TWINNING FICHE
Strengthening the National Bank of Belarus
BY 16 ENI FI 01 17 (BY/01)

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List of Acronyms and Abbreviations

BC	Beneficiary Country
BIS	Bank for International Settlements
BISS	Belarus Interbank Settlement System
CP	Communication Policy
CPI	Consumer Price Index
CPSS	Basel Committee on Payment and Settlement Systems
EBRD	European Bank for Reconstruction and Development
ECB	European Central Bank
EIB	European Investment Bank
ELA	Emergency Liquidity Assistance
ENI	European Neighbourhood Instrument
ESCB	European System of Central Banks
EU	European Union
EFSD	Eurasian Fund for Stabilisation and Development
FCP	Financial Consumer Protection
FDI	Foreign Direct Investment
FRM	Financial Risk Management
FS	Financial Stability
FSC	Financial Stability Council
FSAP	Financial Sector Assessment Programme
FSSA	Financial System Stability Assessment
GDP	Gross Domestic Product
ICAAP	Internal Capital Adequacy Assessment Process
IFI	International financial institutions
IFRS	International Financial Reporting Standards
ILAAP	Internal Liquidity Adequacy Assessment Process
IMF	International Monetary Fund
IOSCO	Technical Committee of the International Organisation of Securities Commissions
IT	Information technology
MP	Macro-prudential
MR	Mandatory result
MS	European Union Member State
NBRB	The National Bank of the Republic of Belarus
NPL	Non-performing loans
OVI	Objective Verifiable Indicator
PAO	Programme Administration Office
PCA	Partnership and Cooperation Agreement
PFMI	Principles for Financial Market Infrastructures
PL	Project Leader
PSC	Project Steering Committee
RTA	Resident Twinning Adviser
SOV	Source of Verification
SREP	Supervisory review and evaluation process
SSIS	Single Settlement Information Space
STE	Short Term Expert
TA	Technical Assistance
TAIEX	Technical Assistance and Information Exchange Instrument of the European Commission

1 Basic Information

1.1 Programme: Annual Action Programme for Belarus 2016 (ENI//2016/039-378), (direct management mode)
1.2 Twinning Number: BY 16 ENI FI 01 17 (BY/01)
1.3 Title: Strengthening the National Bank of the Republic of Belarus
1.4 Sector: Finance, internal market and economic criteria
1.5 Beneficiary country (BC): Belarus

2 Objectives

2.1 Overall Objective(s):

Enhance effectively the capacity of the National Bank of Belarus (NBRB) to address the major challenges that it faces as an independent central bank, thus engendering its citizens' trust in the currency/ financial system, and contributing to sustainable growth in the wider economy.

2.2 Project purpose:

The main aim of the Project is to build up the NBRB's capacity to pursue effectively its core responsibilities regarding monetary policy, financial stability and efficient/reliable/secure payment systems, whilst managing prudently the financial risks associated with its operations.

2.3 Contribution to National Development Plan/Cooperation agreement/Association Agreement/Action Plan

The NBRB's contribution to the development of the national economy comes largely from its success in achieving its three core objectives:

- Protecting the Belarusian ruble and ensuring its stability, including its purchasing power and the rate of exchange relative to foreign currencies.
- Maintaining the stability of the banking system of the Republic of Belarus.
- Ensuring the efficient, reliable, and secure functioning of the payment system.

The importance of these objectives for the successful evolution of the overall Belarusian economy is recognised in the main domestic and indeed international 'programmes' (defined here to include recommendations, plans, guidelines etc) that apply to its macroeconomic management. In consequence, a strengthening of the NBRB's capacity to pursue effectively these goals via Twinning, will help ensure that that the objectives laid down in these programmes, are achieved.

In particular, successful pursuit of the NBRB's core objectives is vital for the National Social and Economic Development programme (enacted in December 2016) targets for 2016-2020 to be met. This programme sets out goals, tasks, priorities and expected results for the country's social and economic development over 2016-2020. The main goal is to raise living standards of Belarusians by bolstering the competitiveness of the economy, raising investments, and securing innovation-driven development. Macroeconomic stability is highlighted as an important area in the programme, with targets set for the NBRB accordingly, e.g. for inflation (under 5% by the end of the five-year term).

As well as playing an important role in this programme, the NBRB in concert with the Council of Ministers is required to execute the annual Monetary Policy Guidelines, which are set out in a Presidential Edict. These Guidelines set out precise targets for its main activities, notably regarding inflation (9% over December 2017 to December 2016), banking supervision and payment systems.

The EU's Strategy Paper and Multiannual Indicative Programme for EU support to Belarus (2014-2017) sets out the case for EU intervention, focusing mainly on three areas: social inclusion, the environment and local/regional development, and outlines objectives for such intervention. However, it also refers in several places to the economic challenges that Belarus has faced or currently faces, several of which relate to the work of the NBRB. Thus it highlights the costs of recent high inflation in lowering household income and consumption and in increasing labour migration. It also underlines the limited financing options available to Belarus in the absence of a new IMF programme, the unfavourable conditions on external capital markets and its low foreign exchange reserves to imports ratio. It states that a clear commitment to deep structural reforms and stabilisation policy – where the NBRB has an important role to play - is key in improving the economic situation and would receive strong support from the international community, whilst underlining the importance of a consistently implemented, adjustment strategy. Directed lending and low levels of foreign investment are presented as further obstacles to economic development. The paper also underlines the need for independent NBRB financial and monetary policy. By reinforcing the NBRB's capacity to pursue its three main objectives, Twinning will contribute to addressing the above problems in future. By doing so, it will facilitate a stronger economic performance, which will help Belarus to meet the challenges it faces in particular areas including those highlighted in the paper, namely social inclusion, the environment and local/regional development.

The European Commission Implementing Decision on the Annual Programme 2016 for Belarus stresses the challenge of implementing deep structural reforms and proposes EU support to relevant state and semi-state bodies involved in implementing them. It also describes the large demand for targeted expertise by relevant state bodies and authorities, including the desire to learn from European expertise. Reflecting this, the programme aims amongst other things, to strengthen the institutional and administrative capacities of Belarusian public institutions in selected priority areas to implement structural and institutional reforms. Assistance is proposed in a number of fields including macroeconomic reform, financial sector reform and banking stability – the proposed Twinning Programme with the NBRB will help deliver it in each of these areas.

3 Description

3.1 Background and justification

3.1.1 Background

Belarus is a landlocked country with an estimated 9.5 million inhabitants, bordering Latvia, Lithuania, Poland, Russia and Ukraine.

Despite limited structural reforms, its GDP growth rates averaged 8% per year over 2000-2008, largely on the basis of buoyant export markets and advantageous terms of trade. The global crisis of 2008-2009 reduced export demand and capital inflows, depressing domestic demand. Following the completion of the Stand-by Arrangement with the International Monetary Fund (IMF) in early 2010, expansionary economic policies were resumed and the current account deficit rose to 15.6% of Gross Domestic Product (GDP) in 2010.

After a large devaluation of the ruble in 2011 – 67% against the US dollar on an annual average basis – inflation picked up, reaching 107% in December 2011 (dropping to around 16% in 2013 and 2014). GDP growth declined in 2014, prior to GDP contracting in 2015 for the first year since 1995 reflecting in part weak oil prices which reduced demand from Russia, Belarus' largest export market. Exports and imports fell by around a quarter year on year, while the current account deficit dropped to 3.8% of GDP, having been over 10% in 2013. The ruble depreciated against the US dollar by 40% between November 2014 and February 2016. (In 2015 the NBRB replaced its crawling peg exchange rate regime with a managed floating exchange rate regime and monetary targeting, with interventions 'broadly rules-based, guided by a wide crawling peg allowing smoothing and opportunistic build-up of reserves' (IMF Staff Report for the 2016 Article IV Consultation, Page 15).) However, tight macroeconomic policy and the recession – GDP declined by 3.8% in 2015 - helped contain inflationary pressures and annual inflation fell to 12% in 2015. Nonetheless experience of the sharp falls in the value of the ruble in 2011 and 2014-2015, contributed to further dollarization.

