WORLD BANK GROUP
Finance, Competitiveness & Innovation

FINANCIAL SECTOR ADVISORY CENTER

ANNUAL REPORT 2023

www.worldbank.org/finsac

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Contents

Abbreviations used in this report

BRRD	EU Bank Recovery and Resolution Directive
ECA	Europe and Central Asia
EU	European Union
FinSAC	Financial Sector Advisory Center
ICAAP	Internal Capital Adequacy Assessment Process
NPL	Non-Performing Loan
SREP	Supervisory Review and Evaluation Process

Foreword

Jean Pesme

Global Director of Finance,
Finance, Competitiveness and Innovation
Global Practice, The World Bank

Financial stability and soundness of banking systems remained an urgent priority in 2023, against the backdrop of ongoing war in Ukraine and conflict in the Middle East, tightened financial conditions and elevated inflationary pressures. Bank failures in the U.S. and Europe in early 2023 served as a timely reminder of how much the preservation of financial stability depends on the preparedness of the financial sector authorities to deal with the crisis.

FinSAC continues to successfully deliver impact oriented financial sector technical assistance in the ECA region. It has developed a deep and sustainable engagement with client countries and helps them implement concrete legislative, regulatory, and institution building initiatives that strengthen the resilience and efficiency of financial systems. FinSAC is closely integrated with the work of other teams within the Finance, Competitiveness & Innovation Global Practice.

Climate change, poverty, and inequality are the defining issues of our age. An important aspect of FinSAC's work is the cross-cutting focus on supporting central banks and financial regulators acknowledge and respond to the financial stability implications of climate change. With FinSAC support, prudential policies and regulatory frameworks are being adapted by client countries to recognize systemic climate risk, for example, by requiring financial institutions to incorporate climate risk scenarios into their stress tests.

FinSAC technical assistance and global knowledge remains in high demand by client countries as they seek to align with changes in the European Union (EU) regulatory framework and protect themselves from current financial stability risks. The World Bank is therefore grateful to the Austrian Federal Ministry of Finance for its decision to fund FinSAC for a further phase. This will have a measurable impact on the ability of central banks, banking regulators, deposit insurance agencies, ministries of finance, and other state authorities in client countries to preserve financial stability in their respective jurisdictions.

Federal Ministry
Republic of Austria
Finance

Harald Waiglein

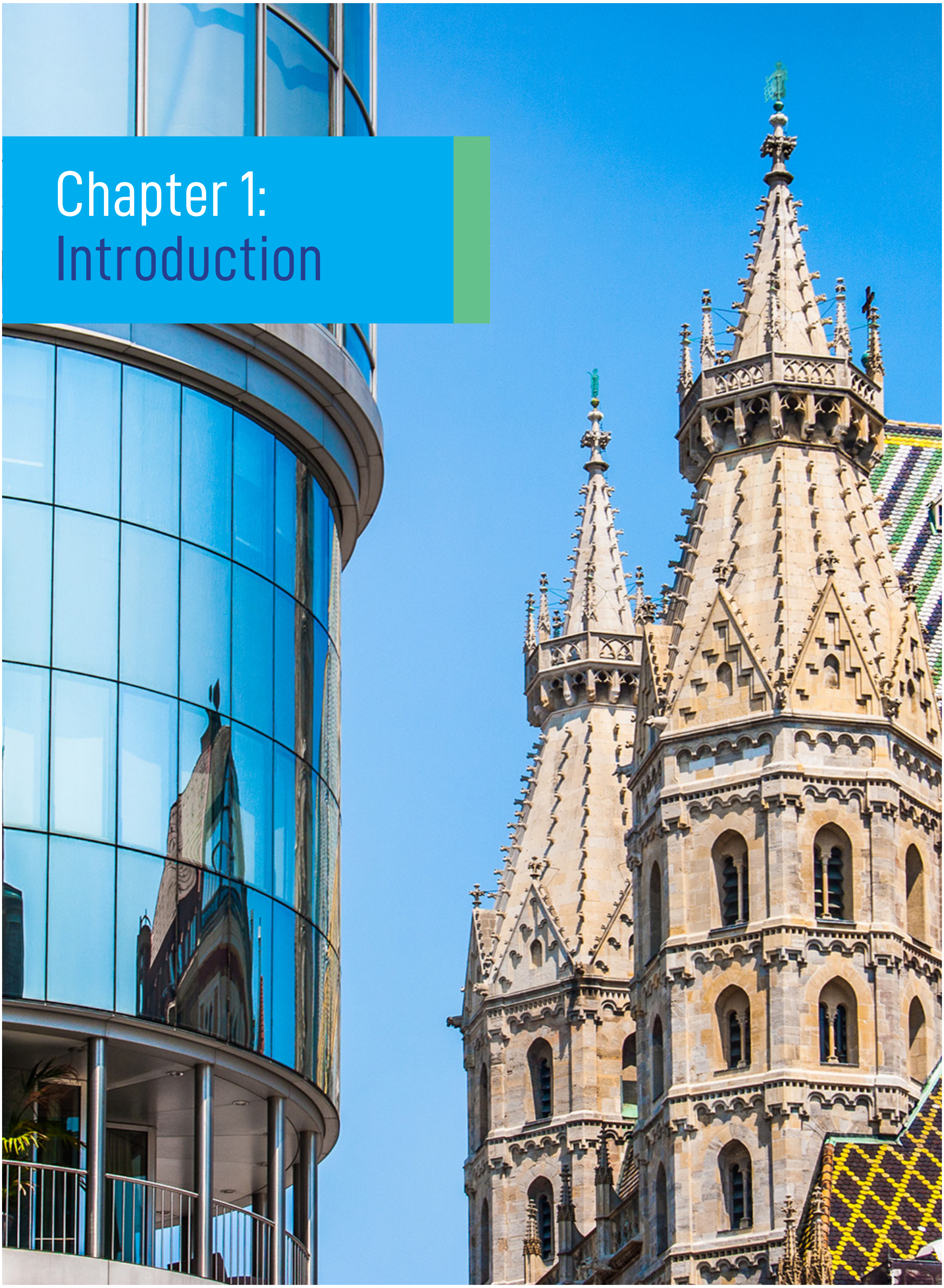
Director General,
Economic Policy and Financial Markets,
Austrian Federal Ministry of Finance

I am pleased to introduce this annual report highlighting the important work undertaken by FinSAC in 2023. FinSAC, which is financed by the Austrian Federal Government, is a strong example of Austria's productive 75 year relationship with the World Bank.

FinSAC's focus on enhancing financial stability in the neighborhood countries of the EU remains as important as ever. Sadly, Russia's war in Ukraine and other regional and global challenges clearly show that financial stability in our home region cannot be taken for granted. Bank failures in the US and Europe in 2023 caused significant system-wide stress, illustrating the importance of effective functioning financial safety nets.

FinSAC has a strong track record in supporting the strengthening of regulatory and institutional frameworks in its client countries. Its assistance has grown and evolved in step with each client country and wider evolving global good practices. It continues to build on its success in guiding the introduction of modern legislative frameworks addressing vital topics such as handling failing banks, reducing the prevalence of nonperforming loans (NPLs), improving crisis preparedness, capacity building of financial regulators and supervisors, and most recently addressing climate related risks in the financial sector. As many of its clients move towards alignment with the EU, FinSAC's expertise and ability to advise on necessary reforms from the big picture to granular detail is a particular strength.

In support of this ongoing work, the Austrian Federal Government decided to fund a new phase of the Center's activities beginning in 2024. We look forward to the continuing collaboration through FinSAC in helping strengthen our region against future economic shocks.



Chapter 1: Introduction

FinSAC supports financial stability preparedness

The Financial Sector Advisory Center (FinSAC) was established in 2011 as a follow up to the Vienna Initiative to assist countries in the Europe and Central Asia (ECA) region in dealing with legacy issues of the Global Financial Crisis. Funded by the Austrian Federal Ministry of Finance, it is a dedicated technical unit in the World Bank that delivers tailored reform advice and implementation assistance on financial stability topics to client countries.

In an environment of tightened financial conditions and elevated inflationary pressures, the financial turbulence caused by bank failures in the United States and Europe in early 2023 reconfirmed the importance of financial stability and the soundness of banking system fundamentals. Those incidents have served as a timely reminder of how much the preservation of financial stability depends on the preparedness of the financial sector authorities to deal with crises, and on the shock absorption capacity of the financial system itself. In that context, FinSAC's focus on financial stability remains of high relevance, with bilateral technical assistance continuing to be the main avenue for the flow of FinSAC's support to client countries, both to enhance the regulatory framework and more so to improve the capacities of the banking supervisors. The organization of topical conferences and knowledge sharing events continues to be an integral part of FinSAC's activities.

This Annual Report gives an overview of FinSAC's activities in 2023, setting out its purpose and mission. It outlines the economic situation in client countries, summarizes the outputs under FinSAC's different projects and products in 2023, as well as provides an outlook for FinSAC's planned activities in 2024.

Highlights of 2023

Against the backdrop of the ongoing war in Ukraine and an escalation of the conflict in the Middle East, 2023 continued to bring new challenges to European economies. Even though the risks to financial stability caused by bank failures were muted, general financial stability risks remained elevated. The impact of tight financial and credit conditions, coupled with the ongoing correction in real estate markets and weak prospects for the debt servicing capacity of borrowers could result in renewed shockwaves for regulators and banks alike to absorb. Despite the lending margins benefiting from rising interest rates, the demand for bank loans is decreasing sharply with loan loss provisions starting to rise. Overall, the financial stability outlook in Europe remains fragile as tighter financing conditions are increasingly spreading to the real economy.

Growth rates in Europe in 2023 are expected to be below the pre-pandemic average, reflecting a worsened global economic environment, tighter financial conditions, lower aggregate demand, and diminishing credit supply. The weak economic outlook had a decelerating impact on the growth of most FinSAC client countries, primarily owing to weaker consumption and exports. Structural reforms to ensure sustainable growth are needed, the EU accession negotiations can serve as a favorable reform anchor for the candidate countries. Thanks to decisive financial stability focused reforms over the last years, the financial sectors in the FinSAC client countries demonstrated strong resilience in 2023. Nonetheless, the tighter financing conditions, as well as the weak economic outlook in Europe could impact the region's financial sector, highlighting once more the importance of a functional crisis management framework, banking supervision, and financial safety nets.

