible approaches and directions for extending the model;
  - Activity 2.3 - Staff training in economic modelling and model calibration techniques;
  - Activity 2.4 - Instruction in ECB practices and requirements related to forecasting;
  - Activity 2.5 - Model design and specification of the main transmission mechanisms among the different modules;
  - Activity 2.6 - Model estimation and calibration;
  - Activity 2.7: Consistency checks and performance evaluation;
  - Activity 2.8: Description and documentation of the model;
  - Activity 2.9 - Training programmes elaborated and implemented for strengthening the human resources capacity in the area of monetary policy operations.
- **Sub-component 3** “Coordination of activities and Communication Policy related to the membership in the ESCB”
  - Activity 3.1 – Exchange of experience on the most appropriate communication practices;
  - Activity 3.2 – Development of communication policy instruments (mass media, information materials, public relation activities, etc.);
  - Activity 3.3 – Elaboration of a Strategy for Communication of ECB decisions;
  - Activity 3.4 – Establishment of an information exchange mechanism between the ECB and the BNB.
- **Sub-component 4** “Payment System”
  - Activity 4.1 – Consultations for drafting Terms of Reference for hardware platforms, software and communication equipment for participation in the SSP of TARGET 2;
  - Activity 4.2 – Consultations for drafting Terms of Reference for hardware platforms, software and communication equipment for conducting

business relations with the domestic banks, exchange of information and provision of support for domestic banks and ancillary systems;

- Activity 4.3 – Drafting and implementing the new rules for payment systems in compliance with the ECB requirements;
- Activity 4.4 – Training in order to enhance staff expertise and qualification with respect to the new payment system requirements and organisation.
- **Sub-component 5** “Development of Accounting and Reporting System compliant with the ECB guidelines”
  - Activity 5.1 – Adjusting internal rules and procedures to produce BNB financial statements in compliance with ECB accounting guidelines;
  - Activity 5.2 – Adjusting the sub-system for accounting and reflecting in the BNB’s balance sheet the operations related to foreign exchange reserves management;
  - Activity 5.3 – Training the staff of Accounting Directorate on the ECB requirements for daily turnover and balance reports.
- **Sub-component 6** “Balance of Payments Statistics”
  - Activity 6.1 – Assessment of the existing system and mapping out the measures for its improvement;
  - Activity 6.2 – Design of a methodology for improvement of the System for monitoring of portfolio capital movements;
  - Activity 6.3 – IT development of the project.
- **Sub-component 7** “Development of Risk Management System compliant with the ECB requirements”
  - Activity 7.1 – Development of RM Policy;
  - Activity 7.2 – Definition of acceptable levels of risk;
  - Activity 7.3 – Definition of all business areas to implement the RM system; Definition of business areas to implement the pilot project on RM;
  - Activity 7.4 – Development of job descriptions for the personnel involved in the RM process; Development of RM documentation;
  - Activity 7.5 – Development of RM procedures;
  - Activity 7.6 – Consultations for drafting Terms of Reference for RM software;
  - Activity 7.7 – Description of the business processes;
  - Activity 7.8 – Identifying and defining the levels of risk in the pilot project areas.
- **Sub-component 8** “Improving the system for Risk Control in Human Resources Management in line with the best practices in EU Central Banks”
  - Activity 8.1 – Defining and listing the main risks in the area of Human Resources Management (HRM);

- Activity 8.2 - Elaboration of procedures for risk control and analysis in HRM;
- Activity 8.3 – Drafting and developing a System for Risk Control in HRM.
- **Sub-component 9** “Improving the system for monitoring of all types of cash operations; in compliance with the ECB requirements”
  - Activity 9.1 – Assessment of the current status of the automated System for monitoring and control of all cash operations;
  - Activity 9.2 – Drafting a policy proposal to be presented to the BNB Governing Council;
  - Activity 9.3 – Consultations for preparation of ToR for selection of equipment;
  - Activity 9.4 – Training of the staff.
- **Sub-component 10** “Harmonisation of financial markets monitoring with the ESCB practices”
  - Activity 10.1 – Forecasting of interbank market developments, and crises signaling and prevention (under current and future circumstances);
  - Activity 10.2 – Elaboration of rules and procedures for monitoring of interbank market liquidity;
  - Activity 10.3 – Construction of the general framework of markets and parameters monitored;
  - Activity 10.4 – Input for the financial markets monitoring component in the elaboration of the ESCB accession strategy;
  - Activity 10.5 – Improvement of the organisational and functional structure of the Financial markets division and selection of the information and co-operation channels with other units within the directorate and within the bank;
  - Activity 10.6 – Organisation of the internal flow of information within the division and the mechanism of drawing conclusions from the intersection of factors originating from different financial markets;
  - Activity 10.7 – Formatting of informational and analytical reports

### 3.5 Linked Activities:

The BNB and the Bulgarian banking sector have received technical assistance from the IMF, the European Commission and USAID.