The recession continued in 2016, when GDP fell by 2.6% and the World Bank expects it to drop by a further 1% in 2017,while the IMF forecasts an 0.8% contraction in its April 2017 World Economic Outlook report. At the same time, the authorities are more upbeat about economic activity, projecting 1.7% GDP growth in reflection of the recovery in Russia which should have a positive spill-over effect on Belarus. The outlook for trade and growth depends in part on the evolution of the oil price. Work to accelerate the pace of structural reform has begun. Thus, the government has already started to gradually lift price controls from selected goods, reduce the volume of new 'directed' (by the government) bank lending and to reform basic business regulations to offset the advantages that state-owned companies continue to have versus their private counterparts. But this is unlikely to have a major positive impact on growth in the short term. In the medium to long term it is hoped that Belarusian companies will have a much greater ability to diversify products and adapt to fluctuating markets than they do now. Meanwhile continued tight monetary and fiscal policy aimed at restoring confidence in the currency and reducing the growth of foreign debt will serve to dampen growth in the short term. Although inflation has declined, it remains significantly higher than in most of its neighbours. Moreover, despite the gradual development of social safety nets to help those hit by a combination of the weak external environment and the short-term effects of tight macroeconomic policy and structural reform, pursuing restrictive monetary/fiscal policy and structural reform remains challenging politically.

Financial sector

In considering the outlook for the economy and its potential should key impediments be removed, it is important to understand the role and nature of the Belarusian financial sector. The sector's role in the economy as a whole is reinforced by limitations on Belarus' access to international capital markets and the relatively small, net foreign direct investment (FDI) flows to Belarus. The bulk of the finance required by the household and corporate sectors comes from banks, with non-banks playing only a small funding role, while underdeveloped financial markets limit this potential funding source for most companies.

At 1 April 2017, there were 24 banks and 3 non-bank credit/ financial institutions in Belarus. Domestic state-owned banks' share of overall bank assets was 65%, whilst that of foreign-owned banks was 32% (with Russian and Austrian banks' assets 24% and 5% of overall bank assets, respectively, and the shares of other countries' banks all under 1%). All banks were in the black at the end of the first quarter of 2017, with the return on equity amounting to 10.7%, and banks' return on assets to 1.4%.

Growing credit risk was the main threat to the stability of the sector. Asset quality worsened, with Non-performing loans (NPL) rising from 6.8% at end-2015 to 14.3% at end-September 2016.

The banks' regulatory capital to risk-weighted asset ratio rose to 18.7% at end 2015 – well in excess of the minimum prudential requirement for an individual bank of 10% - from 17.4% a year earlier and 15.5% at end 2013. Moreover, the banking system in aggregate met the NBRB's liquidity requirements, as specified in four alternative measures (NBRB Annual Report 2016, P.16) in full.

The structure of banks' balance sheets renders them vulnerable to liquidity and foreign exchange risk. Large falls in the external value of the ruble, especially in 2011 and 2015, have contributed to households placing a large share of their deposits in foreign currencies rather than the ruble – 79,1% at 1 January 2016 compared to 70,5% a year earlier. This weakens the monetary policy transmission mechanism, forcing the NBRB to take more drastic action than otherwise to achieve a particular desired impact. Moreover, it means that in the event of a draining of confidence in the ruble, and banks holding insufficient, liquid foreign exchange assets to match these deposits, the banks are vulnerable to significant liquidity risk. Meanwhile the corporate sector has large foreign currency liabilities aggravating its debt servicing problems whilst increasing banks' credit risk, when the ruble depreciates.

Another important feature of the banking system, despite steps to reduce it, is the scale of directed lending - where the government directs (mainly state-owned) banks to lend to specified borrowers at rates of its choosing. Directed lending can lead to sub-optimal resource allocation through its effect on which investment projects are selected. It also makes it harder for private banks to compete which, given their leading role in introducing financial innovation, can hamper economic development.

National Bank of Belarus

The NBRB has a wide-ranging brief in the financial sector including responsibility for bank supervision. Its mission has three elements:

- Protecting the Belarusian ruble and ensuring its stability, including its purchasing power and the rate of exchange relative to foreign currencies.
- Maintaining the stability of the banking system of the Republic of Belarus.
- Ensuring the efficient, reliable, and secure functioning of the payment system.

Decision making and accountability/independence

Its chief decision making body is the Board, which is chaired by Mr Kallaur and which also includes five Deputy Chairmen and three Directorate heads. (NB Departments sit underneath Directorates.)

When carrying out its tasks, the NBRB is subject to several key legal instruments (see Annex 3), notably the Constitution of the Republic of Belarus, the Banking Code, the NBRB Statute, the laws of the Republic of Belarus and regulatory legal acts of the Republic of Belarus; and 'shall be independent in its activities' (from NBRB website).

The NBRB is accountable to the President of Belarus, in that:

- The President approves the Statute of the National Bank and modifications and/or amendments thereto.
- The President appoints, with the consent of the Council of the Republic of the National Assembly of the Republic of Belarus, the Chairperson and Members of the Board of the National Bank and removes them from their positions notifying the Council of the Republic of the National Assembly of the Republic of Belarus accordingly.
- The President designates an audit organisation to examine the activity of the National Bank.
- The President approves the Annual Report of the National Bank.

Functions

The NBRB undertakes a broad range of functions (see https://www.nbrb.by/engl/today/about/general for the complete list). The aim of Twinning is to enhance the way that some of these specific functions are performed – e.g. its obligation to 'arrange for the functioning of the payments system of the Republic of Belarus and exercise supervision thereof'. In some cases, Twinning may allow for the product of one function to be used to more effectively pursue another function, thus exploiting potential synergies. E.g. the requirement for the NBRB to 'form credit histories' (a credit register in effect) delivers information which can be used by the NBRB it its work to 'monitor financial stability' which is another of its functions.

Regarding the scope of the NBRB's remit, it should be noted that although its responsibilities vis-à-vis non-bank financial institutions have increased, notably in respect of leasing companies and micro-finance institutions, responsibility for oversight of insurance companies and the financial markets currently remains outside the NBRB's remit.

Staffing

The NBRB employ in total around 2,580 staff. The number employed in different areas varies considerably, with for example some 113 engaged in banking supervision (including in the regions), as opposed to eight staff working in the Financial Stability Department. Communication is managed centrally with the 'Head of Information and Public Relations Department - Spokesman for the National Bank' reporting, like the Chief Accountant and Internal Audit Directorate, directly to the Chairman of the Board.

Pursuit of mission

In pursuing its mission, the key areas are monetary policy, financial stability and payment systems – all of which feature in the Twinning Programme. This section outlines the policy background including some of the issues they face; it ends by touching on the NBRB's locus in financial inclusion.

Monetary policy
It pursues its core mission according to set processes. Monetary Policy Guidelines are formulated in concert with the government each year for the following calendar year, and subject to the President's approval. In 2015, a broad money intermediate target was introduced, with the operational target, the monetary base, determined by fixed volume auctions. The broad money target was 18% plus or minus 2% in 2016, coming down to 14% plus or minus 2% in 2017. Annual consumer price inflation declined from 16.2% in 2014 to 10.6% in 2016, but remains higher than in most surrounding countries. The NBRB project it to fall to 9% in 2017. It plans to switch to inflation targeting in the medium term. The NBRB's medium term aim is reducing the inflation rate up to 5% by 2020.

Financial Stability (FS)
The NBRB is charged with (i) monitoring FS in concert with the government - which falls short of responsibility for achieving, or taking steps to achieve it; and (ii) ensuring banking stability; while (iii) its Board Chairman is personally responsible for ensuring financial stability (FS).

In terms of process, a Financial Stability Council (FSC), including the NBRB and the Ministries of the Economy and Finance is tasked to organise FS monitoring, develop and coordinate the implementation of measures aimed at ensuring FS, develop crisis management mechanisms etc. It has three sub-committees. In addition, the NBRB has its own separate Financial Stability Committee.

The development of a dedicated team entrusted to work on FS is a recent development for the NBRB as it is for many other central banks. The processes created to ensure key tasks are conducted effectively only recently became operational and will inevitably evolve over time. One key priority will be to ensure smooth coordination between different parts of the NBRB e.g. between FS staff and colleagues in Banking Supervision and foreign exchange reserve management who also have an FS locus.

Similarly, the way that core FS work should be done, especially the key components of macro-prudential (MP) surveillance, use of MP tools to head off emerging risks, and crisis management mechanisms, is a relatively new area for the NBRB.