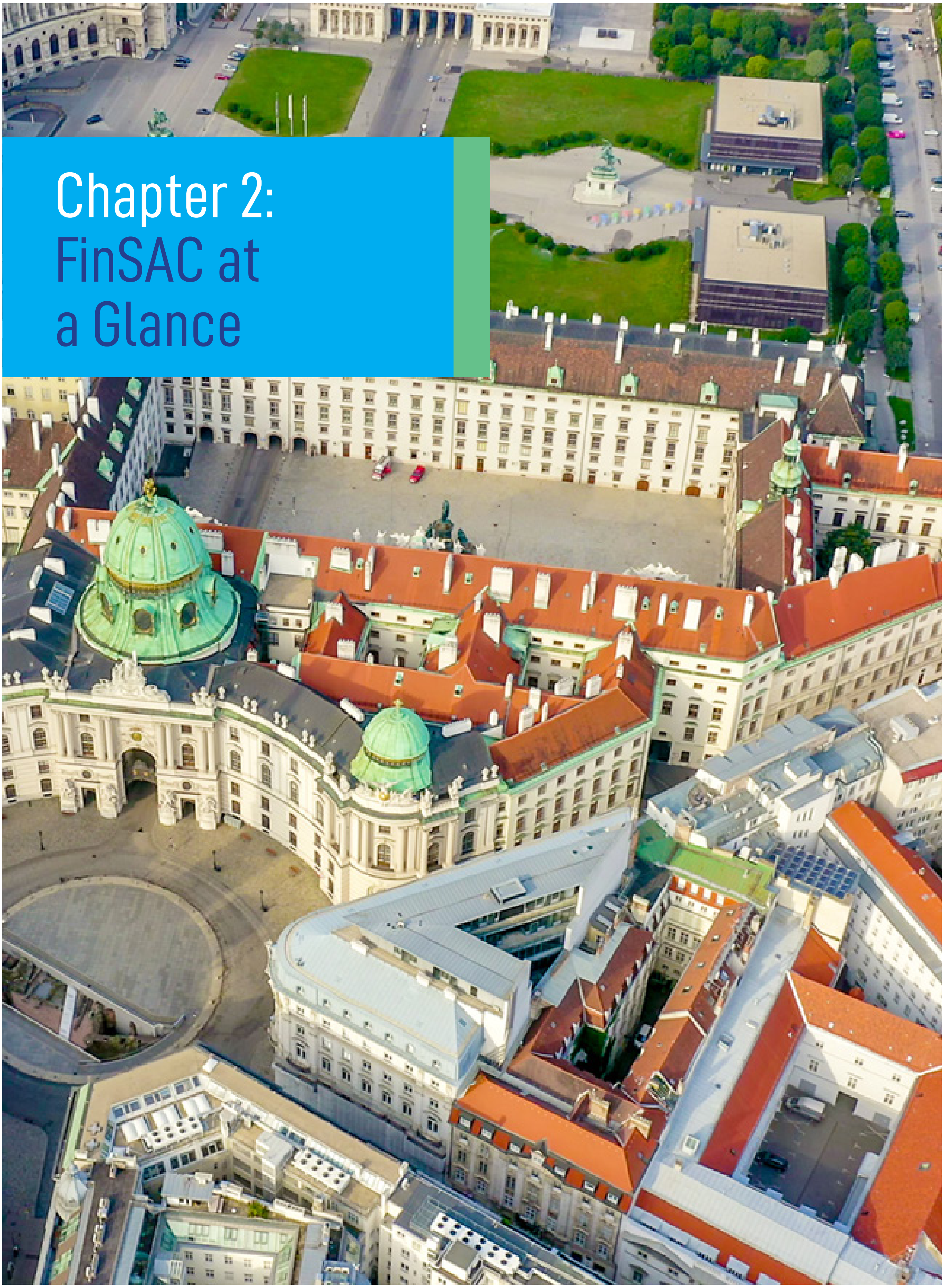
The strong demand for FinSAC's technical assistance continued in 2023 and the number of active client countries grew to ten, with the re-engagement of the financial sector authorities in Montenegro. The well established practice of mixed virtual and physical missions continued. For Ukrainian counterparts, the practice of reverse missions was introduced, with the critical missions held in Vienna. FinSAC was engaged on 21 technical assistance projects in 2023, 16 were concluded at year-end and five are ongoing into 2024. The projects addressed the full range of FinSAC expertise on financial stability, including newer product lines covering climate related financial risks and bank recovery and resolution simulation. Summaries of all technical assistance projects and their outcomes are in Chapter 4.

In addition to technical assistance projects, FinSAC was active on the knowledge agenda. FinSAC organized two international conferences during the year: a thematic conference on deposit insurance funding in March and its flagship Annual Supervisory Conference in May. A series of eight webinars introducing climate related stress testing was organized throughout the year, open to all client country authorities. FinSAC co-organized a training course on NPL management and resolution. It actively participated in the preparation of the report on “Greening the financial sector: a CESEE perspective”, prepared by the Vienna Initiative Working Group on Climate Change, where FinSAC co-led a chapter on supervisory and regulatory aspects of climate related financial risks. It also progressed with the preparation of its analytical knowledge products, with one paper published in 2023 and another four papers expected in 2024. Summaries of knowledge activities are in Chapter 5.

FinSAC committed €2,951,597 to its activities in 2023, up from €2,373,145 in 2022. The increase in expenditure is explained primarily by the return to the full fledged scope of pre-pandemic activities, as well as increased prices for travel and organization of knowledge events. At the end of 2023, there were €641,003 remaining funds unspent under the third phase of FinSAC’s operations, which are planned to be utilized under specific country programs by the end of June 2024. To ensure further support to client countries in the region, the Austrian government has generously agreed to finance the fourth phase of FinSAC’s operation, which will span at least until the end of 2026.

In 2024, FinSAC will continue its tailored support to client countries with 10 programmatic country programs covering all three pillars of FinSAC’s activities, with a deepening focus on addressing climate related risks to the financial sector. Knowledge activities will constitute at least one international conference and the finalization and dissemination of four analytical papers.

Chapter 2: FinSAC at a Glance



2023 in Numbers

Technical assistance projects **completed** 16

Technical assistance projects **ongoing** 5

Regional knowledge **events** 4

Knowledge papers **published** in 2023 and **ongoing** into 2024 5

Years in operation 12

Active client countries 10

FinSAC's areas of focus

Areas of focus are organized within three pillars of financial stability

1 Financial Stability, Macroprudential Frameworks and Crisis Preparedness

- Promote the development of institutional capacity to monitor, analyze, and manage systemic risk, leading to systemic risk assessments and macroprudential policy response.
- Increase operative crisis preparedness, including through financial crisis simulation exercises and evaluation and strengthening of financial sector safety net institutional arrangements.
- Enhance deposit insurance frameworks, including coverage, fund size target, deposit payout procedures, backstop funding arrangements, financing of bank resolution, public awareness, and operational capacity.

2 Microprudential Oversight and Non-Performing Loan Resolution

- Upgrade banking sector legislation, regulatory standards, and practices in line with international good practice.
- Enhance supervisory review and evaluation processes, benchmark supervisory models, improve supervision of non-financial risks, implementation of corporate governance frameworks, strengthening of home-host supervision, etc.
- Encourage design and implementation of forward looking assessments of bank business models, and methodologies for stress tests and asset quality reviews.
- Enhance NPL resolution frameworks.

3 Bank Recovery and Resolution

- Strengthen bank recovery and resolution frameworks through alignment of legal and regulatory frameworks with international best practices.
- Enhance the capacity of dedicated bank resolution units, assist with the adoption of resolution tools and powers to effectively deal with bank failures.
- Strengthen coordination among financial safety net players, including via bank crisis simulation exercises.

Cross-cutting theme: Climate-related financial risks

Physical and transition risks stemming from climate change are a cross-cutting theme touching upon all three pillars of FinSAC's operations.

The FinSAC Team

Vahe Vardanyan
Lead Financial Sector Specialist

Juan Ortiz
Senior Financial Sector Specialist

Pamela Lintner
Senior Financial Sector Specialist

Karlis Bauze
Senior Financial Sector Specialist

Ismael Ahmad Fontán
Senior Financial Sector Specialist

Milica Nikolic
Senior Financial Sector Specialist

Nan Zhou
Financial Sector Specialist

Nurgul Irsalieva
Program Assistant

FinSAC Internships

FinSAC again offered two internships in 2023. Selected from an impressive pool of applicants, the interns, both PhD candidates in economics, quickly and effectively engaged with FinSAC's team and operations. One was supported to carry out a review of FinSAC's Cybersecurity Digest using text summarization techniques based on OpenAI. He analyzed the coverage on the topic of cyber risk identification within the 271 documents of the archive and produced a report on the issue of risk intelligence with machine summaries. The other intern was engaged in climate related work in the financial sector. He worked on technical assistance projects in two FinSAC client countries on the assessment of the exposure analysis of the banking sector to climate risks, using data manipulation, writing, and presentation skills to contribute to the analysis and report preparation.

Client countries with active FinSAC technical assistance projects in 2023

ALBANIA

ARMENIA

BOSNIA AND HERZEGOVINA

GEORGIA

KOSOVO

MOLDOVA

MONTENEGRO

NORTH MACEDONIA

UKRAINE

UZBEKISTAN

Partners

FinSAC is funded by the Austrian Federal Ministry of Finance. It maintains close working relationships with international organizations and global standard setting bodies, including the European Commission, Single Resolution Board, European Central Bank, Basel Committee for Banking Supervision, International Association of Deposit Insurers, Joint Vienna Institute, Asian Development Bank, and many more to help share new and upcoming regulatory changes and good practice with client countries and to feedback information on the experience of countries implementing changes and suggest areas for further attention.