With the assistance of the **European Commission** (PHARE program) the following projects for the banking sector have been implemented:

- **BG-9102** "Financial Sector Development in Bulgaria" – the project was implemented during 1993-1996. Beneficiaries of the assistance were commercial banks and the Association of Commercial Banks in Bulgaria, the International Banking Institute and the BNB. The main components referred to development of the International Banking Institute, restructuring and development of the State Savings Bank, diagnostic and financial audits of commercial banks, a study and a round table on the problems of the capital markets in Bulgaria, Information

system for the creditworthiness of borrowers, establishment of Early Warning System within the Banking Supervision Department of the BNB and human resources management.

- **BG-9306** "Technical assistance for consolidated banks" the project was implemented in 1996-1998 as a continuation of the first project through two twinning arrangements (Agreement for long-term co-operation with Commercial Bank "Biochim" and Agreement for long-term co-operation with United Bulgarian Bank) and through training programs.
- Technical assistance through the Phare-supported Structural Adjustment and Reform Assistance (SARA) Program. The project under SARA was implemented in 1997-1999 and was focused on the Banking Supervision Department.
- **BG 0101.01** "Strengthening the Institutional Capacity of the Central Bank" – This project ended in September 2004. The project was focused on the identification of the options for improvement of the organisation and operations of the BNB, assistance for harmonisation of banking legislation with the EU acquis and increasing the staff qualification in certain areas covered by the Project.

The new Project will build mainly upon the recommendations given within the frame of the PHARE 2001 twinning project through which the shortcoming for joining of the BNB and the Bulgarian banking community to the EU financial system were identified and the BNB has been prepared for its observer status in the ESCB. In addition, the activities undertaken within the new Project will ensure sustainability of the results achieved in in the course of PHARE 2001 twinning project.

Assistance provided by the **IMF** was focused on:

- closure of insolvent banks, strengthening of banking supervision, strengthening the operations of the BNB
- preparation for the CBA
- foreign exchange reserves management, information technologies, cash processing, organisation and management, payment systems

**USAID** has been providing technical assistance to the BNB Banking Supervision Department since October 1997, focusing on:

- development of a risk-based on-site examination approach to the supervision of commercial banks, implementation of CAEL methods established on the risk based off-site supervision and UBPR for banks.
- Drafting written procedures for inspections in banks and financial institutions and consultations covering the techniques and criteria for identification of clients and deals in the area of combating money laundering.

The first project ended in May 2004 followed by a new Financial Sector Integrity Project (FSIP) which is to start in January 2005. The primary aim of the Project is to continue to strengthen the Bulgarian financial sector institutions in managing the new risks associated with a very competitive economic environment. Assistance will be directed toward several activities in working with financial regulatory agencies, (primarily the Bulgarian National Bank (BNB), Deposit Insurance Fund (DIF), and the Financial Supervision Commission (FSC)), the International Banking Institute (IBI), supervised financial entities and various private sectors organizations such as financial/economic research and financial trade group organizations.

Although the received technical assistance has played an important role in improving the performance of the BNB and the stability of the banking and financial sector, the BNB needs extensive assistance for completing the preparation for its future membership in the ESCB.

On the other hand, the proposed project will be a logical continuation of the current Twinning project, thus filling the gap in the BNB administrative capacity building, arising between the completion of the current Twinning and the BNB accession to the ESCB.

### 3.6 Lessons learned:

The experience gained by the BNB from the technical assistance received so far lays the foundation for designing the new Project. Within the 2001 Twinning Project the BNB achieved much more than initially expected, owing to our institution's will to develop and to the efforts of our partners from the French and Dutch central banks. The Project reached its targets set under its eleven components. Even more, our joint work with the colleagues from Banque de France and De Nederlandsche Bank led to results that cannot be planned in advance, but which are an integral part of any well planned and implemented joint project.

In the first place is building partnership relations between BNB and Banque de France and De Nederlandsche Bank.

Second, we have established professional and personal contacts with our colleagues from Banque de France and De Nederlandsche Bank. These contacts form the foundations to build on our future cooperation within the European system of Central Banks and the Eurosystem.

The work under the Twinning Project with two Eurosystem central banks allowed the BNB to diagnose better the current status of the institution and its level of preparedness to operate within the European System of Central Banks and the Eurosystem. This experience helped us clearly define the challenges to be faced by the BNB in the accession process. Based on this experience and with the assistance of our colleagues from Banque de France, the BNB Governing Council prepared a "Strategy for the Development of the Bulgarian National Bank for 2004 – 2009". This document describes the changes that have to be made during this period for the future integration of the BNB into the European System of Central Banks and the Eurosystem.