In terms of surveillance, the NBRB focus has been on its systemic risk indicator (a composite of credit, leverage, capital flows and liquidity) and a parallel financial cycle indicator (comprising nine components). In addition, macro stress tests have been used to calibrate the impact of various shocks on individual banks and the banking system as a whole using a model. 'Shock' assumptions have been based on quantified changes in loan quality, deposit withdrawal, and the external value of the ruble. There is considerable interest in learning lessons from other central banks on how to conduct surveillance, including e.g. via additional measures such as credit registers.

The same applies to MP tools. The tool-box available is not extensive and the NBRB has little experience of using it. However, cognisant of the potential cost of financial instability, it is extremely keen to strengthen this plank of its FS framework via focussed Twinning support. Options here include changing banks' prudential requirements (risk weights) as necessary, increasing systemically important banks' capital requirements (not hitherto done) and introducing new tools e.g. limits on loan to value (LTV) and debt to income ratios.

Assistance with the underlying research needed to adopt dependable approaches to both surveillance and mitigating action, constitutes a general need for such a small, 'young' department.
Banking Supervision

Basel 2 was adopted in Belarus in 2004 and in 2012 the Board approved the application of Basel 3 indicators on a monitoring only basis for 4 years. This monitoring has demonstrated that banks have been able to comply with the capital and leverage levels set.

Reflecting this, they became binding on 1 January 2016, when the capital conservation buffer was also introduced. The NBRB is imposing the buffer gradually to all banks, so that after two years (in 2019) it will reach 2.5% of banks' prudential capital.

The NBRB may also impose a countercyclical capital buffer of up to 2.5% of prudential capital in periods of economic growth, but it has not yet exercised this power.

The NBRB is developing a methodology for identifying systemically important banks, to which it will be able to apply capital add-ons.

Banks' liquidity has been measured by reference to the Basel 3 Net Stable Funding Ratio and Liquidity Coverage Ratio, both of which will become binding in January 2018.

The NBRB is keen to strengthen Pillar 2, especially to make the Supervisory Review and Evaluation Process (SREP) more intrusive/forward looking and, within it to enhance its scrutiny of banks' Internal Capital Assessments (ICAAP). It also seeks to make its off-site surveillance more effective, by enhancing the analytical tools used and by harnessing IT more efficiently, so as to provide a sophisticated early warning system for monitoring banks which are in difficulty.

Payment systems
The main large value payment system, the Belarus Interbank Settlement System (BISS), is a Real Time Gross Settlement System that has been operational since 1998. It has 31 direct members.

The main cashless retail system used to pay e.g. utility bills as well as other small transactions on a next day basis is the Single Settlement Information Space (SSIS). Its members include service providers (around 13,000 in total) and settlement agents, which are required to accept payment for goods via SSIS. SSIS is now a joint stock company, the shareholders being the NBRB and the largest market players.

The card market is dominated by Visa (around 41% of the number of transactions), Belcart (42%) and Mastercard (17%). Debit cards are prevalent, though Visa has a sizeable credit card presence.
Oversight of payment systems is undertaken by the NBRB by reference to the Principles for Financial Market Infrastructures (PFMI) established by the Basel Committee on Payment and Settlement Systems (CPSS) and the Technical Committee of the International Organisation of Securities Commissions (IOSCO).

The 2016 IMF Financial System Stability Assessment (FSSA) contains several recommendations on payment systems. Action is planned on some of them. In particular, a draft law on payment services in Belarus which deals with settlement finality among other matters, is scheduled to take effect from 1 January 2019.

One remaining problem is how to cover non-bank payment service providers and new electronic payment systems in national law/regulation. At present payments can only be settled by banks, forcing non-bank providers to sign agreements with their banks, under which the bank agrees to take on any risk incurred by dint of it acting for a non-bank. This condition can deter some from entering the market, with knock-on effects on financial inclusion. By contrast, a safe framework for innovative, new payment service providers/systems, could help increase financial inclusion – e.g. in less developed countries e.g. in Africa the use of mobiles for making payments has mushroomed, increasing financial inclusion.

Financial inclusion
The NBRB seeks to promote financial inclusion and is a member of the Alliance for Financial Inclusion, an international network of financial inclusion policy makers headquartered in Kuala Lumpur. It made a 'Maya Declaration Commitment' in 2013 to increase the number of adults with bank accounts from 70 percent to 85 percent by 2015. It will seek to strengthen financial literacy efforts through specific activities as part of the Joint Action Plan of Government Agencies and Financial Markets Participants on Improving the Financial Literacy of the Population of the Republic of Belarus for 2013-2018. Given this objective and the growing complexity of the financial system, the NBRB has been actively engaged in the project to introduce a Financial Ombudsman scheme.

3.1.2 Justification

Against this background in terms of the Belarusian economy, the financial sector and within it the NBRB, the justification for the Twinning topics chosen can be appraised.

The NBRB's core mission is to protect the Belarusian ruble and ensure its stability, including its purchasing power and its exchange rate against other currencies; to maintain banking stability, and to ensure efficient, reliable and secure payment systems. Pursuing these objectives when faced as now with continued high inflation, economic contraction, rapid financial innovation and pressure for an enhanced role for non-banks in the payments sector, presents numerous challenges for the NBRB.
Some work is already planned to further these objectives. Thus, the main international financial institutions (IFIs), notably the IMF and World Bank, have recently reviewed important aspects of NBRB activities, e.g. in the IMF's 2016 Article IV consultation and 2016 FSAA. The latter highlighted several issues that needed addressing – including the challenges confronting the state-dominated financial sector, increasing non-performing loans (NPL), low provisioning by banks, significant foreign liquidity risk and the need for independent and risk-based oversight of the financial sector – and set out a number of detailed recommendations to this end. The NBRB are implementing these recommendations. But most of the work proposed under Twinning below falls outside the FSAP recommendations; and where it falls within – e.g. regarding payment system oversight - it is not envisaged that the IFI or other external (to the NBRB) organisations will be providing the necessary Technical Assistance (TA) to undertake it. Moreover, the work proposed under Twinning will complement implementation of the FSAA recommendations and those made by the IMF Executive Board (EB) on discussing the 2016 Article IV consultation. For example, completion of the work proposed below on NBRB communication will contribute to a smooth transition from monetary targeting to inflation targeting.

The NBRB itself has identified six key areas where there is a pressing need for reform and where the lessons learned from experience by a MS central bank would be directly relevant. It will be important to ensure that the IFI remain informed of the activities that will take place under Twinning, not only to minimise the risk of future duplication, but also to ensure that TA from the IFI is optimally timed to reflect both the relative urgency of the NBRB's needs in different areas and its absorption capacity.
The first is payment systems, where there is a general need to revise the legal and regulatory framework to ensure that the payments sector is robust and efficient. This need is heightened by the emergence of innovative new systems including via mobiles and the internet, as well as new types of payment system providers which are not currently regulated. The current framework does not always cater for the risks or opportunities (from increased competition, financial inclusion etc) associated with these developments. MS experts who have addressed similar challenges domestically, partly on the basis of EU legislation, will help the NBRB address this deficiency. However, Belarus has no obligation to implement the Union acquis in its national legal and regulatory framework, by contrast e.g. to EU Accession countries. It follows that legal and regulatory Twinning input on payment systems and indeed any other issues, should focus on meeting the particular needs of the NBRB through learning relevant lessons from EU experience including from its legislative/regulatory framework, rather than replicating the Union acquis in its entirety.

Second, the FSSA made a number of recommendations as to how the NBRB could help ensure FS. Mindful of the potential economic costs of financial instability, the NBRB has initiated a broad programme to pursue them. Twinning can contribute substantially to some of the work required in this rapidly evolving, new branch of central bank activity. In particular, it can help to focus the NBRB's activities as a macro-prudential authority; strengthen its capacity to conduct macro-prudential risk monitoring; and enable it to use macro-prudential tools to mitigate the risks that it identifies. Given the small number (8) of staff allocated to FS, effective Twinning input is at a premium.