Governance

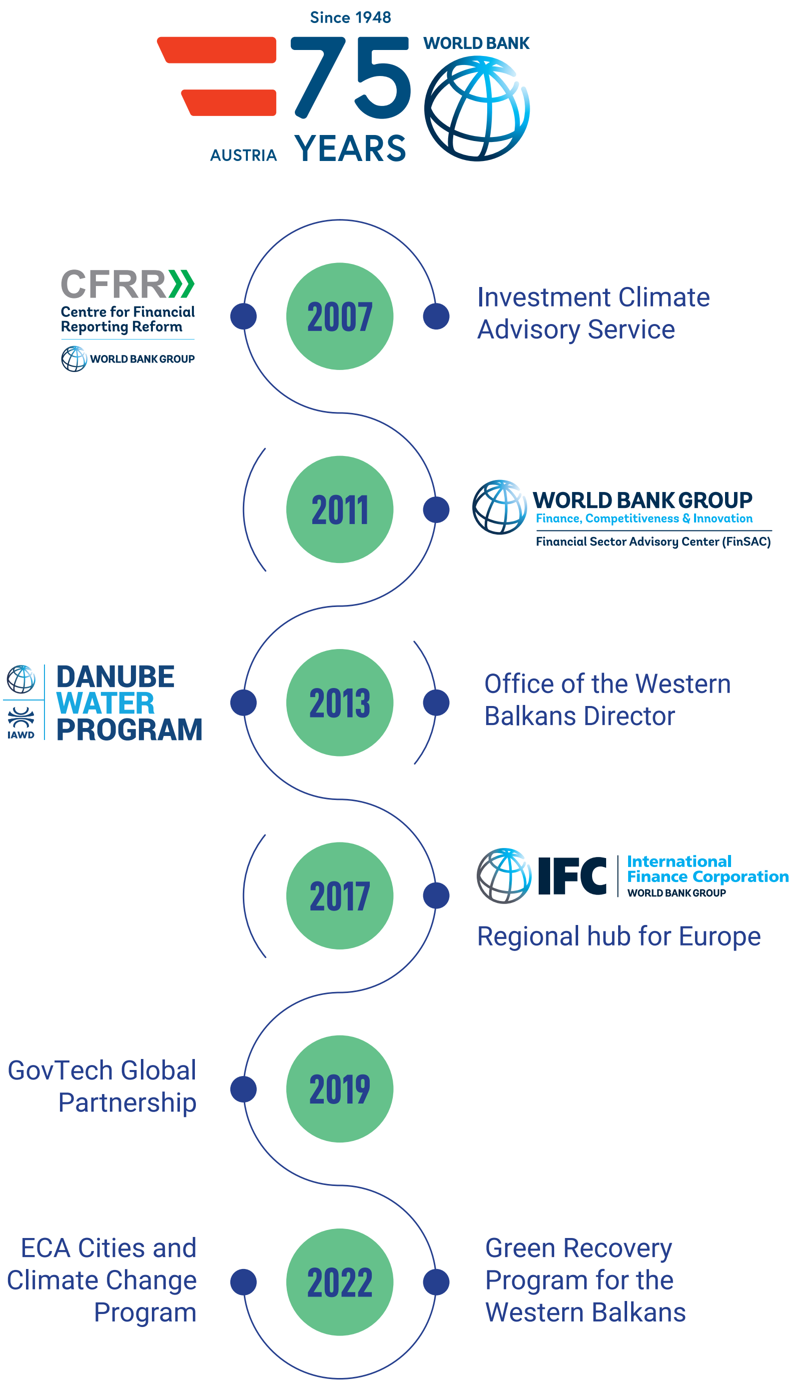
The FinSAC steering committee oversees operations and activities. It comprises senior representatives of the Austrian Federal Ministry of Finance's Department of International Financial Institutions and the World Bank Finance, Competitiveness, and Innovation Global Practice. The FinSAC Coordinator serves in an ex-officio capacity. During its meeting in 2023, the Steering Committee discussed progress against the annual work plan, identified areas for enhanced focus, and endorsed FinSAC extending its operations into a fourth phase beyond 2024.

Website

The FinSAC website continued to be used by clients and other interested parties to access information about FinSAC and its knowledge products. There were 1,705 unique visitors to the website in 2023, with 6,796 pages viewed. Policy notes on NPLs; small host countries and bank resolution; and borrower relief measures were among the most downloaded materials. A new FinSAC website is nearing completion and should be live in mid-2024.

75 years of Cooperation between the World Bank Group and Austria

2023 marked the 75th anniversary of the Republic of Austria's partnership with the World Bank Group. In that time, Austria has become a valued and active partner, financing programs including FinSAC and hosting a regional hub and several programs in Vienna. This milestone was celebrated with a conference at which FinSAC presented its work, including video materials commissioned for the occasion.



Chapter 3: The Regional Environment

The European Union

Against the background of falling household purchasing power, declining external demand, vigorous tightening of monetary policy, and partial withdrawal of fiscal support, the European economy faced a challenging year in 2023. Towards the end of 2022, the economic expansion had already diminished and has since been broadly stagnant, largely owing to the momentum of the post-pandemic economic rebound in the previous two years. Economic activity in the EU is thus estimated to have expanded by only 0.5% in 2023, with a modest growth outlook of 0.9% for 2024. There have been, however, positive developments when it comes to inflation. The sharp fall in energy prices was followed by faster than expected moderation of price pressures. The retail energy prices are expected to fall even further, helping the EU recover some of the competitiveness lost during the energy crisis, and supporting the steady downward path of underlying inflation. It is expected that EU consumer price inflation will fall from 6.3% in 2023 to 3.0% in 2024 and 2.5% in 2025. This could be challenged though by shifts in the global economy and protracted geopolitical tensions, causing additional trade disruptions and renewed stress to supply chains, hampering production, and adding price pressures.

EU economic activity expanded by only **0.5%** in 2023 with a modest growth outlook of **0.9%** for 2024

The European Commission adopted the 2023 Enlargement Package, providing a detailed assessment of progress towards accession to the EU by Western Balkan countries and, for the first time, also Georgia, Moldova, and Ukraine. In light of the results achieved by Moldova and Ukraine, the Commission has recommended that the Council opens accession negotiations and adopts the negotiating frameworks, once these countries have adopted certain key measures. Based on the steps taken and results achieved, the Commission also recommended that the Council grants Georgia the status of a candidate country. When it comes to Bosnia and Herzegovina, the Commission recommended that before opening accession negotiations, the country needed to apply further efforts to fulfill the key priorities set out in the Commission's Opinion. Progress on EU accession reforms largely stalled in Montenegro which suffered from political instability and needed to demonstrate its commitment to deliver on EU accession reforms, primarily in the area of rule of law. Serbia was advised to improve its alignment with the EU's common foreign and security policy as a matter of priority, with further work and political commitment to implement reforms in the area of the rule of law. As a negotiating country, North Macedonia is expected to deliver on the implementation of reforms in the judiciary, the fight against corruption and organized crime, and public administration reform. Albania continued to demonstrate its determination to implement EU reforms, though further efforts are needed on freedom of expression, minority issues, and property rights, as well as in key areas of the rule of law. Kosovo showed legislative achievements, including an important electoral reform, however, more work needs to be done, including on the action plan for justice reforms.

Continued focus on bank resilience

Following a series of bank failures in Europe and the US, the beginning of 2023 witnessed considerable financial turbulence with increased attention to systemic risks. While risks to financial stability abated towards the end of the year, they remain elevated and require careful monitoring. The impact of tight financial and credit conditions and the weak economic prospects might weigh on borrowers' capacity to service their debt, which - coupled with the ongoing correction in real estate markets - could negatively impact banks' balance sheets. While higher interest rates underpinned banks' profitability in 2023, the worsening asset quality and higher funding costs pose headwinds, surfaced by a gradual increase in default rates and payment arrears, though NPL ratios still remain stable.

Despite elevated risks to financial stability, the euro area banks retained their strong capital and liquidity positions. Banks' liquidity buffers remain well above regulatory requirements, while the solvency ratios rose in 2023, supported by higher bank profitability and bank de-risking. In the meantime, the euro area authorities continued to strengthen bank resilience by further increasing macroprudential capital buffers. To preserve resilience from a more structural perspective, banks need to carefully manage the risks stemming from climate change. The risks posed by the digitalization of the financial industry also require close attention, given cyberattacks targeting financial institutions continue to rise. The number of attacks recorded in the financial sector globally increased by 30% in 2023, a clear reminder of the seriousness of the threat and the importance of financial institutions having adequate cyber resilience in place.

Regulatory Developments

The Basel Committee on Banking Supervision conducted an important stocktake of lessons learned from the tensions in the US and Swiss banking sectors in 2023, reaffirming that implementing Basel III remains a priority for banking regulators and supervisors. It issued several consultative papers, covering the Basel Core Principles update, amendments to crypto asset standards, recalibrations of shocks in interest rate risks in the banking book, as well as a paper on a Pillar 3 disclosure framework for climate related financial risks.

In December 2023, the European Parliament and the Council endorsed the October 2021 European Commission Banking Package (Capital Requirements Regulation III/ Capital Requirements Directive VI), that contains the final elements of the implementation of the Basel III framework in the EU. The Commission adopted its regulation on the transparency and integrity of environmental, social and governance rating activities for banks. In line with the publication of the European Central Bank's final guide on the assessment of qualifying stakes in banks, the Markets in Crypto Assets Regulation entered into force in June 2023, introducing a harmonized framework for all Member States to regulate the issuance of crypto assets, in particular asset referenced tokens and e-money tokens, and the provision of crypto asset services. On the NPL agenda, important developments during 2023 included publication of the Implementing Technical Standards for NPL Transaction Data Templates as well as the European Banking Authority's final guidelines on the assessment of adequate knowledge and experience of the management of credit servicers.