The Strategy for the Development of the BNB provided the BNB's management the possibility to plan the institution's medium-term development and to estimate the required investments, which need to be made in human resources, the infrastructure and technologies, and the amendments to the regulatory framework. This Strategy enabled us to draw an in-depth "Roadmap" of the necessary actions and the deadlines for their implementation, so that our Central Bank could successfully integrate into and operate within the ESCB and the Eurosystem.

The positive outcomes of the Twinning Project are the result of the continuous efforts of its participants from the three central banks

In order to benefit to the maximum extent from this new Project the BNB realizes the necessity to carefully define in advance its objective and the precise scope of the areas to be covered. The order of individual task accomplishments and the choice of measures to carry them out result both from the necessity of meeting the formal

requirements imposed on the BNB (e.g. technical readiness for membership in the ESCB) as well as from the pace of adjustment to selected standards in other institutions. The BNB is fully aware that it is not sufficient only to achieve the results targeted at the end of the project, but has to ensure the sustainability in the long run. To this end the BNB is committed to build upon the results to be achieved thus contributing to its smooth integration in the ESCB. The BNB took into account when drafting this Project Fiche that the success of the project depends on the maximum involvement of the staff at each stage of project implementation.

Our strong commitment is to put all the efforts needed in order to complete the new Project successfully and ensure the results' sustainability.

#### **4. Institutional Framework**

The project will be implemented entirely within the BNB, which is located in Sofia and its regional branches in Bulgaria. The BNB is the central bank of the Republic of Bulgaria. The BNB is a fully independent entity and reports its activities to the National Assembly. Three basic departments are established at the BNB: Issue Department, Banking Department and Banking Supervision Department. The main function of the Issue Department is to maintain full foreign exchange cover for the total amount of the monetary liabilities of the BNB and to manage the Bank's international foreign exchange assets. The cash turnover of Bulgarian currency and cash management also lie in the scope of responsibility of the Issue Department. The Banking Department is responsible for the development of the payment instruments and payment system, for monitoring the financial markets and for the systemic stability of the banking system. The Banking Supervision Department supervises and regulates the whole activities of the commercial banks in Bulgaria. The BNB regulates non-banking financial institutions for their foreign exchange activities. The BNB through its Fiscal Services Department, which is within the Banking Department, acts as an agent for public debts and for debts guaranteed by the State. The BNB is the official depository of the State. The BNB organises and executes the cash performance of the State budget.

The project will be implemented under the supervision of the Project Steering Committee (PSC). The PSC shall consist at least of following members:

- The BNB Deputy Governor in charge of the Banking Department;
- The BNB Deputy Governor in charge of the Issue Department;
- The Director of "International relations and EU Integration";
- The Directors of the relevant BNB Directorates responsible for the implementation of the Project;
- The Member State Project Leader and Pre-Accession Adviser;
- The leading MS experts responsible for the implementation of the Project;
- A representative of the Delegation of the European Commission to Bulgaria, with observer status;

- A representative of the National Aid Coordinator with observer status.
- A representative of the Sectoral Coordinator as an observer.

A representative of the CFCU can be invited if necessary.

The PSC will be established after selection of the Twinning Partner and will meet at least once every Quarter during project implementation. The Steering Committee shall ensure the proper development and coherence of the project implementation.

The PSC shall facilitate the effective implementation of the Project through:

- Strategic policy guidance and project direction against the project objectives;
- Advise and recommendations to the responsible parties to reach conclusions/make decisions on issues related to the project implementation
- Validation of the methodology, the planning and the time schedule of the project;
- Validation of the general co-ordination procedure;
- giving its opinion on the experts proposals;
- Analyzing and commenting on the different documents elaborated by the experts.

During the meetings of the Steering Committee the quarterly report for the previous quarter shall be discussed and finalized.

The “International Relations and EU Integration” Directorate at the BNB will act as a Project Implementation Unit for the project. The staff of the Directorate will be responsible for day-to-day management and co-ordination of all activities related to the project and for the preparation of monitoring reports. The staff of the Directorate will report directly to the BNB Governor on the implementation of the individual components and sub-components of the project.

The Director of the International Relations and EU Integration Directorate will be the Bulgarian Project Leader. She will administer the proper implementation of the project and will be responsible for monitoring the project progress under the different components and sub-components, the achievement of the agreed benchmarks, approval of project outputs/results. The Bulgarian PL will authorise the expenditures of the budget and ensure that the resources required to deliver successfully the project results are provided. The BC Project Leader will chair the meeting of the Steering Committee.