Third, banks dominate the national financial system and play an integral role in the smooth functioning of the wider economy. Despite some positive indicators of banks' health such as high capital adequacy ratios relative to Basel minimum requirements, there are concerns about the outlook for banks given low profitability & credit growth, sizeable credit and foreign exchange liquidity risks and growing NPL. However, the task of bank supervision is challenging given state dominance of the banking system (state-owned banks account for some 65% of bank assets) for this makes it more difficult to undertake independent, risk-based supervision. Reflecting this, the NBRB has highlighted its need to strengthen via Twinning, its capacity to undertake the Pillar 2 Supervisory Review and Evaluation Process (SREP). This requires highly trained supervisors, capable of making timely interventions based on independent risk judgements. It also wishes to enhance supervisors' capacity to conduct off-site surveillance of banks to facilitate 'early warnings' of incipient problems.

The fourth topic relates to the NBRB's balance sheet, with assets dominated by gold and foreign exchange reserves (valued at close to EUR 4.66 billion at end-January 2017). Different components of it are subject to foreign exchange, interest rate, liquidity, counterparty and other financial, as well as non-financial risks. There has been intensive work in recent years on upgrading the management of non-financial risks, but the NBRB considers that Financial Risk Management (FRM) - including its organisation and risk monitoring/control - would benefit from up to date Twinning input. The plan to move from a decentralised to a consolidated financial risk management system in 2017 serves as a catalyst to review current arrangements, for it provides the opportunity to measure and manage the NBRB's overall financial risk more effectively. In summary, there is a need to (i) review how FRM is managed in a broad sense (organisational flow chart, responsibilities of those involved etc) and comparing this with best practice in other central banks; and (ii) compare how Belarus and a central bank in a similar situation to Belarus - in terms of having similarly sized reserves, an independent monetary policy etc – go about quantifying and controlling their financial risks.

Fifth, the increased complexity of the financial system (exemplified in the growth of new payment systems), the authorities' desire to increase financial literacy and inclusion, and the NBRB's mission to raise the public's trust in the currency and the financial system more generally, have all led the NBRB to begin work to set up a Financial Ombudsman system. This is needed because of the inadequacies of current facilities for extrajudicial dispute resolution such as mediation & arbitration courts (which can be time consuming, costly and paper heavy) and to reduce the number of court appeals. The Financial Ombudsman will provide an alternative fast, effective and free means of settling disputes between consumers and financial institutions. Lessons on the appropriate legal framework have been gleaned from other countries e.g. Armenia and, if the necessary Belarusian legislation is adopted in 2017, the new system could go live in 2018. Lessons from a Twinning partner with practical experience of running a similar scheme would help NBRB legal staff address any legal issues outstanding and also provide them and the Ombudsman with practical insights which would enable it to operate more effectively from its birth.

Finally, the NBRB's main communications challenge lies in restoring and maintaining a high level of trust in the Belarusian ruble, as well as in the stability of the Belarusian financial system. Without such trust, there are numerous risks including further dollarization which, if currency mismatches occur, could trigger losses for banks given from exchange rate movements; moreover, it limits the NBRB's freedom to adopt an effective, independent monetary policy which is suited to Belarusian economic conditions, and reduces seigniorage revenues.

Clear communication of the NBRB's monetary policy to its key audiences, including the domestic household and corporate sectors, but also foreign investors, while not sufficient to restore and maintain trust, is nonetheless essential for this. It is especially important when the monetary policy framework is set to change, the NBRB having announced its intention to switch to inflation targeting in the medium term.

NBRB communication of how it is pursuing its other key objectives is also important. In the context of financial stability, one challenge is to explain remedial work set in train by the World Bank (e.g. regarding deposit guarantees) and others in such a way that confidence in the financial system is bolstered rather than weakened. Twinning provides the opportunity to learn timely, practical lessons from the MS concerned on how to improve the NBRB's overall communication policy, including importantly by absorbing best practice EU methods of assessing the performance of a central bank's communications department.

3.2 Linked activities (other international and national initiatives)

Belarus is seeking to restore sustainable growth and undertake structural reform; and to these ends it is working to attract capital inflows and targeted TA from regional groupings like the EU, the IFI and individual countries. It has relationships with a number of such regional and international bodies which provide assistance in the form of both finance and know-how, and is negotiating to join the World Trade Organisation.

The EU cooperates with Belarus in the framework of the European Neighbourhood Policy. EU assistance to Belarus is directed mainly through its country Action Programmes which are funded annually under the European Neighbourhood Instrument (ENI). Belarus also benefits from regional and multi-country Action Programmes funded under the ENI. The indicative financial allocation for EU bilateral cooperation with Belarus over 2014-2020 as a whole is EUR 0.13 billion to EUR 0.16 billion. This Twinning Programme will be the first EU-financed Twinning project for the NBRB, though it hosted two TAIEX workshops in 2016. There are no on-going EU programmes on macroeconomic issues.

The EU recently lifted most of its sanctions on Belarus, reflecting which, the European Commission made a Decision in April 2016 which enables EIB financing to Belarus to be covered by an EU guarantee. Positive political developments have also contributed to the European Bank for Reconstruction and Development (EBRD) seeking to enhance its engagement with the Belarusian authorities. It adopted a new four-year strategy in September 2016, focusing on enhancing the competitiveness of the economy, as well as the sustainability and service quality of public infrastructure.

The World Bank currently has nine active projects in Belarus for an aggregate amount of USD 0.9 billion. In 2015 it helped the Belarusian authorities produce a Roadmap for Structural Reforms, which subsequently provided the basis for Belarus to apply for loans from both the IMF and the Eurasian Fund for Stabilisation and Development (EFSD). The EFSD approved a EUR 2.0billion stabilisation loan to Belarus in March 2016 to be disbursed in 7 tranches over 2016-2018.

Belarus' most recent arrangement with the IMF expired on 30 March 2010. Belarus and IMF are now discussing the nature of a macroeconomic adjustment and structural reform programme (taking account of the above World Bank 'Roadmap') that could be supported by an Extended Fund Facility from the IMF (over a 3-4-year period).

When the IMF Executive Board discussed them, it stressed the need for deep, market-oriented reforms. Both the NBRB's implementation of the FSAA recommendations and the work outlined in the Twinning Programme go in this direction.

Looking ahead, the Belarusian authorities could at the end of the Twinning programme, seek an IMF/World Bank assessment of the robustness of the resulting NBRB framework, in respect of those parts of it that are subject to Twinning activities, e.g. payment systems. It is understood that they would consider such a request, including the possibility of incorporating it within either institution's dialogue with the Belarusian authorities (e.g. in the context of Article IV surveillance in the case of the IMF). However, it is unlikely that there will be another FSSA for a number of years.

3.3 Results

- The Twinning Programme will produce six main results – Mandatory Results (MR) or *Components* - in that it will contribute to:
- Component 1 – a revised legal/regulatory structure for **Payment systems**, which accommodates appropriately non-banks providers of payment services and new payment systems
- Component 2 – an enhanced **Financial Stability** (FS) framework, including more effective macro-prudential surveillance and mitigating tools
- Component 3 – a strengthening of **Banking Supervision**, especially the process for supervisory review and evaluation of banks
- Component 4 – existing **Financial Risk Management** (FRM) systems being reinforced, by incorporating best practice organisational structures and methodologies for managing the whole balance sheet

- Component 5 - more efficient **Financial Consumer Protection** (FCP), by learning the lessons from existing Financial Ombudsman schemes
- Component 6 - a more effective **Communication Policy**

General points applying to all results

All papers for the Board commissioned in this Section including any proposed action plans they contain, should be discussed and signed off by the NBRB Board.

The training element in relating to any Indicator below always entails a Training Needs Assessment being conducted; the development of an agreed Training Plan/materials, wherever possible with case studies; and testing of knowledge transfer after training completed.

3.3.1 Component 1 – Payment Systems

Contribute effectively to the establishment of a revised legal and regulatory framework for payment systems in Belarus, by taking on board key lessons from EU and Twinning Partner(s) national frameworks, especially regarding non-bank payment system providers and new forms of electronic payments such as via mobiles. This framework will apply to payments infrastructures, payment service providers whether banks or non-banks, and payment system users. It will strive to ensure FS (including via provisions on NBRB oversight based on PFMI, cyber resilience, Anti- Money Laundering/Combating the Financing of Terrorism and business continuity) whilst also encouraging financial inclusion, competition and innovation.