In April 2023, the European Commission adopted a proposal to adjust and further strengthen the existing EU bank crisis management and deposit insurance framework. The proposal will enable authorities to organize an orderly market exit for failing banks of any size and business model, including smaller players, facilitating the better use of deposit guarantee schemes in crises, and further harmonizing the standards of depositor protection across the EU. The International Association of Deposit Insurers international steering committee proposed a second update of its Core Principles for consultations, and the European Banking Authority published its final revised guidelines on deposit guarantee scheme contributions. In addition, the European Banking Authority published new and revised bylaws, including guidelines on the publication of the write-down and conversion and bail-in exchange mechanics, amendments to disclosures and reporting on minimum requirements for own funds and eligible liabilities and total loss absorbing capacity, as well as resolvability testing guidelines. For the first time, the Single Resolution Board published a report on resolution planning and crisis management for smaller banks, known as "less significant institutions".

FinSAC Client Countries

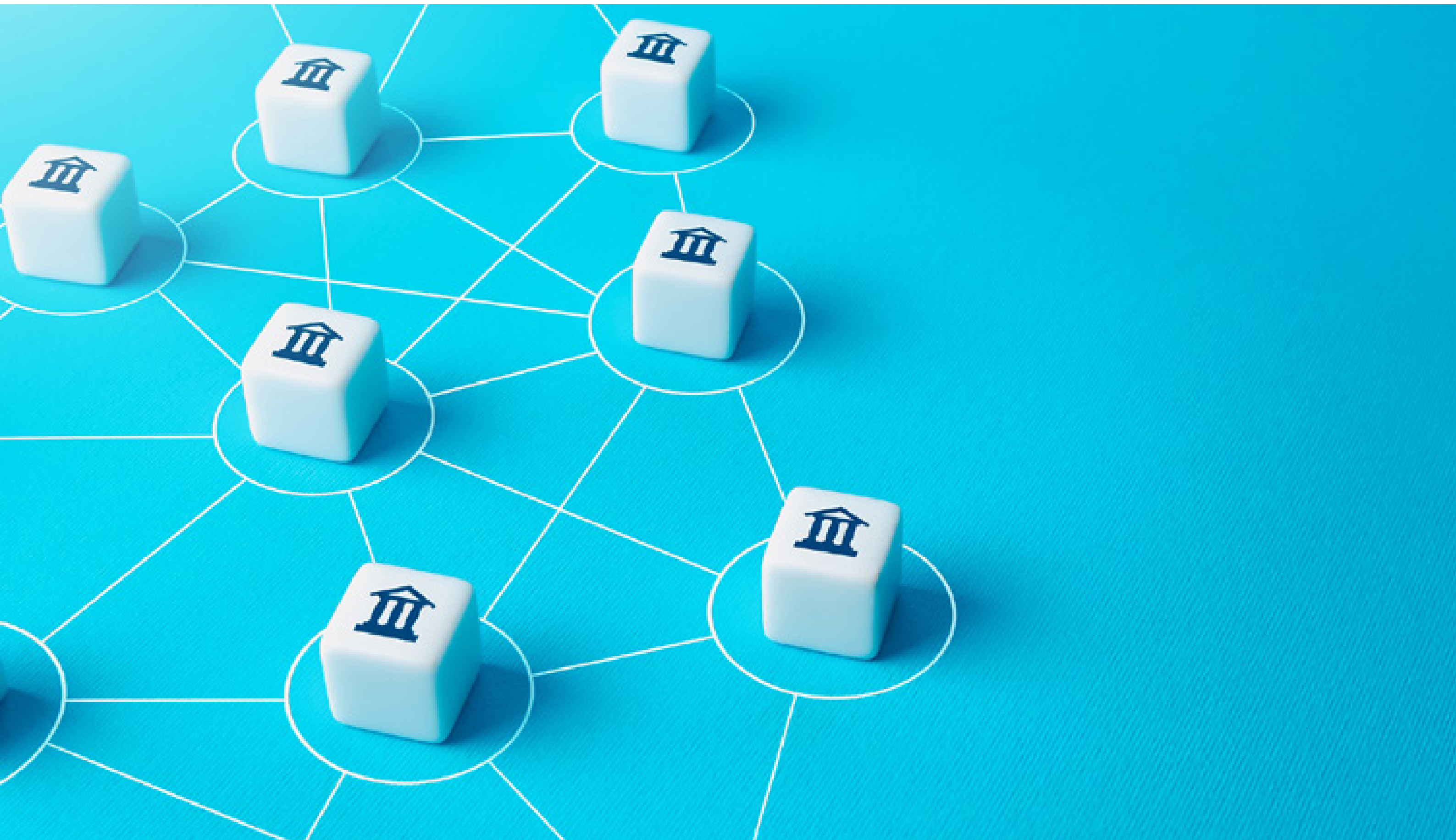
Against the background of weakening global demand, yet high inflationary pressures and tight monetary policy conditions, growth in the **Western Balkans** decelerated over the course of 2022 into 2023. The global demand has proved more resilient in services, which particularly benefited Albania, Kosovo, and Montenegro, where services exports have reached new record highs. In contrast, weakening global demand for goods has weighed on Bosnia and Herzegovina, North Macedonia, and Serbia. With inflation remaining at historic highs through 2023, poverty rates in the region are estimated to continue their downward trend, but at a slower pace. The financial sector in the Western Balkans has remained stable and resilient despite the increasing risks, testing financial stability. NPLs continued to follow a downward trend, declining to 3.9%, while profitability exceeded pre-pandemic levels and capital buffers were preserved. Nevertheless, asset quality resilience remains under stress—as demonstrated by the widening gap between stage 2, which may potentially become nonperforming, and stage 3 loans. On their path to EU accession, the Western Balkan countries need to continue alignment with the evolving financial sector regulatory framework in Europe.

After recession in 2022, **Eastern European countries** showed signs of recovery in 2023. Despite the ongoing war, the Ukrainian economy grew by 4.8% in 2023 (much higher than was expected at the beginning of the year), while inflation slowed sharply. The National Bank managed to preserve financial stability in the system, confirmed by the resilience assessment it conducted which demonstrated that credit losses from the war had been fully accounted for (the assessment findings need to be confirmed by an independent asset quality review to be conducted post-war). But the financial stability risks remain high, the ongoing war being the key systemic risk for the economy and financial sector. Moldova's economy is estimated to have grown by 0.7% in 2023 and is projected to grow by 2.2% in 2024. Despite the negative external factors, Moldova's banking sector showed positive results and resilience, reflecting positive outcomes of the reforms implemented in recent years.

While growth in Western Balkans decelerated, Eastern European countries showed signs of recovery in 2023

Strong economic activity recorded in Southern Caucasus and Uzbekistan

Following robust recovery growth in 2022, client countries in the **Southern Caucasus and Uzbekistan** also showed strong economic activity in 2023. Supported by continued private consumption and investment, Armenia's economy grew by 8.7% in 2023, while inflation is projected to revert to the Central Bank's target of 4% by mid-2024. The banking sector is sound and well capitalized, benefiting from recent record profitability. However, there are emerging pockets of vulnerabilities, particularly connected to the housing sector, suggesting the Central Bank needs to focus on sustaining capital buffers, enhancing supervisory powers and capacities, and strengthening the crisis management framework. Georgia's economy expanded by 7.5% in 2023, with annual inflation amounting to 0%, compared with 9.8% in 2022. As a result of the macro- and microprudential policies carried out by the National Bank, the financial sector remained stable, ensuring credit flowing to the economy. Despite these positive trends, financial stability risks remain primarily connected to external factors, such as the reduction of external demand and potential rapid outflow of capital from Georgia and other countries in the region. Uzbekistan's economy grew by 6% in 2023, but the real growth is expected to slow to 5.3% in 2024, given the planned fiscal consolidation and slow export prospects to Russia and China, Uzbekistan's key trading partners. Inflation in Uzbekistan fell to its lowest level since 2016, dropping to 8.8% in 2023. Despite tighter financial conditions and a slight decline in capital adequacy and liquidity ratios, Uzbekistan maintained financial stability thanks to improved profitability of the banking sector and effective prudential policies of the Central Bank.



Chapter 4: Technical Assistance

FinSAC provides technical assistance to client countries based on their needs and requests. It has been working with all clients for many years and has been instrumental in helping them achieve significant reforms in their financial stability legal and regulatory frameworks. The focus now is often on ensuring the successful implementation of reforms, capacity building, incorporating international standards and norms and keeping these up to date, and achieving greater alignment with EU requirements.

FinSAC completed 16 technical assistance projects in 2023. Five projects are ongoing into 2024. A summary of all 2023 active projects follows.

ALBANIA

Fiscal Backstop for Deposit Insurance
Pillar 1 – Complete

CONTEXT AND ACTIVITIES IN 2023

FinSAC began preparatory work in 2022 with the Bank of Albania and the Albanian Deposit Insurance Agency on the deposit insurance public funding backstop mechanism and providing legal and regulatory advice in continued support of reforms.

FinSAC activities in 2023 focused on operationalizing emergency funding arrangements for the deposit insurance and resolution funds on the basis of a new tripartite agreement among the financial safety net stakeholders. The draft agreement, titled *"For the Use of Public Financial Support in the Context of Bank Liquidation and Resolution for Preserving Financial Stability"*, was prepared in cooperation with FinSAC to update the existing arrangement developed in 2012 and incorporate relevant legal changes since then. In preparing the draft agreement, FinSAC reviewed relevant fiscal laws and held multiple rounds of consultations with the Ministry of Finance and Economy, Bank of Albania, and the Deposit Insurance Agency, to define the conditions, decision processes, required documents, and coordinated workflows and timelines for state loans and guarantees to be issued in case of need. A forward looking framework to analyze the financial sustainability of funds requesting public financial support was also developed as part of the technical support to safeguard the use of fiscal resources and balance debt service by the funds.

OUTCOMES		
FinSAC's technical assistance helped to further enhance the operational readiness of the Deposit Insurance Agency to respond to financial crisis events, in tandem with the Ministry of Finance and Economy as the lender of last resort for the public institutions and the Bank of Albania as the resolution authority responsible for the resolution fund. The technical assistance built on previous projects with the Agency on coverage, funding, and premium issues. It drew upon experiences from the EU and beyond, including from a FinSAC survey on backstop mechanisms for deposit guarantee schemes carried out in 2022 and from the thematic conference organized in March 2023 on International Association of Deposit Insurers Core Principle 9 issues. These efforts will help operationalize a contingent funding mechanism and ensure a coordinated set of operational procedures concerning the implementation of back-up funding mechanism to respond to systemic risk events, aligned with international good practice. Further technical advice to adapt the Agency's framework for investments has been recognized as a follow-up priority to ensure sufficient liquidity access of the deposit insurance funds when macroeconomic and financial sector risks materialize.		
FinSAC output	**Status**	**Contribution to results area**
Draft agreement on the use of public financial support in the context of financial crisis management.	Complete	*Enhanced deposit insurance framework.* Back-up funding mechanism operationalized through approval of draft agreement by key stakeholders. Agreement to be signed at next Financial Stability Advisory Group meeting.