## 5. Detailed Budget

	Phare/Pre-Accession	Co-financing			Total Cost
€M	Instrument support	National Public Funds (*)	Other Sources (**)	Total Co-financing of Project	
<b>Year 2005 - Investment support jointly co funded</b>					
Sub-project 1					
Sub-project 2, etc...					
<b>Investment support – sub-total</b>	N/A	N/A	N/A	N/A	N/A
<b>% of total public funds</b>	<b>max 75 %</b>	<b>min 25 %</b>			

In case of parallel co-funding (per exception to the normal rule), see the following special condition: **No parallel co-financing**

<b>Year 2005 Institution Building support</b>					
Twinning project	0.700				0.700
<b>IB support</b>	<b>0.700</b>				0.700
<b>Total project 2005</b>	<b>0.700</b>				0.700

(\*) contributions from National, Regional, Local, Municipal authorities, FIs loans to public entities, funds from public enterprises

(\*\*) private funds, FIs loans to private entities

National Co-financing up to 10% of the amount of the Twinning Contract will be provided by the State budget through “National Fund” Directorate at the Ministry of Finance.

## 6. Implementation Arrangements

### 6.1 Implementing Agency

The Implementing Agency will be the Central Finance and Contracts Unit (CFCU) in the Ministry of Finance, which will handle tendering, contracting, payments and financial reporting.

#### Contact details:

Mr. Vladimir Valchev

CFCU Director

102, Rakovski str., 1040 Sofia, Bulgaria

Tel.: +359 2 9859 2772, 359 2 9859 2777

Fax: +359 2 9859 2773

E-mail: [cfcu@minfin.bg](mailto:cfcu@minfin.bg)



The PAO for the project will be Mr. Tencho Popov, Secretary General, Ministry of Finance,

Contact details:

Sofia 1040,

102 Rakovski Str.

Tel: +359 2 9859 2013

Fax: + 359 2 987 3929

E-mail: [T.Popov@minfin.bg](mailto:T.Popov@minfin.bg)

## 6.2 Twinning

The project will be delivered through twinning. The entire technical assistance will be received by the Bulgarian National Bank. The Twinning partners will be responsible for delivering all results envisioned in the project. The BNB expects the Twinning Partner to be one or more EU central banks. The leading partner should ideally be a central bank from a Member State participating in the eurozone. The BNB could also benefit from the experience of the central banks of EU Member States which have not yet adopted the Euro, as well as from the European Central Bank.

We expect one Resident Twinning Advisor (RTA) to work on a full-time basis at the BNB during the first year of the Project. The RTA should have:

- Master degree in banking and finance or equivalent degree in Law
- Professional experience in central banking - middle or senior position in EC central bank
- Good knowledge of European and International central issues and knowledge in ECB standards
- Good knowledge of EU laws and regulations in the field of central banking
- Experience in management of international PHARE financed projects
- Good interpersonal and communications skills as well as good command of English
- Capability to work in team and to acknowledge the professional level of the co-partner

The main responsibility of the RTA will be coordination of all activities within the project components and facilitation of the relationship between the institutions involved in the project (the BNB and the Twinning Partner).

The RTA should be identified and agreed before the twinning contract is prepared and he/she should participate fully in the drafting of the Twinning Contract.

The Twinning Partner's experts should be well aware of the current trends in the central banking activities and be familiar with the changes in the EU Member States' central banks. The Twinning Partner's experts should be employees of the twinning central banks or could be from other Member States central banks. The experts should possess expertise in central banking, banking legislation, payment systems and payment instruments, banking supervision, cash management, IT systems, and human resource development.

The contact person for the project is:  
Mrs. Daniela Bobeva  
Director International Relations and EU Integration Directorate  
Bulgarian National Bank  
Sofia 1000  
1 Alexander Battenberg Sq.  
Tel: +359 2 9145 1290  
Fax: + 359 2 980 2425, or + 359 2 9145 1363  
E-mail: [Bobeva.D@bnbank.org](mailto:Bobeva.D@bnbank.org)

### 6.3 Non-standard aspects

Practical Guide to contract procedures financed from the EC general budget in the context of external actions will be strictly followed.

### 6.4 Contracts

There will be one Twinning Contract at the amount of 0.700 MEUR.

## 7. Implementation Schedule

### 7.1 Start of tendering/call for proposals

Third Quarter of 2005

### 7.2 Start of project activity

Second Quarter of 2006

### 7.3 Project completion

First Quarter of 2008

## 8. Equal Opportunity

*Men and women will have an equal opportunity to participate in the project's implementation.*

## 9. Environment

The project has no environmental impact.

## 10. Rates of return

Not Applicable

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## **11. Investment criteria** (applicable to all investments)

### **11.1 Catalytic effect**

While it is expected that the harmonization with the EU legislation in the area of banking will be completed in due time, the Bulgarian National Bank will be actively working on the implementation of the ambitious adjustment programme. The basic objective of the BNB within the integration process is to ensure the stability and integrity of the overall financial system and to adjust it to the requirements binding in the European System of Central Banks. It is envisaged that the process of integration will proceed in three stages: pre-membership, EU membership, and entering the EMU. The BNB is going to play an active role in each of these stages, through measures taken within the BNB as well as external activity.