Indicators of achievement:

- Draft ‘concept law’ proposal by NBRB on the above framework, which takes account of the corresponding model in the EU and the Twinning Partner’s national model, as well as the development of the payment industry especially in respect of the increasing role played by non-bank payment service providers and the growth of electronic payment mechanisms; sets out how payment systems and their participants will be regulated and overseen.
- Regular external publication of a new Financial Infrastructure Report focusing on payment systems, which includes the results of the NBRB’s assessment of payment systems’ compliance or otherwise with PFMI.

3.3.2 Component 2 – Financial Stability (FS)

Contribute effectively to joint work with the NBRB, to ensure: a clear, consistent legal basis for FS work (Result 2.1); enhanced powers/ capacity to effectively monitor risks (Result 2.2) and take mitigating action (Result 2.3). A fourth potential sub-result – managing systemic problems that nonetheless occur, so as to maintain FS – is outside the scope of the Twinning Project as it will be progressed with help from IFIs. It centres on bank recovery and resolution, Emergency Liquidity Assistance (ELA), and the role of the deposit protection agency including in a crisis.

Indicators of achievement:

- Evidenced-based summary account in the NBRB Financial Stability Report and Annual Report of how FS work has been strengthened by Twinning.

Result 2.1
Contribute to a revised, coherent, comprehensive, efficient and robust legal and institutional framework.

Indicators of achievement:

- Written review, including proposed actions by the Board, of the legal and institutional framework for FS in Belarus including the allocation of responsibility for maintaining FS. It should cover, and recommend action where necessary in respect of: its legal basis (e.g. where responsibility for monitoring and ensuring financial stability, and separately banking stability, lie); the allocation of powers and responsibilities relating to FS, focussing on monitoring, preventative action and crisis management, and the role within this of the NBRB and other different forums involved such as the Financial Stability Council (FSC) and the NBRB FS Committee; the processes governing its pursuit (including the various committees, manuals, reports, staffing/training etc)..

Result 2.2

Contribute to the construction of a comprehensive, dependable, up to date, evidence-based system for conducting macro-prudential surveillance (MPS) of the evolving financial sector.

Indicators of achievement:

- Report for the Board on macro-prudential (MP) indicators which assesses inter alia: what changes are needed to the current composite and individual indicators used & macro-financial stress tests carried out; the case for adding further indicators - e.g. regarding NPLs and foreign exchange risk; the need for indicators for those parts of the financial sector such as the insurance sector and financial markets, which are not regulated by the NBRB, whether they are regulated by other authorities or not (as in the case of some non-bank payment system providers); how the NBRB's credit register could/should be used for FS purposes; the weights for different indicators used; the process for reviewing FS indicators to ensure that they remain appropriate given the evolution of the structure of the financial system.
- Comprehensive internal manual(s) on how the NBRB conducts MPS.
- Training completed for all FS Department staff in using the manual.

Result 2.3

Work with beneficiary to ensure its access to an adequate range of effective MP tools to help mitigate emerging systemic risks.

Indicators of achievement:

- Report for the FS Committee and then Board for sign off on: the MP tools available now to the NBRB - including the Basel III countercyclical capital buffer and capital add-ons for systemically important banks, how they have been/ should be used etc; possible changes including additions to this 'tool box' eg Loan to Value ceilings; test runs, important given the need for smooth coordination when more than one part of the NBRB – e.g. the FS and Banking Supervision areas – has a locus; action plan with timetable.
- Internal manual(s) on how the NBRB mitigate risks to FS using MP tools available to it.
- Training completed of all FS Department staff in use of the manual.

3.3.3 Component 3 – Banking Supervision

Contribute to: the enhancement of the NBRB's capacity to supervise banks' Internal Capital & Liquidity Adequacy Assessments (ICAAP and ILAAP) (Result 3.1); the development of an effective off-site surveillance system (Result 3.2); strengthening supervisors' capacity to compare supervised banks' prudential reports with those resulting from the application of International Financial Reporting Standards (IFRS) (Result 3.3).

Indicators of achievement:

- Evidenced-based summary account in the NBRB Financial Stability Report and Annual Report of the improvements made with the help of Twinning.

Result 3.1

Contribute to enhancement of NBRB capacity to supervise not only ICAAP and ILAAP assessments, but also other elements including internal governance and control & other risks, of the Basel II Supervisory Review and Evaluation Process (SREP).

Indicators of achievement:

- Internal, EBA-compliant, methodology manual for the SREP.
- Supervisory reviews produced and findings discussed with relevant banks.
- 80% of NBRB bank supervisors having been trained in applying this, including via case studies.

- Supervisory review undertaken of ICAAP reports of at least the 3 largest banks

Result 3.2
Contribute to significantly enhanced Off-site Surveillance System incorporating revisions as necessary to early warning system; supervisory ratings; analytical indicators; peer group analysis systems; individual bank risk assessment systems; statistical forecasting models and systemic stress tests; liaising with the FS Department – with the overall system using updated IT software.

Indicators of achievement:

- Report to the Board on new off-site early warning system explaining how it facilitates more effective monitoring of the health of, and forewarning of potential problems for each bank.
- Report to the Board explaining results of testing the new system against actual and hypothetical scenarios.

Result 3.3
Work to ensure that NBRB supervisors can confidently and accurately compare banks' prudential reports, with those resulting from the application of IFRS especially IFRS 9 (on Financial Instruments, which takes effect in 2018) instead.

Indicators of achievement:

- Training completed
- Training manual including guidelines produced on above, which enhances supervisors' capacity to assess the integrity of the classification/ measurement of financial instruments, as well as of impairment and hedge accounting.

3.3.4 Component 4 – Financial Risk Management (FRM)

Contribute substantively to reinforcement of the NBRB's overall FRM system, to ensure it reflects best international practice, and that designated staff are fully organised/resourced/ trained to apply it.

Indicators of achievement:

- Report with action plan to Board on proposed revised framework for managing the financial risk attached to the NBRB's overall balance sheet including both assets (eg. its foreign exchange reserves & collateralised bank lending) and liabilities, followed by framework's introduction. It will set out the NBRB's objectives and any legal constraints (eg. with regard to the definition of eligible collateral) on how it operates; the institutional framework (including the role of the Board, Risk Management and other NBRB committees involved), the FRM methodology, including risk measurement (benchmarks, Value at Risk techniques, sensitivity ratios, accounting practices etc), collateral & counterparty risk policies, risk limits/monitoring, mitigating action (e.g. hedging) including when limits are exceeded, IT requirements, staffing/training needs, reporting and oversight arrangements. Staffing needs will include clear job responsibilities and powers, as well as ensuring that staff distribution across different departments is efficient and does not create conflicts of interest.
- Internal paper on FRM, which sets out the aims of the FRM department, changes made to the FRM system reflecting Twinning, an FRM organogram with reporting lines, the new FRM manual, IT changes, regular report templates and the training programme for FRM officials.
- New internal FRM manual to replace existing one.
- Training of all FRM staff so as to be able to play their designated roles under the revised framework.
- Confirmation in the NBRB's annual report of the introduction of the revised framework and an outline of its broad parameters.

3.3.5 Component 5 - Financial Consumer Protection (FCP)

Contribute to work to ensure that the legal and practical arrangements for the Financial Ombudsman are revised as necessary to reflect lessons from the Twinning Partner's and/or other EU countries' practical Financial Ombudsman experience.

Indicators of achievement:

- Document for the Board and the Financial Ombudsman setting out (i) the legal and practical lessons for Belarus from the TP/ other Member States regarding how to respond to the likely challenges for its new Financial Ombudsman system; (ii) an action plan setting out how these lessons should be taken into account in Belarus eg. in legislative changes, published material, working practices, job responsibilities, training etc; (iii) details of a review of the pros and cons after a period – e.g. a year - of these changes being made.
- Training completed for Financial Ombudsman and staff to ensure they can apply the lessons learned from Twinning.
- Formal review of the impact of the work as laid out in (iii) above.

3.3.6 Component 6 – Communication Policy

Contribute to new Communication Policy 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.