ALBANIA

> **“FinSAC’s assistance has not only benefited our organization internally but also positioned us as a leader in promoting environmental sustainability in the broader financial sector.”**
>
> Margerita Topalli,
> Senior Economist,
> Bank of Albania

Climate Related Risks
Pillar 1 – Complete

CONTEXT AND ACTIVITIES IN 2023

The Bank of Albania has been preparing a Strategy on Climate Related Risks/Sustainability, including actions related to financial stability supported by FinSAC in 2022 and continuing in 2023.

FinSAC activities in 2023 focused on assessing how sustainability can be integrated into the financial stability framework and initial exposure analysis of the Albanian banking sector to climate risks. Part of this work included definition of relevant data and identification of data gaps that should be bridged in the following period. FinSAC provided support for the establishment of a green dashboard, including in the choice of relevant indicators, following European and international best practices, that will be used for communication with the public on this topic, as well as for internal purposes.

FinSAC provided capacity building in preparation for the implementation of a macro stress test exercise for climate risks in 2024. It focused on training for the Bank of Albania Financial Stability and Research Departments, including relevant international experiences. Following a preliminary analysis in 2023, a methodology for the assessment of banks’ exposure will be developed in 2024, which will be used to regularly contribute to sustainability reporting and as a basis for macro climate stress testing.

OUTCOMES

The Bank of Albania recognizes its important role to assess, measure, monitor, and mitigate climate related risks to the financial sector. This is even more relevant in the context of the accession process of Albania to the EU. The FinSAC technical assistance has contributed to the implementation of the green dashboard and better understanding of the indicators and parameters to monitor climate related factors and assess the impact on sustainability on financial stability. It has enhanced understanding of the banking sector’s exposure to physical and transition risks and helped facilitate regular analysis of these risks by the Bank of Albania. It has also supported Bank of Albania staff to start building their knowledge of climate stress testing and capacity to conduct it.

FinSAC output	Status	Contribution to results area
Draft Green Dashboard and accompanying workshops.	Complete	*Enhanced monitoring and analysis of climate related risk.* Green dashboard implemented as one of the standard tools for monitoring climate related indicators.
Draft report for the assessment of banks' exposure to transition and physical risks and accompanying capacity building workshops.	Complete	*Enhanced monitoring and analysis of climate related risk.* Increased capacity to understand and address climate related risks and their effects on the banking sector.
Training and capacity building advice on macro climate stress tests.	Complete	*Enhanced monitoring and analysis of climate related risk.* Increased knowledge about climate stress testing and preparedness to actively participate in its development and implementation.

ALBANIA

Bank Resolution & Assessment Methodology

Pillar 3 – Complete

CONTEXT AND ACTIVITIES IN 2023

This project built on earlier FinSAC projects and discussions with the Bank of Albania in 2022 on further operationalizing the bank resolution framework in alignment with the EU. With the Bank Resolution Law and many regulations in place, some further effort was required to improve specific aspects of preparedness, including with a view to the inaugural minimum requirement for own funds and eligible liabilities-eligible loan in the Western Balkans, issued by an Albanian bank with European Bank for Reconstruction and Development investment in Q3 2023.

On the bank resolution component of the project, FinSAC worked with the Bank of Albania in 2023 to develop an execution focused internal bridge bank manual, based on discussions regarding the combination of bail-in, internal and external coordination, practicalities of bridge bank management, and public ownership. FinSAC provided a draft resolution valuation manual, covering methodological aspects related to valuation, to be further adapted by the Bank of Albania to its national regulatory and institutional framework. The draft manual covers practical matters to help guide the resolution authority in dealing with complex tasks like discount factors, computations, etc. as well as road maps and generic outlines of valuation 1 (informing and confirming the failing or likely to fail decision) and valuation 2 reports that can be used as a template to be adapted to the individual case of failure. FinSAC also helped develop guidance for bail-in playbooks, based on the methodology and data points developed at the EU level, with a view to enhancing the capabilities of banks to deliver timely, complete, and high quality data on liabilities upon request. A workshop was held to discuss bail-in requirements and identify areas of focus and need for adaptation to the Albanian regulatory framework.

On the assessment methodology component of the project, FinSAC helped establish a methodology for identifying systemic effects in case of bank failure. To refine the public interest test assessment, a gap analysis first compared the current methodology to that of the EU and recommendations/solutions were proposed. FinSAC provided the Bank of Albania with a tool for the systemized overview of public interest test assessment for banks and an accompanying handbook on its operationalization. It also supported the collection/analysis of the necessary data. Draft templates on the development of a methodology to assess banks systemicity and interconnectedness were finalized, to be tested by the Bank of Albania. This project was also involved in drafting an agreement on the use of public financial support for the resolution fund in the context of financial crisis (together with the deposit insurance scheme, see previous project).

OUTCOMES		
Albania has already adopted an EU-aligned bank resolution framework. This project supported ongoing efforts to ensure preparedness to fully implement and operationalize the measures in case of a bank failure. It provides for improved qualitative based analysis and an enhanced data based methodology for analyzing critical economic functions and the potential systemic effects of bank failures. The manuals and other tools and training provided improve understandings of and the ability to appropriately use bridge banks as a resolution tool; enhance valuation methodology; apply bail-in; and analyze the systemic effects of a bank failure.		
FinSAC output	**Status**	**Contribution to results area**
Bridge bank manual and training for Bank of Albania	Complete	*Strengthened bank resolution framework.* Enhanced ability to use bridge bank.
Valuation methodology for banks in resolution and training	Complete	*Strengthened bank resolution framework.* Clear guidance on valuation methodology.
Bail-in playbooks and training	Complete	*Strengthened bank resolution framework.* Improved knowledge of bail-in.
Methodology to analyze the systemic effect of a bank failure; related Excel based data tool; handbook; and training.	Complete	*Strengthened bank resolution framework.* Improved ability to analyze systemic effects of bank failures.
Draft Agreement on the use of public financial support in the context of funding to the resolution fund.	Complete	*Strengthened bank resolution framework.* Back-up funding mechanism operationalized through approval of draft Agreement by key stakeholders. Agreement to be signed at next Financial Stability Advisory Group meeting.

ALBANIA

Update on 2022 project: Green Finance, Prudential Reporting, Credit Cycle Assessment, and Bank Resolution

CONTEXT AND ACTIVITIES IN 2023

This programmatic project was completed in 2022, with one outstanding element for reporting in 2023 on Credit Cycle and Market Equilibrium Assessment (Pillar 1). The Central Bank had asked for support to improve policy judgment in calibrating countercyclical capital buffers and implement macroprudential policy instruments to mitigate systemic risks.

In February 2023, FinSAC delivered the package analyzing Albania's credit cycle between 2007 and 2021, which included a presentation report and computation programs for implementing the assessment on an ongoing basis by the Bank of Albania. The report consolidated the methodology and findings of the analysis, covering in detail 1) the modeling formulation for benchmarking Albania's credit growth and interest rates against theoretical equilibriums, 2) the decomposition of credit demand and supply contribution from economic and financial sector variables, and 3) a characterization of market disequilibrium since the onset of COVID-19.

OUTCOMES

The analysis identified credit rationing during 2018-19, in addition to the known 2008-10 and 2012-14 crisis episodes. It found that the gap between actual and equilibrium credit growth had widened after the first year of COVID-19, when market developments were strongly demand side driven. The analysis supported the narrative that bank risk aversion, as captured by relatively high levels of capital adequacy ratio, had historically contributed to reduction of credit intermediation. These findings should support informed decision making on the application of the countercyclical buffer and the computation programs will enable the Bank of Albania to continue to monitor the credit cycle.

FinSAC output	Status	Contribution to results area
Prepare a report on macroprudential policy instruments to mitigate systemic risks.	Complete	*Improved regulatory and supervisory framework*. Improved understanding of credit cycle and market equilibrium and application of evaluation methodology.

ARMENIA

Banking Supervision and Regulation
Pillar 2 – Complete*

CONTEXT AND ACTIVITIES IN 2023

This FinSAC technical assistance continued long term engagement with the Central Bank of Armenia in transforming its supervisory model.

Following work in 2022 to prepare and implement the Supervisory Review and Evaluation Process (SREP), FinSAC activities in 2023 aimed to streamline the SREP, further upgrade the Internal Capital Adequacy Assessment Process (ICAAP) and Pillar II Approach for capital, develop corporate governance guidelines, support a survey on supervisory practice, and continue support on microprudential bottom-up stress testing.

Assistance with streamlining the SREP focused on the assessment of the interest rate risk in the banking book; improving the approach to measuring and assessing market risk in phase 3 (individual, thorough review of the market risk), and reviewing exposure to information technology risks. FinSAC advised on options for amending the Banking Law for effective SREP implementation. The Central Bank also sought assistance in creating a more structured approach for assessing the long term sustainability of banks, by defining a common set of factors and conditions that can influence the banks' business models.

Assistance on ICAAP sought to further build capacity, review the draft ICAAP Guidelines, engage with the banking sector (including a workshop with senior risk representatives of banks), and review banks' ICAAP documents. FinSAC proposed potential approaches for setting Pillar 2 capital requirements based on international best practices, and designed a proposed model consistent with the Armenian regulatory framework and supervisory mechanisms.

FinSAC continued to support the implementation of the first bottom-up stress test involving 16 banks in Armenia, including definition of the baseline and adverse scenarios and preparation of a challenger model for banks' submissions.

Due to revision of some policy priorities, the Central Bank requested that the project component on enhancements to the regulatory and supervisory framework related to climate risks was postponed to 2024.