### **11.2 Co-financing**

National Co-financing up to 10% of the amount of the Twinning Contract will be provided by the State budget through “National Fund” Directorate at the Ministry of Finance.

### **11.3 Additionality**

While BNB invests sufficient own funds in its preparation for the ESCB membership, as the experience of the acceding suggests, it is not possible to complete this policy objective without technical assistance that covers at least the major areas of the Central Bank activities as well as the banking sector. BNB has not arranged for any technical assistance covering the areas in this project fiche after the completion of the 2001 twining project.

### **11.4 Project readiness and size**

BNB is ready to start the project immediately after the contracting procedure ends. The overall project size is within the requirements.

### **11.5 Sustainability**

The project will have a strong institutional, policy and financial sustainability.

#### **Policy implications**

The project will lead to the implementation of the overall BNB strategy till 2009. The project implementation involves many changes in the BNB policy aiming to the full-fledged membership in the ESCB and the Eurosystem. Legal changes are envisaged in order to comply with the EU and ECB regulations, standards and requirements. More than 50 internal documents will be produced within the new project and adopted by the BNB. In addition the BNB Governing Council will approve most of these documents.

#### **Institutional sustainability**

The project will strengthen the capacity of the internal establishments and will lead to the creation of some new internal systems whose functioning requires joint work between departments and directorates of the BNB.

### **Financial sustainability**

All activities financed within the project and the results achieved are sustainable in the long term beyond the date of accession. BNB will continue to invest in the operation of all systems to be established in order to comply with the ESCB and the Eurosystem requirements. The BNB will timely plan and cover by its annual budget necessary funds to carry out the activities related to the preparation for the full-fledged membership in the ESCB and the Eurosystem and these funds will add to the financing provided by the new Project in order for the results targeted to be achieved.

#### 11.6 Compliance with state aids provisions

Not Applicable

## **12. Conditionality and sequencing**

Not Applicable

### **ANNEXES TO PROJECT FICHE**

1. Logframe in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule, by quarter, for full duration of project
4. For all projects: reference list of feasibility/pre-feasibility studies, indepth ex ante evaluations or other forms of preparatory work. For all investment projects, the executive summaries of economic and financial appraisals, environmental impact assessments, etc, should be attached (compulsory)
5. Reference list of relevant laws and regulations
6. Reference list of relevant strategic plans and studies (may include institution sector strategies, development plans, business development plans, etc

### Annex 1: Phare log frame matrix

<b>LOGFRAME PLANNING MATRIX FOR Project</b>		Programme name and number	
<b>Adjustment of the Bulgarian National Bank to operate as a full-fledged member of the European System of Central Banks and the Eurosystem</b>		Contracting period expires: 30 November 2007	Disbursement period expires: 30 November 2008
		Total budget: MEUR 0.700	Phare budget: MEUR 0.700 million
<b>I. Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	
To prepare the Bulgarian National Bank to carry out effectively its functions as a National Central Bank participating in the European System of Central Banks.	Comparative analysis of the BNB preparedness for the ESCB membership at the beginning and at the end of the Project	Documents and assessment of the ECB BNB Annual Report	
<b>II. Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>
Establishment in the BNB of modern operational systems necessary for proper functioning within the ESCB (accounting and reporting systems, payment system, system for monitoring of portfolio capital movements, risk management system, etc.).	Existence of modern operational systems within the BNB consistent with EU requirements and policies.	Opinion of EU institutions and experts BNB policy documentation Official publications	Adequate staff recruited and retained

	Objectively verifiable indicators	Sources of Verification	Assumptions
<p><b>Component I: The administrative capacity of the BNB with regard to the participation in the ESCB further improved</b></p> <p><b>Sub-component 1 “Banking Supervision”</b></p> <ul style="list-style-type: none"> <li>Methodolgy for assessment and management of credit risk in compliance with Basle II Capital Accord and the related recast EU Directive 2000/12/EC (CAD III) developed</li> </ul> <p><b>Sub-component 2 “Research and preparation for monetary policy operations in line with the ECB best practices “</b></p> <ul style="list-style-type: none"> <li>A functional macroeconomic model available;Improved analytical skills of the Economic Research and Projections Directorate staff.BNB staff prepared to conduct monetary policy operations within the ESCB</li> </ul>	<p>Rules and procedures for validation of VaR models concerning market risk.</p> <p>The main indicators for banking system (capital adequacy indicator, quality of banks portfolio, liquidity) compliant with the new Capital Framework (Basel II).</p> <p>Implementation of the model, Technical paper and background papers; Staff of the Economic Research and Projections Directorate use the macroeconomic model in projections. Assessment of projections errors</p> <p>More than 20 BNB experts directly or indirectly involved in conducting monetary operations trained.</p>	<p>BNB web site, Quarterly Report “Commercial Banks in Bulgaria”, BNB Annual Report</p> <p>Economic Research and Projections Directorate; BNB web site</p>	<p>Sufficient staff with mathematical and statistical background</p>