Indicators of achievement:

- Paper approved by the Board on new policy including: the role of Communication Policy in NBRB's pursuit of its overall mission; Communication Policy strategy including for particular audiences; principles governing NBRB communication; necessary practical arrangements e.g. form (new channels etc), best practices regarding length, style, frequency of publications; how the success of communications work can be objectively evaluated (using opinion polls, surveys, behavioural/confidence indicators etc) and performance targets set.
- Annex to above paper to be published on the NBRB website which explains what the Communication Policy is, the information it undertakes to provide and the channels it employs to do so.
- Internal manual on performance assessment methodology, approved by the Board.
- Completion of training of all Communications Department staff in the use of the manual.

3.4 Activities

Member State(s) are kindly requested to develop in their submitted proposal those activities that are needed in order to achieve the results stipulated in the fiche. The following points are intended to assist them in doing so.

The NBRB is a relatively small central bank with commensurately low staffing in certain departments, e.g. 8 in FS Department. This has implications for Twinning activities.

First, its capacity to fulfil core functions whilst undergoing major Twinning activities related to them which serves to remove staff from their normal jobs including other medium to long term projects, is limited. This highlights the importance of the activities schedule taking explicit account of relevant departments' 'absorption capacity' in relation to training, e.g. by phasing Twinning so as not to coincide with other workload peaks. It also points to the need to ensure that all those involved in carrying out a particular function, including staff working outside the main department or division concerned, have the opportunity to participate in Twinning activities, aimed at building up the NBRB's overall expertise in the area concerned.
The cost implications of a wider programme can be alleviated in part by having activities take place in Belarus (including in the NBRB Training Centre) where the benefits can accrue to more of the target workforce than if activities occur abroad where cost considerations mean only a few staff can benefit directly. It is also less disruptive of core NBRB work.
They can also be reduced by having an RTA who is able to contribute directly to work on some/all Twinning Components – e.g. FS, banking supervision or payment systems, or some combination of them - as well to the coordination of Twinning work.

Second, Belarus is not an accession country and has no obligation to comply with the *Union acquis*. This means that legal/regulatory input from Twinning must take specific account of the nature of the

Belarusian financial system, in advising on which elements of the EU legal framework as well as the MS national framework should be grafted onto the existing Belarusian model. In practice, Belarusian financial markets are underdeveloped relative to many EU countries. This reinforces the importance of learning selectively from MS best practice so as to prepare Twinning activities tailored to the NBRB's specific needs. It also means that there is a premium on using Twinning staff who are highly experienced, especially those who have worked outside their own countries, rather than less experienced colleagues from a wholly domestic working background.

Third, it is recommended that in order for both NBRB participants and the Twinning partner(s) to be fully prepared for any course, workshop or similar event, the latter should send details of essential pre-course reading to the former, and the NBRB should send the Twinning partner(s) a note describing the main relevant features of the current situation including the NBRB's role, at least a month before the course. In addition, NBRB who travel abroad as part of the Twinning Programme should produce write ups of their trips, copied to the Resident Twinning Adviser (RTA).

Fourth, it is reiterated that a Training activity should involve a Training Needs Assessment being conducted; the development of an agreed Training Plan/materials, wherever possible with case studies; and testing of knowledge transfer after training has been completed.

Finally, the Twinning project shall be implemented as a joint project in which each partner takes on its responsibilities. The MS selected shall transfer the requested hands-on public sector expertise to the BC, and help strengthen the latter's administrative capacity by introducing/ sharing EU-wide best practices in respect of EU and MS legislation, whilst taking account of the specific needs of the Beneficiary Country (BC). The proposal made by the MS should include the activities it proposes to achieve the results listed in the Twinning fiche and be detailed enough to respond adequately to fiche. The set of proposed activities shall be further developed with the Twinning partner when drafting the Twinning work plan, and the final list of activities will be decided with the Twinning partner. The Components are closely interlinked and need to be sequenced accordingly. Sequencing should also take into account the timing of any other assistance that will be provided to the BC during the Twinning programme, e.g. from the IMF and World Bank, not least as it affects its absorption capacity.

It is suggested that the main activities will take some or all of the following forms.

- Training seminars/courses in the MS central bank and/or in the NBRB.
- Missions by Short Term Experts (STE) from MS, public administration and mandated bodies, to Belarus, with STE working alongside NBRB staff to achieve mandatory results – e.g. by contributing to legal provisions as well as input to drafting of manuals and commenting on analytical methodologies/outputs.
- Workshops involving several senior MS technical experts - normally 2/3 STEs – and NBRB staff. Focussing on problems & case studies, they will follow consultancy by MS STE aimed at identifying key issues.
- Expert forums, usually 1 or 2-day roundtable-type events, with senior MS representation from several central banks or others involved (3 STE). The aim is typically to share experience and to prioritize action for reform.
- Study tours. These should be focused and last no more than 10 days. They would normally involve at least 5 NBRB staff and no more than 10.
- Training internships for a maximum of 10 working days.
- Shadowing, which focuses more on observation than active participation of NBRB staff in MS work.

Interpretation may be necessary for certain activities depending on the language skills of those participating from the NBRB and the MS.

3.5 Means/ Input from the MS Partner Administration

3.5.1 Profile and tasks of the Project Leader

The MS Project Leader (PL) shall coordinate Twinning (activities, dissemination of project information, take part in discussions with high level officials, present/ defend project input and expected outputs, manage the project team, draft project management reports, help overcome project-related problems, and assist the RTA). S/he will devote a minimum of 3 days per month to the project in the MS central bank. S/he will also coordinate, from the MS side, the Project Steering Committee (PSC), which will meet in Belarus every three months.
PL Profile:
Requirements:

- University degree/education in economics, finance, law, audit or related field or equivalent experience of 10 years in a central bank or supervisor body
- At least 5 years of experience in a central bank, or bank supervisory body
- Experience of working in one or more of the three following areas: monetary policy, stability of the banking/financial system and payment systems
- Experience in project management
- A very good command of written and spoken English
- Proven contractual relation to public administration or mandated body, as defined under Twinning Manual (section 5.4.5).

Assets:

- Fluent Russian
- Experience of managing projects which involve more than one area of the central bank or bank supervisory body
- Experience of EU-funded projects, in particular Twinning Programmes.

PL Tasks:

- Overall coordination, guidance and monitoring of the project
- Preparation of project progress reports together with Project Leader counterpart and with support of RTA
- Timely achievement of the project results
- Co-chairing of project steering committees
- Provision of legal and technical advice and analysis whenever needed.

3.5.2 Profile and tasks of the Resident Twinning Advisor (RTA)

The Resident Twinning Advisor (RTA) will be based in Belarus to provide full-time input and advice to the project for its 18-month duration. S/he will support the organisation and implementation of the Activities, and will be responsible for the day-to-day management. S/he will brief STEs and MS study tour/internship/shadowing hosts so they are fully aware of NBRB priorities.

RTA Profile:
Requirements:

- A university degree/education in economics, finance, law, audit or related field or equivalent experience of 10 years in a central bank or supervisor body
- A proven contractual relationship with a public administration or mandated body, as defined in the Twinning Manual (section 5.4.5)
- At least 5 years of experience of working in one or more of the three following areas: monetary policy, stability of the banking/financial system and payment systems
- A good command of written and spoken English.

Assets:

- A working knowledge of Russian (speaking as well as reading/writing)
- Previous Twinning experience, or experience of other EU initiatives
- Technical expertise in one or more of the six Twinning components; especially if it enables the RTA to contribute to Twinning activities e.g. by providing training on the basis of his/her competences

- Knowledge of and experience regarding EU legislation/regulation and best practices in banking area, especially in respect of the project mandatory results
- Experience in contributing to changes in the legal/regulatory framework and/or in implementing new laws and policies (by amending existing IT systems, preparing manuals etc) at the central bank or bank supervisory body
- Experience of organising and delivering training.

RTA Tasks:

- Support and coordinate all Activities in the BC
- Manage the day-to-day coordination and progress of project Activities, including STE Activities
- Provide technical inputs to project implementation, focussing on RTA's area of expertise if appropriate
- Liaise with the PL and RTA counterparts
- Report to the MS Project Leader
- Coordinate STE activities
- Monitor project implementation and propose corrective management action, if required
- Prepare project management reports
- Organize communication and visibility events (minimum requirement: kick-off and final event)
- Network with stakeholders of the project in Belarus and in MS
- Ensure EU visibility of the project.