* The implementation of one output under the project is postponed due to revision of policy priorities by the client authority.

OUTCOMES

This activity contributed to further improvement of the regulatory and supervisory framework in Armenia, as part of the major revamp initiated in 2020. It continued to support the Central Bank's adoption of SREP, operationalization of ICAAP as a supervisory tool and an effective Pillar 2 approach, upgrading of banks' recovery plans, operationalizing microprudential stress testing, and reorganization of their structures, activities, and operational procedures.

FinSAC output	Status	Contribution to results area
Assistance in assessment of operational risk, interest rate risk in the banking book, business model long term sustainability, and market risk.	Complete	*Improved regulatory and supervisory framework.* Iterative upgrade of the SREP supervisory system with improvements included in the methodology.
Support operationalizing ICAAP and new approach to Pillar 2 requirements.	Complete	*Improved regulatory and supervisory framework.* New ICAAP reports approved in accordance with the new methodology, new Pillar 2 requirements in place.
Support in execution of microprudential stress test.	Complete	*Improved regulatory and supervisory framework.* Enhanced Central Bank capacity, knowledge, and experience of bottom-up stress testing.
Improvements to regulation and supervision related to climate risks, supervisory plans, and corporate governance guidelines.	Postponed	The Central Bank postponed implementation of this task to a later time due to revision of policy priorities.

ARMENIA

Bank Resolution and Development of a Methodology for Systemic Risk Assessment Pillar 3 – Complete

CONTEXT AND ACTIVITIES IN 2023

FinSAC's technical assistance built on work carried out in 2021 and 2022 and was closely coordinated with the project on banking supervision.

FinSAC activities in 2023 focused on amendments to the resolution law, capacity building, and assessment of systemic risk in case of bank failure. FinSAC advised on the draft banking resolution law, including on the creation of a resolution fund and use of the deposit guarantee scheme for resolution purposes (also taking account of comments received by the International Monetary Fund on the draft law). Several rounds of Q&A sessions and related capacity building were held, topics discussed included the operationalization of transfer tools and possible introduction of a two stage sale of business; use of resolution fund resources; exclusions from bail-in and carving out of netting arrangements from bail-in; minimum information regarding the bail-inability of certain instruments to be defined by banks in "bail-in playbooks"; pros and cons of regulating principles on the choice of resolution tools in the law; and also included a simplified example calculation of bail-in combined with sale of business and its accounting treatment. FinSAC advised on envisaged changes in cross border cooperation and existing memoranda of understanding regarding bank resolution. Workshops and training activities were organized on international good practice principles and examples of bank resolution to further enhance capacity building and support the Central Bank of Armenia in conducting a resolution plan pilot project.

In addition, the technical assistance helped the Central Bank develop a methodology for systemicity analysis in the context of resolution (planning) and capacity building for the new approach. This encompasses the methodology and tools for assessing the systemic effects of a bank failure: an excel based tool for the assessment of systemicity indicators; a handbook for internal assessment; and data templates to be shared with the banks.

OUTCOMES

The project supported the Central Bank to strengthen the bank resolution legal and regulatory framework and build capacity to apply bank resolution tools in times of bank distress. It follows up previous FinSAC engagements which identified gaps and weaknesses in the supervisory framework and financial safety net, helped draft the first amendments to the resolution law, enhance capacity building and establish a resolution unit within the Central Bank. The new bank resolution law will establish a solid bank resolution framework in line with international good practice and with a wide range of available bank resolution tools. The methodology for systemicity indicators in the context of resolution provides a quantitative basis to assess banks systemicity in case of failure, of particular importance to justify the conversion of debtholders into shareholders or the use of resolution funds or government support.

"We are particularly pleased with the advancements made in resolution planning. The project's impact aligns well with our expectations, and we look for-ward to realizing the anticipated benefits."

Karine Hambaryan,
Head of Financial Stability and Crisis Management Division, Central Bank of Armenia

FinSAC output	Status	Contribution to results area
Comments on the draft of bank resolution law and related regulations.	Complete	*Strengthened bank resolution framework.* Draft revised bank resolution law ready for legislative process.
Training on bank resolution framework.	Complete	*Strengthened bank resolution framework.* Improved Central Bank understanding of and capacity to apply bank resolution tools.
Comments to cross border memorandum of understanding as regards resolution.	Complete	*Strengthened bank resolution framework.* Updated draft memorandum of understanding.
Systemicity methodology.	Complete	*Strengthened bank resolution framework.* Use of systemicity methodology for resolution planning.

BOSNIA AND HERZEGOVINA

Gap Analysis on Deposit Insurance Legal Framework

Pillar 1 – Complete

CONTEXT AND ACTIVITIES IN 2023

This project supported the Deposit Insurance Agency to identify and address areas in which the legal and regulatory framework for deposit insurance may be further aligned with EU legislation.

FinSAC activities in 2023 provided a detailed comparative review of the 2020 Law on Deposit Insurance in Banks of Bosnia and Herzegovina against the EU Deposit Guarantee Scheme Directive. FinSAC used this to evaluate, in consultation with stakeholders, the rationales for current legal and regulatory practices for deposit insurance within the broader bank insolvency and resolution framework in Bosnia and Herzegovina. FinSAC documented in detail its findings and recommendations in an alignment strategy document. Ten alignment activities, including individual action items and respective timelines, were proposed for the Deposit Insurance Agency to adopt as part of its strategic framework for the 2024-28 period to help address capacity and resource gaps. Convergence options for the Law on Deposit Insurance were suggested, taking account of the current EU Directive and the direction of proposed policy changes for crisis management and deposit insurance in the EU. Some activities involve significant interagency coordination and external technical assistance support, particularly in relation to the development of operational stress testing procedures and funding backstop mechanisms to strengthen crisis preparedness.

OUTCOMES

This project further supports the Deposit Insurance Agency to enhance its legal and regulatory framework in alignment with the EU, International Association of Deposit Insurers Core Principles, and international good practices. The thorough and systematic legal gap analysis will serve as the basis for the Agency's strategic planning over the medium term, guiding ongoing reforms of the deposit insurance framework. Also, the Strategy document provided a detailed stocktake of deposit insurance policies and a roadmap for future reform. The Strategy was well received and will serve as a useful instrument for both the authorities in Bosnia and Herzegovina and the European Commission during the screening process for Chapter 9 of the EU *acquis* and is expected to be discussed at board level in the first quarter of 2024.

FinSAC output	Status	Contribution to results area
Strategy to align the deposit insurance framework with EU Deposit Guarantee Scheme Directive.	Complete	*Enhanced deposit insurance framework.* Gaps with EU and international good practices identified and to be addressed following strategic plan.

BOSNIA AND HERZEGOVINA

"Overall, our impression was excellent regarding all aspects of the project. The quality and timeliness of deliverables were on the highest level, ensuring adaptation to the local context."

Srđan Lamešić,
Director of Sector for Reporting, Regulation and International Cooperation, Banking Agency of Republika Srpska

Banking Regulation, Supervision, and NPLs
Pillar 2 – Complete

CONTEXT AND ACTIVITIES IN 2023

This project built on FinSAC's long-standing relationship with the Banking Agencies, including a recent focus on climate risk - FinSAC helped to prepare a multiyear strategy (2023-2025) to deal with climate risks (published in February 2023) and supported preparation of Guidelines for Climate Risks (finished in 2023).

FinSAC activities in 2023 included supporting the Banking Agencies to interpret and assess the relevance of EU rules on capital adequacy as part of updating their regulatory regimes to implement the Capital Requirements Regulation 2. FinSAC also advised on upgrading on-site inspections. Procedures and practices were benchmarked and analyzed against international best practices, especially the EU, and the findings used to suggest improvements. Training was provided to supervisors that conduct on-site inspections on general inspection techniques (including sampling, scoping, the procedure, etc.); credit risk inspections; inspections of internal governance and risk management aspects; and on liquidity risk. FinSAC assistance was also provided to establish internal guidelines for supervisors to assess NPL reduction strategies prepared by banks (building on the 2022 engagement assessing the Agencies' NPL strategic and operational plans). This included identification of qualitative and quantitative parameters to be used by supervisors to review strategies' ambitiousness and credibility, guidance for the assessment of each individual parameter, including measurement metrics and benchmarking framework, and a methodology to identify potential low-quality strategies and definition of appropriate remedial actions. With FinSAC support new regulation on Interest Rate Risk in the Banking Book was developed by the Banking Agencies.

OUTCOMES

FinSAC's activities in 2023 helped the Banking Agencies strengthen the regulatory and supervisory framework in a number of important areas, including transposition of the EU Capital Requirements Regulation 2/ Capital Requirements Directive V into the Capital Adequacy Regulation, a key step to maintain EU regulatory equivalence; implementation of new onsite inspection procedures following EU best practices; improved capacity of on-site examinations regarding credit risk, internal governance and funding and liquidity risks; and improved capacity for the consistent assessment of NPL strategic and operational plans through the introduction of a coherent methodology.

FinSAC support is delivered ensuring close coordination with both agencies, that have been consistently moving in lockstep. Technical assistance is expected to continue in 2024 as both Agencies move forward on climate risks and build capacity in other areas, such as interest rate risks in the banking book.

"Overall, the deliverables were excellent. The insights and guidance provided during missions were very comprehensive, insightful, and informative and fully met our expectations."

Seid Konjhodžić,
Head of Supervision Department,
Federal Banking Agency of Federation of BiH

FinSAC output	Status	Contribution to results area
Advice and drafting input to Capital Adequacy By-Law amendments.	Complete	*Strengthened regulatory and supervisory framework.* Capital Adequacy By-Laws based on EU Capital Requirements Regulation 2 amended and published.
Proposals for upgrading on-site inspections.	Complete	*Strengthened regulatory and supervisory framework.* Improved procedures for on-site inspections.
Training for examiners on several aspects of on-site inspections.	Complete	*Strengthened regulatory and supervisory framework.* Increased capacity of inspectors.
Draft proposal for banks' NPL reduction strategy assessment methodology.	Complete	*Strengthened regulatory and supervisory framework.* Assessment methodology for NPL strategic and operational plans approved.
Regulation on Interest Rate Risk in the Banking Book	Complete	*Strengthened regulatory and supervisory framework.* Proposal for new regulation and capacity building on interest rate risk in the banking book delivered.