<p><b>Sub-component 3 “Coordination of activities and Communication Policy related to the membership in the ESCB”</b></p> <ul style="list-style-type: none"> <li>• Communication Strategy prepared. An efficient translation service organised at the BNB, related to the communication of Eurosystem decisions.</li> </ul> <p><b>Sub-component 4 “Payment system”</b></p> <ul style="list-style-type: none"> <li>• Compliance of legal framework with the EU standards in the area of payment and settlements system achieved; Methodology for risk assessment in payment and securities settlement system implemented and used by the experts; BNB and participants in the payment system acquainted with the requirements of the new payment organisation</li> </ul>	<p>Communication strategy of the BNB prepared, communication policy instruments developed, information exchange mechanism between the ECB and the BNB established.</p> <p>Methodology for risk assessment in payment and securities settlement system tested, verified and approved by the BNB Managing Board (MB). As a result of this methodology the BNB Payment System will be available 99.7%</p> <p>15 experts from BNB Payment Systems Division trained for participation in TARGET 2 and on the requirements of the new payment organisation.</p> <p>Payment Systems legislation compliant with EU requirements.</p>	<p>BNB web site, BNB publications, ECB</p> <p>Assessments of the payment and securities settlement systems against European standards;</p> <p>Technical reports verifying the reliability of the system</p> <p>BNB Governing Council decisions</p>	
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<p><b>Sub-component 5 “Compliance of Accounting and Reporting system with the ECB guidelines”</b></p> <ul style="list-style-type: none"> <li>Accounting and reporting system capable of producing and sending daily to the ECB an accurate Daily turnover and balance report on a timely basis at the beginning of 2008. BNB staff trained and capable of applying ECB accounting guidelines by the end of the project.</li> </ul> <p><b>Sub-component 6 “Balance of Payment Statistics”</b></p> <ul style="list-style-type: none"> <li>Improved System for monitoring of portfolio capital movements</li> </ul> <p><b>Sub-component 7 “Risk Management System compliant with the ECB requirements”</b></p> <ul style="list-style-type: none"> <li>Risk Management system implemented; Risk register and Risk map in the pilot project areas developed</li> </ul> <p><b>Sub-component 8 “Improved system for Risk Control in Human Resources Management in line with the best practices in EU Central Banks”</b></p> <ul style="list-style-type: none"> <li>System for risk control in the human resources management implemented</li> </ul>	<p>Accounting system producing daily, weekly and monthly reports in compliance with the ECB requirements</p> <p>Publication of detailed data for portfolio flows in accordance with the reporting requirements of the ECB.</p> <p>Decisions taken by the BNB Governing Council at least once per year</p> <p>Decisions taken by the BNB Governing Council on risk acceptance or control and constraining higher level risks.</p>	<p>ECB guideline</p> <p>BNB BoP Statistics; MS experts opinion</p> <p>Data from BNB Internal Audit ; BNB Governing Council decisions</p> <p>Human Resources Directorate reports</p>	<p>Availability of necessary Human, Financial and IT resources.</p> <p>Statistic record available of incidents in the Bank. This will assist the evaluation of the results</p> <p>The System approved by the BNB GC</p>
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IV. Activities	Means		Assumptions
<p><b>Component I: Further improvement of the administrative capacity of the BNB with regard to the participation in the ESCB</b></p> <p><b>Sub-component 1 – Banking Supervision</b></p> <ul style="list-style-type: none"> <li>Assistance to the BNB Banking Supervision staff for supervisory validation of banks' internal models for credit risk, selection of a supervisory approach for reviewing banks' internal policies and procedures with respect to Basel II and development of a reporting system (a set of reporting forms) for assessing the capital adequacy according to the recast EU Directive 2000/12 (CADIII).</li> </ul>	<p>All the activities described in Component I and the respective Sub-components will be carried out within a Twinning contract (RTA, expert visits, study visits to the EU central banks and the ECB, consultations with EU experts, seminars in Bulgaria and MS, experts reports)</p> <p>Consultations, training, and visits to the BNB of MS experts for a total of 12 WD; Study visits to the MS Central Bank of BNB experts for a total of 12 WD; provision of documentation</p>		<p>Sufficient staff with mathematical and statistical background</p>

