



TOPICAL RESEARCH AND HIGHLIGHTS

BNB PRECAUTIONARY MEASURES TO COUNTERACT EXTERNAL RISKS TO BULGARIA'S BANKING SYSTEM

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BULGARIAN NATIONAL BANK

BNB Precautionary Measures to Counteract External Risks to Bulgaria's Banking System

The Bulgarian National Bank regulates and supervises credit institutions' activities in Bulgaria for the purpose of maintaining the stability of the banking system and protecting depositors' interests. In this function, the BNB monitors the potential sources and channels of occurrence, transfer and spread of risks stemming from the internal or external environment and affecting banking system or individual credit institutions, and takes measures to counteract those risks.

For Bulgaria's banking system, characterised by a dominated presence of foreign banks via their subsidiaries or branches, an important channel for transferring potential risks comes from the countries of origin to Bulgaria. In fulfilling its statutory mandate and within its powers, the BNB therefore monitors the relations and operations of foreign bank subsidiaries and branches with their shareholders and legal entities from the respective bank group by taking precautionary measures for counteracting potential external risks.

In line with this policy, as early as during the first bail-out programme to Greece (in May 2010) the BNB required the banks with Greek equity in Bulgaria to implement more conservative policy on the placements to the group, to develop a programme to reduce exposures and impose a ban on new investment in government securities issued or guaranteed by the Greek government. Measures included also the requirement to maintain minimum indicators of cash and total liquidity above those required for the other credit institutions. Moreover, these banks were required to implement plans for a reduction of their dependence on funds attracted from the parent company or group entities. These measures were a part of the general framework of strict requirements for all credit institutions in Bulgaria, including: keeping the capital buffers, maintaining high liquidity, and non-distribution of profit through dividends.

The euro area debt crisis in 2012 and the second bail-out programme for Greece called for strengthening the existing and introducing new BNB measures, including:

- tightened liquidity and capital requirements on all credit institutions;
- requirements for the banks with Greek equity in Bulgaria to achieve operational independence in their activities on the territory of Bulgaria;
- requirements for the banks with Greek equity in Bulgaria to ensure their own liquidity management which shall be independent of group decisions. Moreover, these banks were recommended to reduce their net balance item (assets less liabilities) to the parent and entities from the group.

The demand on a bank in Bulgaria for operational independence from the parent company includes: safeguarding information systems' autonomy; requiring all payment transactions to be processed through Bulgaria's payment systems that are independent of the parent bank or the Greek authorities; as well as independence of the remote points of sale (ATM and POS terminals).

In January 2015, prior to the parliamentary elections in Greece, the banks with Greek equity in Bulgaria were directed:

- to carry out no placements to group entities and swiftly undertake actions to minimise the funds provided to group entities to the minimum required for the purpose of day-to-day execution of usual payment transactions;
- to stop the operations at group level, which may jeopardise the control over liquid resources locally in case of a hypothetical Greek financial crisis;
- to draw up reaction plans in case of potential liquidity pressure taking into account the hypothesis of unfavourable developments in Greece.
- not to have investment in Greek government securities.

In line with the existing EU supervisory practice, the BNB has informed about these measures the Single Supervisory Mechanism, the home supervisory authority for the euro area bank subsidiaries and branches operating in Bulgaria since November 2014.

The introduction and implementation of the measures described above prevents the transfer and spreading of external risks from the international environment to the banking system and banks in Bulgaria, including the banks with Greek equity, and helps preserve their capital buffers and liquidity position.

THE SCULPTURAL COMPOSITION BY KIRIL SHIVAROV DEPICTING HERMES AND DEMETER ON THE SOUTHERN FAÇADE OF THE BULGARIAN NATIONAL BANK BUILDING IS USED IN COVER DESIGN.