BOSNIA AND HERZEGOVINA

Support to Legal Amendment on Bank Resolution
Pillar 3 – Ongoing into 2024

CONTEXT AND ACTIVITIES IN 2023

FinSAC continued to support the authorities in implementation of the bank resolution framework as foreseen in the Banking Laws and related implementing laws and internal regulations adopted in 2018.

FinSAC activities in 2023 included drafting guidance and identifying a common set of data points for banks' bail-in playbooks to help ensure banks' resolvability, support for external bail-in implementation by financial market infrastructures (where relevant), and capacity building activities. FinSAC is supporting the phasing in of "Expectations for Banks", which sets out the capabilities and actions that authorities expect banks to have in place in order to demonstrate resolvability, in line with EU standards. FinSAC helped review and tailor the approach to individual banks and their resolution strategy to allow flexibility and proportionality. A further area of technical assistance is on drafting of bank resolution plans, in 2023 FinSAC reviewed the template and a sample of resolution plans and provided comments for further enhancements.

OUTCOMES

FinSAC is helping the Banking Agencies to prepare to use their resolution powers and the broadened scope to draw on Deposit Insurance Agency funds for bank resolution purposes provided in recent legislation. This project enhances understandings of resolution planning, continues to support alignment with the EU *acquis*. FinSAC and the Agencies started constructive discussion and exchange of documents which will continue during Q1 2024.

FinSAC output	Status	Contribution to results area
Assistance in the drafting of requirements for bail-in playbooks and related workshops and Q&A sessions.	Ongoing	*Strengthened bank resolution framework.* To be assessed on completion of project.
Assistance in tailoring requirements in the "Expectation for Banks" as regards resolvability.	Ongoing	*Strengthened bank resolution framework.* To be assessed on completion of project.
Assessment of and comments to bank resolution plans.	Ongoing	*Strengthened bank resolution framework.* To be assessed on completion of project.

GEORGIA

Bank Recovery and Resolution Simulation Exercise - Execution of Resolution Plan

Pillar 3 – Complete

CONTEXT AND ACTIVITIES IN 2023

This was a follow up to a first exercise in December 2022 and continued the simulation of handling a failing bank. The first exercise focused on recovery options, the approach in the run up to resolution, and a decision on application of resolution options including identifying available funding. It ended with the strategic decision to apply a "partial bail-in" combined with use of public money provided via the Resolution Fund with ex-post industry contributions.

FinSAC activities in 2023 delivered the second recovery and resolution simulation exercise, focused on the drafting of the resolution decision and the execution of the resolution action. This was run as a one day exercise with a hot debrief held on October 19th. The National Bank of Georgia, Deposit Guarantee Fund, and the Ministry of Finance took part and a representative from the EU Single Resolution Board participated as an observer. The exercise focused on the internal and external execution steps of a bail-in conversion, interagency coordination, and press communication. The National Bank entered new territory by testing a debt to equity swap for debt traded in a third country (as bonds issued by the two biggest banks in the country are issued in Ireland). A draft ex-post report analyzing the decisions taken during the exercise and recommendations for further improvements was shared in December with the National Bank for the authorities' comments.

"The FinSAC team was very competent and collaborative. The resolution simulation exercise was very helpful for us."

Nikoloz Rekhviashvili,
Head of Resolution and Liquidation Division,
National Bank of Georgia

OUTCOMES

This project continued to support the National Bank of Georgia and other key safety net players to strengthen operational readiness to implement the recently introduced Financial Stability Board Key Attributes-aligned bank resolution framework. The exercise gave participants a better understanding of the actions and cooperation required for the execution of partial bail-in combined with bail-out and resulted in a set of recommended actions to further enhance preparedness

FinSAC output	Status	Contribution to results area
Second recovery and resolution simulation exercise and report.	Complete	*Strengthened bank resolution framework.* Enhanced preparedness in the execution of resolution action.

KOSOVO

Enhancing Deposit Insurance Funding and Investment Policies
Pillar 1 – Complete

CONTEXT AND ACTIVITIES IN 2023

This technical assistance built on earlier FinSAC projects, with a focus on preparing for upcoming changes in legislation to the deposit insurance framework.

FinSAC activities in 2023 supported the Deposit Insurance Fund in developing capacity to analyze possible scenarios of bank liquidity failures and their contagion effects, based on supervisory data and an essential stress testing approach. FinSAC supported the Deposit Insurance Fund to expand its approach to target fund size. Methodological upgrades, important for Kosovo's euroized context, were documented in a draft amended Funding Policy to be approved by the Deposit Insurance Fund Management Board.

FinSAC also provided technical assistance to the Deposit Insurance Fund in revising its investment guidelines to take account of upcoming legal changes that broaden investment options. Particularly, risks to investments were defined in relation to the risk management policy, established with FinSAC support in 2022, with associated eligibility rules, risk measurements and exposure limits, and the approach to governance, reporting, and evaluations for the Fund's investment portfolio.

OUTCOMES

This project builds on previous engagements to further enhance the Deposit Insurance Fund's funding risk and investment management practices and readiness to respond to crisis. It supports the Fund's alignment with International Association of Deposit Insurers Core Principles.

From this technical assistance, the authorities became aware of the need to review the formal scope of interagency cooperation between the Central Bank and the Deposit Insurance Fund. These areas are expected to be addressed in follow up technical assistance projects along with the adoption of Laws on Banks and on Deposit Insurance in 2024.

FinSAC output	Status	Contribution to results area
Propose extension of target fund size methodology and draft revision of the funding policy to reflect this. Capacity building workshops.	Complete	*Enhanced deposit insurance framework.* Adoption of revised funding policy expected by June 2024.
Draft amendment to the Deposit Insurance Fund investment policy.	Complete	*Enhanced deposit insurance framework.* Adoption of revised investment guidelines expected by June 2024.

KOSOVO

“Due to FinSAC assistance we will have a new Strategy on Climate-Related Risk to further contribute to the financial stability of the banking sector.”

Blerim Terziqi,
Director of the Banking Supervision Department, Central Bank of the Republic of Kosovo

Green Finance, Bank Resolution, & Bank Supervision
Programmatic Pillar 2 – Complete*

CONTEXT AND ACTIVITIES IN 2023

This programmatic project began in 2022, supporting a multi-year strategy to assess physical and transition risks to the banking system related to climate change, and providing support in the early stages of the implementation of the EU’s approach to risk-based supervision (SREP), including the ICAAP framework.

FinSAC activities in 2023 were focused on green finance and risk-based supervision. Bank resolution related work was postponed at the request of the client while the Central Bank of Kosovo introduced some structural changes, including the establishment of a bank resolution unit which will substantially enhance the Central Bank’s capacity to absorb future technical assistance in this area.

Green Finance

The Central Bank is working to ensure that banks incorporate environmental, governance, and social aspects in their planning and governance and that the supervisory framework embeds the assessment of these risks in its supervisory activities. In 2022, FinSAC surveyed banks on their practices for the management of climate risks; delivered a first draft of the Strategy/Roadmap for Climate Risk for the Central Bank, and offered capacity building for staff on regulatory and supervisory aspects related to climate related and environmental risks. In 2023, an analytical report of the Bank Survey on Climate Risks was presented and a revised version of the Sustainability Strategy incorporating Central Bank comments was prepared. The Strategy is expected to be published in early 2024.

Risk-Based Supervision

The Central Bank is working on a new risk-based methodology for bank supervision, which will be implemented with the help of the International Monetary Fund. In 2022, FinSAC facilitated discussions on enhancing performance of risk-based supervision using the supervisory review and evaluation process methodology. Activities in 2023, included a workshop on ICAAP review criteria, delivery of an ICAAP assessment methodology and tools, and an initial methodology for assessing bank business models, including forward looking viability and sustainability criteria. A first assessment of transition risks for Kosovan banks was presented to the Central Bank and a workshop was held on the implications of the implementation of SREP for banks, including in the operational procedures, resource intensity, capacity building and workload.

* The implementation of one output under the project is postponed by the client authority for consideration in 2024.

OUTCOMES
FinSAC's activities on this project have supported the Central Bank in developing a new strategy on climate risks; advancing implementation of risk-based supervision; and improving bank resolution legislation in line with the EU. Further assistance is likely to be requested, especially on bank resolution legislation.

FinSAC output	Status	Contribution to results area
Workshops related to regulatory and supervisory aspects of climate related and environmental risks.	Complete	*Enhanced monitoring and analysis of climate related risk.* Capacity building workshops delivered. Transition risk assessment delivered. Analytical report on climate risk survey and new version of sustainability strategy delivered.
Assessment of Supervision Department organizational arrangements.	Complete	*Improved regulatory and supervisory framework.* Assessment report delivered.
Methodology for assessing bank business models and ICAAP review.	Complete	*Improved regulatory and supervisory framework.* Methodology for assessing business models and ICAAP review delivered.
Drafting assistance with Bank Resolution Law and some imple-menting regulations.	Postponed	Postponed by the client for consideration in 2024.


viva

MOLDOVA

Strengthening the Capacity of the Deposit Guarantee Fund
Pillar 1 – Ongoing to 2024

CONTEXT AND ACTIVITIES IN 2023

This project builds on previous World Bank engagement to align the deposit guarantee scheme with the EU and with good international practice. It aims to support drafting of secondary legislation for the implementation of the new Deposit Guarantee Scheme Law adopted in 2023, and developing a management information system that will meet the business process needs of the Deposit Guarantee Fund for the Banking Sector.

FinSAC activities under this component were initiated after the new Law became effective on October 1, 2023. FinSAC prepared, with the Deposit Guarantee Fund, an action plan and timeframe for the implementation of reforms and provided a number of workshops on the methodology for calculating the target fund ratio, setting up an investment policy, and establishing backup funding for the Fund. FinSAC supported drafting of three new regulations by providing comments and advice: on establishing new reporting requirements for member banks and calculation of ordinary contributions; providing information on the Deposit Guarantee Fund to the public; and calculation of special contributions. In addition, FinSAC discussed with the Fund their establishing cooperation agreements with the National Bank on operational aspects and data sharing and a separate agreement on the liquidity backstop; and with the Ministry of Finance on the backup funding mechanism.