<p><b>Sub-component 2 – Research and preparation for monetary policy operations in line with the ECB best practices</b></p> <ul style="list-style-type: none"> <li>• Consultations for extension of the current model and training of the staff in economic modelling and model calibration techniques;</li> <li>• Training programmes elaborated and implemented for strengthening the human resources capacity in the area of monetary policy operations.</li> </ul>	<p>Visits to the BNB for a total of 27 WD; Study visits to MS and on-the-job training of the BNB experts for a total of 18 WD; Book purchase; Technical papers and reports</p>		<p>Key staff participates in the training;</p>
<p><b>Sub-component 3: Formulation of a Communication Policy related to the membership in the ESCB</b></p> <ul style="list-style-type: none"> <li>• Assistance in preparing the BNB Communication Strategy and in developing of communication policy instruments</li> </ul>	<p>Consultations and visits to the BNB by MS experts for a total of 18 WD; Study visits to EU MS – 18 WD;</p>		<p>MS experts with appropriate background available; Necessary funding provided; Key staff participates in the training</p>
<p><b>Sub-component 4: Payment System</b></p> <ul style="list-style-type: none"> <li>• Consultations for developing of technical and organizational policy and means for participation in the SSP of TARGET 2</li> <li>• Drafting and implementation of new rules for payment systems in compliance with the ECB requirements;</li> <li>• Training on the new payment system requirements and organisation.</li> </ul>	<p>Visits by MS experts to the BNB and workshops for the BNB staff for a total of 12 WD; Study visits to MS Central Bank for a total of 12 WD;</p>		<p>Necessary funding provided; Key staff participates in the training</p>

<b>Sub-component 5: Development of Accounting and Reporting System compliant with the ECB guidelines</b> <ul style="list-style-type: none"> <li>Assistance in adjusting the BNB accounting framework to the ECB accounting guidelines</li> <li>Training the staff of Accounting Directorate on the ECB requirements for daily turnover and balance reports</li> </ul>	Consultations by highly qualified MS specialists in the area of Central Bank accounting, visits to the BNB, seminars and workshops for the BNB staff for total of – 12 WD; Study visits to the EU MS and the ECB - 12 WD;.		MS experts with a background in Central Bank accounting available; Timely implementation of the accounting system. Key staff participating in training
<b>Sub-component 6: Balance of Payment Statistics</b> <ul style="list-style-type: none"> <li>Consultations for setting up a security-by-security database</li> </ul>	Visits by MS experts to the BNB – 12 WD; Study visits to MS Central Bank – 12 WD.		Availability of necessary Human, Financial and IT resources.
<b>Sub-component 7: Development of a Risk Management System compliant with the ECB requirements</b> <ul style="list-style-type: none"> <li>Consultations for the implementation of a Risk Management system and development of Risk Register and Risk map in the pilot project areas</li> </ul>	Consultations, visits and training by MS experts at the BNB for total of 24 WD; Provision of guidelines and materials; Training in MS Central Bank of the Internal audit personnel, risk managers and operational managers of the pilot project areas – 24 WD;.		MS experts with appropriate background available; Necessary funding provided; Key staff participates in the training
<b>Sub-component 8: Improving the system for Risk Control in Human Resources Management in line with the best practices in EU Central Banks</b> <ul style="list-style-type: none"> <li>Consultations for modernization of the System for Risk Control in Human Resources Management</li> </ul>	Consultations, training, visits to the BNB by MS experts for a total of 12 WD; Study visits to the MS Central Bank – 12 WD; provision of documentation.		MS experts with appropriate background available; Key staff participates in the training;
<b>Sub-component 9: “Improving the system for monitoring of all types of cash operations in compliance with the ECB requirements”</b> <ul style="list-style-type: none"> <li>Assistance for developing automated system for monitoring and control of all cash operations</li> </ul>	Consultations at the BNB by MS experts on the best European practices- 15 WD; field study in selected MS bank – 12 WD		A new cash operation centre of the BNB built;

<p><b>Sub-component 10: “Harmonization of Financial Markets monitoring with the ESCB practices”</b></p> <ul style="list-style-type: none"> <li>Assistance for strengthening the BNB capacity in financial markets forecasting and, monitoring; consultations for harmonization of the BNB practices in the field of financial markets monitoring with those applied by the NCBs within the ESCB.</li> </ul>	<p>Consultations, visits to the BNB by MS experts – 21 WD; study visits to the MS Central Banks – 18 WD.</p>		<p>The currency board regime is envisaged to stay after accession to the ESCB through to Eurosystem membership. The reform pace of the various structures of the BNB may not be the same.</p> <p>There may be need for harmonisation of IT concepts.</p>
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## Annex 2 - Detailed Implementation Schedule