3.5.3 Profile and tasks of the RTA Assistant

The RTA Assistant will be recruited and funded by the project. She/he will work with the RTA throughout the project. The RTA assistant(s) will provide logistical/administrative support, technical translation and interpretation services to the RTA to facilitate Twinning activities and help prepare working documents, organise seminars, training and study tours, etc. The profile of the RTA assistant(s) will be specified by the RTA, with his/her recruitment compliant with the Twinning Manual procedure.

3.5.4 Profile and tasks of the Short-Term Experts (STE)

The project will require a number of STE in order to cover the full range of specialised expertise required. These will be suitably qualified and capable of providing the necessary skills and experience according to the activities mentioned above. The profiles of STE experts indicated below are indicative.

STE Profiles - general experience:

- University degree in a relevant subject or equivalent professional experience of 10 years in a related area
- Proven contractual relationship with public administration, or mandated body, as defined in Twinning Manual (Section 5.4.5)
- Minimum of three years of experience in relevant area
- Good command of written and spoken English
- Experience of working, especially training, outside Twinning country an asset
- Experience in conducting training an asset

STE Tasks:

- To provide technical inputs in specific areas of project implementation relating to Twinning Activities, including workshops, training, coaching, drafting of methodological, legal, course materials as per the terms of reference provided by the RTA prior to each mission
- To liaise with the RTA, the RTA counterpart and NBRB Result or sub-Result leader
- To report to the RTA

STE Profiles - specific experience (indicative list; numbers are minima)

- Communications including performance assessment (4);
- Financial stability surveillance/tools including research and reporting (4);
- Banking supervision, including SREP, IT, IFRS (3);
- Payment systems, including legal framework, new systems & providers, oversight (4)
- Financial risk management including of foreign reserves, liability risk, IT, monitoring (4)
- Financial Ombudsman, including legal framework and practical knowledge (2)

4 Institutional Framework

The beneficiary institution will provide all the necessary human and financial resources required to guarantee the effective, timely implementation of the specified project results. In particular, it will supply:

- Adequately equipped office space for the RTA and the RTA assistant for the entire duration of their secondment (in particular, a desk, a telephone line, PC with e-mail account and internet access, fax & copy services).
- Adequate conditions for the STE to perform their work while on mission to the beneficiary country.

5 Budget

Strengthening the National Bank o Belarus (NBRB)	EU Contribution
Twinning Contract	EUR 1.150.000,00

6 Implementation Arrangements

6.1 Contracting Authority

The European Union Delegation to Belarus will be responsible for tendering, contracting, payments and financial reporting, and will work in close cooperation with the beneficiary.
Any written communication relating to this Contract shall be sent to the following addresses:

Mr. Frederik Coene
Head of Operations
Delegation of the European Union to the Republic of Belarus
34 A/2, Engels Street,
220030 Minsk, Belarus
Tel: +375 17 328 66 13
E-mail: DELEGATION-BELARUS@eeas.europa.eu

6.2 Beneficiary

The beneficiary of the Twinning is the National Bank of the Republic of Belarus (NBRB)

Project Leader counterpart: Sergei Kalechits – Deputy Chairman of the Board of the National Bank of the Republic of Belarus.

The RTA Counterpart: Larisa Litvinenko – Deputy Head of Personnel Directorate Head of Personnel Training and Development Department of the National Bank of the Republic of Belarus.

6.3 Contracts

Only one twinning contract is foreseen for this project for a maximum budget of EUR 1,150.000,00.

The award of the Twinning Grant is subject to the prior conclusion of the financing agreement.

7 Implementation Schedule (indicative)

7.1 Launching of the call for proposals: Q2 2017
7.2 Start of project activities: Q1 2018
7.3 Project completion: Q2 2019
7.4 Duration of the execution period: 21 months

8 Sustainability

The Indicators in section 3.3 identify sub-results of Twinning many of which give rise to continued benefits. The most important is well-trained staff, who can not only apply Twinning lessons, but also adapt them to future challenges and coach colleagues including new recruits. The flow of benefits will also be maintained via other Twinning 'products' including changes to and creation of: legal provisions, policies, processes (e.g. for reviewing & revising FS indicators, producing regular Payment Systems oversight reports etc), internal manuals, models, indicators, training, IT systems, new central banking contacts for NBRB staff etc). Moreover, the prospect of an IMF/World Bank review taking place after Twining, should one be requested by the NBRB and agreed to by the IFI, provides another reason for ensuring that beneficial changes are 'wired' into the NBRB's way of working. In addition, the NBRB will commit to providing the funds requested for Twinning Activities to be completed which is essential for achieving and maintaining targeted results. Lastly, in the final report, the MS will report on the impact of the exercise overall, and make specific recommendations for consolidating the benefits from Twinning.

9 Crosscutting issues (equal opportunity, environment, etc…)

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability and age.

10 Conditionality and sequencing

The NBRB expects to be able to sign a Twinning contract that results from this Twinning fiche, understanding that this would commit it to achieving the specified results and to providing the necessary human and other resources to do so.

In order to facilitate the implementation of the project and to ensure an adequate level of coordination with the MS team, the NBRB will provide strong commitment at all levels. It will make the following contributions to help ensure successful implementation of the project:

- Strong involvement of NBRB staff at all levels
- Assigning/employing the necessary personnel to Activities connected with the project
- Ensuring coordination between institutions connected with the project
- Ensuring access to all necessary information and documents in accordance with legislation in force
- Supply of office accommodation, equipped with computer, telephone, internet access printer, photocopier to MS in-country staff and visiting experts
- Providing suitable venues and equipment for training sessions and seminars that will be held under the project
- Designating a NBRB counterpart for each MS expert.

With the objective of ensuring overall coherence, coordination mechanisms will be established at different stages with other EU projects (including with other Twinning projects and TA), as well as with EBRD, IMF, World Bank and other relevant offices in Minsk.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. List of relevant laws and regulations
4. Information on project registration and taxes

Annex 1: Logical framework matrix in standard format

<table>
<tr><td>Strengthening the National Bank of the Republic of Belarus</td><td>Programme name and number:
Technical Cooperation Facility, AAP 2016, ENI/2015/39-378</td><td colspan="2">Twinning budget: EUR 1.150.000,00</td></tr>
<tr><td></td><td><u>Final date for contracting: d+3 years ('d' is subject to the date of conclusion of financing agreement)</u></td><td colspan="2"><u>Implementation period: 18 months</u></td></tr>
<tr><th>Overall objective</th><th>Objectively verifiable indicators</th><th>Sources of verification</th><th>Assumptions</th></tr>
<tr><td>NBRB is much better able to address the major challenges that it faces as an independent central bank, thus engendering its citizens' trust in the currency/ NBRB, and contributing to sustainable growth in the wider economy.</td><td>• GDP growth rate
• Inflation
• Debt
• Household ruble deposits</td><td>• Official statistics
• NBRB Annual Report and Financial Stability Report
• Relevant reports/evaluations of aspects of NBRB performance conducted by donors</td><td>• Political and macroeconomic stability
• Political commitment to reform</td></tr>
<tr><th>Project purpose</th><th>Objectively verifiable indicators</th><th>Sources of verification</th><th>Assumptions</th></tr>
<tr><td>To build up the NBRB's capacity to pursue effectively its core responsibilities in terms of monetary policy, financial stability and efficient, reliable, and secure payment systems, whilst managing prudently the financial risks associated with its operations</td><td>• Enhanced capacity of NBRB to pursue its core responsibilities
• Increased knowledge and competence of NBRB staff to perform duties more effectively
• Existence of draft legislation and manuals in accordance with EU best practices</td><td>• Satisfactory EU Assessment
• Independent EU Monitoring Reports
• PSC Quarterly Reports
• Twinning project reports and project documentation
• Internal NBRB manuals</td><td>• Stakeholders commitment to the Twinning programme</td></tr>
<tr><th>Mandatory Results</th><th>Objectively measurable indicators</th><th>Sources of verification</th><th>Assumptions</th></tr>
<tr><td colspan="4">Component 1 – Payment systems</td></tr>
<tr><td>The establishment of a revised legal and regulatory framework for payment systems in Belarus.</td><td>• Existence of draft 'concept law' on Payment Services in the Republic of Belarus by NBRB
• Existence of Regular (annual) external publication of a new Financial Infrastructure Report, which includes the results of the NBRB's assessment of payment systems' compliance or otherwise with PFMI
• Evidence of enhanced skills of NBRB staff via training</td><td>• NBRB board reports
• Official journal
• Published Financial Infrastructure Report
• Twinning project reports/Training evaluation</td><td>• The new law on Payment Services in the Republic of Belarus is enacted in 2019
• Absorption capacity to implement the above law
• Adequate qualified NBRB staff to participate in Training</td></tr>
</table>