	<u>2005</u>												<u>2006</u>												<u>2007</u>												
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
Call for proposals/Selection of Twinning Partner							X	X	X																												
Drafting Twinning Contract										X	X	X																									
Approval of Twinning Contract													X	X																							
Signing of Twinning Contract															X																						
Implementation of Twinning Contract Activities																X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	

**Annex 3**  
**Cumulative Contracting and Disbursement Schedule**  
**(provisional)**

<b>Project Title</b>	<b>Adjustment of the Bulgarian National Bank to operate as a full-fledged member of the European System of Central Banks and the Eurosystem</b>										
	<b><u>2006</u></b>				<b><u>2007</u></b>				<b><u>2008</u></b>		
	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>I</b>	<b>II</b>	<b>III</b>	<b>IV</b>	<b>I</b>	<b>II</b>	<b>III</b>
<b>Contracted</b>	0.700										
%	100 %										
<b>Disbursed</b>		0.490	0.490	0.490	0.490	0.560	0.560	0.630	0.700		
%		70 %	70 %	70 %	70 %	80 %	80 %	90 %	100 %		

**ANNEX 4**  
**REFERENCE LIST OF FEASIBILITY/PRE-FEASIBILITY STUDIES**  
**(All documents listed below have been prepared within the frame of the Twinning Project BG0101.01)**

1. Plan of necessary changes to be applied in the area of Banking Supervision in order to comply with the EU acquis
2. Report listing necessary changes in accounting system in order to comply with the EU requirements
3. Report on the functional audit of the new RTGS system
4. Report on the compliance of the new RTGS with regard to EU standards and ECB requirements
5. Report containing recommendations and guidelines on the organisation of the Payment System Division
6. Report containing possible discrepancies in the legal framework of payment system and proposals of appropriate solutions
7. Written document, identifying gaps and shortcomings in the area of Money and Banking Statistics
8. Written guidelines on improvement of data collection in the area of Balance of Payments
9. Report on the volume of data to process and on the way of implementing automatic controls in the area of Balance of Payments */data updated on regular basis – available at BOPED/*
10. Short report on possible practices in cash operations
11. Internal audit charter
12. Report on recommendations for harmonisation of the Central Bank legislation and regulation with EU/EMU acquis
13. Report containing recommendations for improvement of IRD and co-ordination of activities within the BNB concerning the preparation of the participation in ESCB



## **ANNEX 5**

### **LIST OF RELEVANT LAWS AND REGULATIONS**

14. Law on the Bulgarian National Bank
15. Law on Banks (adopted on July 1, 1997)
16. Law on Bank Bankruptcy (adopted on September 27, 2002)
17. Law on Bank Deposit Guaranty (adopted on April 29, 1998)
18. Law on the Measures against Money Laundering (adopted on July 24, 1998)
19. Foreign Exchange Law (adopted on September 21, 1999)
20. Regulation No 2 on the Licenses and Permits Granted by the Bulgarian National Bank (adopted on February 18, 2000)
21. Regulation No 3 on Noncash Payments and the National Payment System (adopted on August 2, 2002)
22. Regulation No 4 on Foreign Currency Positions of Banks (adopted on January 13, 1998)
23. Regulation No 7 on the Large Exposures of Banks (adopted on November 26, 1999)
24. Regulation No 8 on the Capital Adequacy of Banks (adopted on August 5, 1997)
25. Regulation No 9 on the evaluation and classification of Risk Exposures of Banks and the Allocation of Provisions to Cover Impairment Loss (adopted on January 7, 2003)
26. Regulation No 10 on the Internal Control in Banks (adopted on December 12, 2003)
27. Regulation No 11 on Liquidity management and Supervision of Banks (adopted on December 29, 1997)
28. Regulation No 12 on Consolidated Supervision (adopted on July 28, 2000)
29. Regulation No 14 on Cross-border Transfers (adopted on July 1, 2003)
30. Regulation No 16 on the Payments Initiated by Bank Cards (adopted on March 28, 1995)
31. Regulation No 17 on Establishing the Amount of Bank Investment under Article 30 of the Law on Banks (adopted on March 2, 2001)
32. Regulation No 20 on the Issuance of Certificates under Article 9, Para. 2 of the Law on Banks (adopted on December 6, 2002)
33. Regulation No 26 on Foreign Exchange Transactions of Brokerage Financial Houses (adopted on December 21, 1999)
34. Regulation No 27 on the Balance of Payments Statistics (adopted on August 5, 2003)
35. Regulation No 28 on Information Collected by Banks about Cross-border Transfers and Payments (adopted on December 21, 1999)
36. Regulation No 31 on Government Securities Settlement (adopted on August 8, 2003)

## **ANNEX 6**

### **List of relevant strategic plans**

1. Strategy for the development of the Bulgarian National Bank 2004-2009