Component 2 – Financial Stability			
The NBRB will have enhanced powers/ capacity to effectively monitor risks, take mitigating action and manage systemic problems that nonetheless occur, so as to maintain Financial Stability (FS)	• Existence of a NBRB report on equivalent Twinning country FS arrangements, including its legal/institutional framework, macro-prudential surveillance and macro-prudential tools, with implications for NBRB	• Twinning project report / NBRB internal report	• Stakeholders commitment • NBRB absorption capacity • Adequate qualified NBRB staff to participate in Twinning
SR 1(sub-result 1) - Contribute to a revised, coherent, comprehensive, efficient and robust legal and institutional framework.	• Existence of a written review, including proposed actions by the Board, of the legal and institutional framework for FS in Belarus including the allocation of responsibility for maintaining FS.	• Written review for Board of legal and institutional framework for FS	• As above
SR 2 - Work effectively with the beneficiary to build a comprehensive, dependable, up to date, evidence-based system for conducting macro-prudential surveillance (MPS) of the evolving financial sector	• Existence of NBRB research on proposed MP indicators for Belarus • Existence of a Report for the Board on macro-prudential (MP) indicators • Existence of Manual(s) on how to conduct MPS, (which could be separate to or joined up with other FS manuals). • Evidence of enhanced skills of NBRB staff via training	• country MPS system • Report on NBRB research on proposed MP indicators for Belarus • NBRB Board Report on MPS with action programme • MPS Manual • Twinning project reports/Training evaluation	• As above
SR 3 - Work with beneficiary to ensure its access to an adequate range of effective MP tools to help mitigate emerging systemic risks.	• Existence of a Report on NBRB research on proposed MP tools for Belarus • Existence of a Report for the Financial Stability Committee and then Board for sign off on the MP tools available to the NBRB and their proposed usage • Existence of Manual(s) on how the NBRB mitigate risks to FS using the MP tools available to it. • Evidence of enhanced skills of NBRB staff via training	• Report on NBRB research on proposed MP tools for Belarus • Financial Stability Committee & Board Report prepared and signed off • MP tools Manual • Twinning project reports/Training evaluation	• As above

Component 3 – Banking Supervision			
The 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).	• Existence of evidenced-based summary account in the NBRB Financial Stability Report (FSR) and Annual Report of the improvements made with the help of Twinning	• NBRB Supervision Enhanced Off Site Manual	• As above
SR 1 – Contribute to enhancement of NBRB capacity to supervise not only ICAAP and ILAAP assessments, but also other elements including internal governance and control & other risks, of the Basel II Supervisory Review and Evaluation Process (SREP).	• Existence of Internal, EBA-compliant, methodology manual for the SREP. • Existence of Supervisory Reviews • All NBRB bank supervisors have been trained in application of SREP manual • Conducted Supervisory review of ICAAP reports of at least the 3 largest banks	• Supervisory Reviews for banks • Supervisory ICAAP reviews for 3 largest banks • Twinning project reports/Training evaluation	• As above
SR 2 – Contribute to significantly enhanced Off Site Surveillance System incorporating revisions as necessary to early warning system; supervisory ratings; analytical indicators; peer group analysis systems; individual bank risk assessment systems; statistical forecasting models and systemic stress tests; liaising with the FS Department – with the overall system using updated IT software.	• Existence of a new off-site early warning system • Evidence for implementation of the warning system • Evidence of enhanced skills of NBRB staff via training	• Board report on enhanced early warning system • Twinning project reports/Training evaluation	• As above
SR 3 – Work to ensure that NBRB supervisors can confidently and accurately compare banks' reports with those resulting from the application of IFRS especially IFRS 9 (on Financial Instruments, which takes effect in 2018).	• Evidence of enhanced skills of NBRB staff via training	• Twinning project reports/Training evaluation	

Component 4 – Financial Risk Management (FRM)			
The introduction and full implementation of a revised system for managing the NBRB's overall financial risk, which incorporates best international practice	• Existence of an internal paper on the changes made to introduce the new framework (aims of the FRM department, organogram, FRM manual, IT changes, regular report templates and the training programme for FRM officials; etc.) • Existence of new internal FRM Manual. • Evidence of enhanced skills of NBRB staff via training	• NBRB FRM Report for Board including Action Plan /FRM Manual • NBRB Annual Report on changes made to new framework • Twinning project reports/Training evaluation	• As above
Component 5 – Financial Consumer Protection (FCP)			
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.	• Existence of document for the Board and the Financial Ombudsman setting out (i) the legal and practical lessons on how to respond to the likely challenges for its new Financial Ombudsman system; (ii) an action plan setting out how these lessons should be taken into account in Belarus e.g. in legislative changes, published material, working practices, job responsibilities, training etc; (iii) details of a review of pros and cons after a period - e.g. a year - of these changes being made. • Evidence of enhanced skills of NBRB staff via Training	• NBRB report on Twinning partner/EU countries' FCP systems • Document for the Board and the Financial Ombudsman including action plan document • Twinning project reports/Training evaluation	• As above • The legislation setting up the Financial Ombudsman has been passed in time for Twinning

Component 6 – Communication Policy			
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	• Existence of a paper for the Board on new CP (role; strategy for audiences; NBRB communication; practical arrangements; CP evaluation, performance targets set, etc.) • Existence of a paper on NBRB website explaining the Communication Policy prepared • Performance assessment methodology manual • Evidence of enhanced skills of NBRB staff via Training Established • Organised two thematic Twinning events • Published quarterly Twinning NBRB newsletters	• NBRB Board Sign Off on new policy • Twinning project reports/Training evaluation • Twinning Project website visitor traffic • Thematic Twinning conference reports • Quarterly NBRB Twinning newsletters	• As above • NBRB have a continuing commitment to its core mission and new communication policy

Annex 2: Tentative detailed implementation Chart

Strenghtening of the NationalBank of Belarus	2017												2018												2019								
Month	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
Twinning						T	T	T	C	C	C	C	A	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	I	R	R	R

T - Call for proposals
E- Evaluation of proposals
C-Contracting
A -Arrival of the RTA/Start of the implementation of activities
I-Implementation of activities
R-Report

Annex 3: List of relevant laws and regulations

1. The Constitution of the Republic of Belarus (http://law.by/databank-business/list-of-legal-acts/?p0=17)
2. The Banking Code of the Republic of Belarus (http://law.by/document/?guid=3871&p0=Hk0000441e)
3. 3 The Statute of the NBRB (https://www.nbrb.by/engl/legislation/documents/statute.pdf)
4. Republic of Belarus Monetary Policy Guidelines (https://www.nbrb.by/engl/legislation/ondkp/)
5. Other laws of the Republic of Belarus and regulatory legal acts of the President of the Republic of Belarus relating to the NBRB

Annex IV Information on project registration and taxes

Taxes and other charges

The applicable tax and customs arrangements are the following:

The European Commission and the Republic of Belarus have agreed in the Framework Agreement between the Government of Belarus and the Commission of the European Communities signed on 18 December 2008 to allow full exemption from the following taxes:

- Customs and import duties, taxes or any other charges having equivalent effect imposed in the Republic of Belarus.

- Value added tax, documentary stamp and registration duties or any other internal fiscal charges having equivalent effect imposed in the Republic of Belarus.

In the Republic of Belarus, the contract must be registered to be subject to an exemption from custom duties and taxes. Therefore, after contract signature it must be registered with the Ministry of Economy of the Republic of Belarus.

The exemption procedures are described in Decree of the President No. 460 'On International Technical Assistance provided to the Republic of Belarus', October 22, 2003. Any amendments to it shall be duly considered.

The Beneficiary is responsible for providing assistance to the NBRB for obtaining the above mentioned exemptions.