OUTCOMES

The three new regulations have been adopted and member banks produced their fourth quarter reporting based on the new requirements. The Deposit Guarantee Fund was able to verify the data on deposits submitted by banks and address inconsistencies in the reporting data on eligible deposits thanks to clear definitions provided in the new reporting requirements regulation. Work on cooperation agreements and on the management information system is ongoing into 2024.

FinSAC output	Status	Contribution to results area
Develop relevant regulations, data templates and methodologies to align with international practice and EU Directives.	Ongoing	*Enhanced deposit insurance framework*. To be assessed upon completion of project.
Prepare a management information system development roadmap and draft specifications for functions.	Ongoing	*Enhanced deposit insurance framework*. To be assessed upon completion of project.
Capacity building workshops.	Ongoing	*Enhanced deposit insurance framework*. To be assessed upon completion of project.

MOLDOVA

Strengthening the Bank Resolution Framework
Pillar 3 – Complete*

CONTEXT AND ACTIVITIES IN 2023

This project continued work from 2022 to identify gaps in the regulatory framework with a focus on alignment with the EU Bank Recovery and Resolution Directive (BRRD), drafting secondary regulation, and improving the resolution planning process.

FinSAC activities in 2023 focused on drafting a new version of the Bank Recovery and Resolution Law to address gaps identified with EU legislation and issues found during the 2022 crisis simulation exercise. FinSAC helped with other updates to ensure smoother operationalization of the resolution framework, including a minimum requirement on eligible liabilities by-law and an own funds by-law. A by-law on the use of bail-in has been discussed and work will continue on it under a new project in 2024. Capacity building training was offered on the implementation of additional resolution tools and a workshop was held for banks presenting the new framework and outlining requirements for the resolution planning process.

* The implementation of one output under the project is postponed by the client authority for consideration in 2024.

“FinSAC reacts promptly every time to our requests. For us, it is very important that we have their tailored expertise that takes into account our specifics and is not limited to theoretical or formal answers.”

Viorel Moraru,
Deputy Head of Banking Resolution Division, National Bank of Moldova

OUTCOMES

This project continued to assist the National Bank of Moldova further strengthen its bank resolution framework. The revised legislation and work on operationalizing resolution tools ensures the National Bank can react quickly if needed in a manner that better protects financial stability and depositors’ and taxpayers’ money. Familiarizing banks with the new amendments and requirements improves their understanding of the framework and expectations from them.

FinSAC output	Status	Contribution to results area
Assist in drafting a new version of Bank Recovery and Resolution Law.	Complete	*Strengthened bank resolution framework.* Once approved by Parliament, the new Law will enhance the legal and regulatory framework for bank resolution aligned with BRRD 2.
Assist in preparation of a by-law on minimum requirements on eligible liabilities.	Complete	*Strengthened bank resolution framework.* Once approved, the minimum requirements on eligible liabilities by-law will help operationalize the amended Bank Recovery and Resolution Law.
Assist in preparation of bail-in by-law.	Postponed	Postponed at client request. To be addressed in a new project in 2024.
Workshop with the banking sector about Bank Recovery and Resolution Law amendments.	Complete	*Strengthened bank resolution framework.* Increased understanding of the banking sector about the bank resolution framework and expectations from banks.
Training for National Bank staff on different aspects of the resolution regime.	Complete	*Strengthened bank resolution framework.* Increased internal capacity.

MONTENEGRO

Strengthening Bank Supervision and Deposit Guarantee Frameworks

Programmatic Pillar 2 – Complete

CONTEXT AND ACTIVITIES IN 2023

FinSAC is supporting the authorities in Montenegro to strengthen bank supervision and deposit guarantee frameworks.

FinSAC activities in 2023 included an assessment of the structure, procedures, and policies of the Central Bank of Montenegro Banking Supervision Division, as part of preparations for the introduction of the SREP risk-based approach to banking supervision. This comprised an analysis of current practices, workshops with staff, and benchmarking with other supervisory organizations. FinSAC produced a report with key recommendations aimed to ensure that the structure and practices of the Supervision Division are supportive to SREP implementation.

FinSAC supported a feasibility evaluation of the Deposit Protection Fund's funding objectives. This included analysis of its coverage, funding, and premium policies. In the process, capacity-building workshops were organized on the development and use of projection models to assess the feasibility of the Deposit Protection Fund reaching its target fund size according to the timeframe set out in its methodology for calculating the risk-based premium. An analytical report provided recommendations on the coherence mproving the coherence of funding and premium policies.In response to concerns about non-financial risks to the banking sector of Montenegro, FinSAC adapted the project focus and supported the authorities to review the approach to risk-based premiums and information exchange between the Central Bank and the Deposit Protection Fund.

"FinSAC provided a lot of good advice in order to improve the efficiency of work."

Tanja Teric,
Head of Portfolio Management Office,
Central Bank of Montenegro

OUTCOMES

This assistance supported the Central Bank to assess and improve its organizational structure against the backdrop of SREP implementation. The new approach is essential for ensuring that banking supervision is consistent with the Montenegrin prudential regulatory framework, closely in line with the EU. FinSAC leveraged its experience of similar countries in the region to identify best practices that could help the Central Bank to ensure a fast, yet effective implementation of the SREP approach to banking supervision.

The support also enhanced the Deposit Protection Fund's analytical capacity regarding risks to deposit insurance funding and the analysis of coverage, funding, and premium policies are expected to inform Deposit Protection Fund reforms in the next stage, subject to Management Board approval. Implementation of model-based target fund size methodology was proposed and adapted in response to the Management Board's request to maintain the target fund size at 10% of guaranteed deposits.

The outcomes include improved coherence of the Fund's policy parameters, in the context of the International Association of Deposit Insurers Core Principles 8 (coverage) and 9 (sources and uses of funds).

FinSAC output	Status	Contribution to results area
Assessment report on Banking Supervision Division.	Complete	*Improved regulatory and supervisory framework.* Central Bank considering assessment and recommendations.
Workshops on target fund size calibration and its underlying methodology.	Complete	*Enhanced deposit insurance framework.* Capacity building of staff.
Report on funding policies and objectives.	Complete	*Enhanced deposit insurance framework.* Coverage funding projection model introduced to supplement the implementation framework for risk-based premium. Revised time to fund parameter to be used.

NORTH MACEDONIA

Addressing Climate Related Risks in the Banking Sector
Pillar 1 – Complete*

CONTEXT AND ACTIVITIES IN 2023

This FinSAC project built on the definition of a Green Strategy for the National Bank in 2022.

FinSAC activities in 2023 included working with the National Bank to improve the supervision of climate risks, for example by providing comments and suggestions on the guidelines for climate related risks and offering capacity building opportunities including preparation for a macro stress test exercise for climate risks in 2024. The project also supported National Bank efforts to ensure sustainability is integrated into the financial stability framework. FinSAC assisted in preparation of a Green Dashboard encompassing a list of relevant indicators for assessing how climate risks may impact the country's financial stability, following European and international best practices. FinSAC prepared a report about the exposure of the banking sector to climate risks, which identified relevant data and data gaps. The technical assistance was intended to also support a National Bank conference on climate related risk in the financial sector during 2023 but this was postponed by the clients to be reconsidered as the definition and implementation of the Green Strategy progresses.

* The implementation of one output under the project is postponed due to revision of policy priorities by the client authority.

OUTCOMES		
Climate risk is recognized as a key risk for financial sectors and is also relevant in the context of North Macedonia's EU accession process. This project helped the National Bank advance prudential regulation, its supervisory role, and overall capacity to assess and respond to climate related risk and to engage with the banking sector and others with the evolving Green Strategy. As a result, there is better understanding of the indicators and parameters to assess the impact on sustainability in financial stability assessments.		
FinSAC output	**Status**	**Contribution to results area**
Comments and suggestions on climate-related risks standards and supervision for the National Bank.	Complete	*Enhanced monitoring and analysis of climate related risk.* Upgrading of the regulatory and supervisory framework for climate risks.
Establish a Green Dashboard.	Complete	*Enhanced monitoring and analysis of climate related risk.* Green dashboard prepared and workshops held.
Support organization of a climate conference.	Postponed	Postponed at client request.
Prepare draft report about the exposure of the banking sector to climate risks, together with required data and data gaps identification.	Complete	*Enhanced monitoring and analysis of climate related risk.* Draft report delivered.

NORTH MACEDONIA

Amending the Deposit Insurance Law and Reporting Framework

Pillar 1 – Ongoing into 2024

CONTEXT AND ACTIVITIES IN 2023

FinSAC is continuing to support amendment of the Law on Deposit Insurance, improving the bank reporting framework, and developing capacity to implement the newly adopted Law on Bank Resolution. This project is ongoing into 2024.

FinSAC activities in 2023 included providing technical advice to amend the Law on Deposit Insurance Fund. A quantitative approach for determining the adequacy of the ex-ante deposit insurance fund has been developed and implemented with an assessment report documenting the methodology, findings, and FinSAC recommendations in support of the ongoing legal reform. FinSAC is helping in the development of single customer view reporting standards; determining the scope necessary for the authorities to delineate bank reporting responsibilities and enhance interagency information sharing mechanisms to ensure the Deposit Insurance Fund has single customer view data across all accounts. FinSAC is supporting the authorities engage with the industry in preparing for changes in the legal and regulatory framework, with a focus on the areas of deposit insurance coverage and funding policies and reporting requirements. The technical assistance included providing capacity building seminars with the Deposit Insurance Fund, National Bank, and Ministry of Finance on the principles and suggested implementation procedures for use of deposit insurance and resolution funds in bank resolution.

OUTCOMES

The project seeks to support improvements to the deposit insurance framework based on local financial sector contexts and implementation experience while advancing alignment with the EU and international standards, including the International Association of Deposit Insurers Core Principles and Financial Stability Board Key Attributes of Effective Resolution Regimes.

The amended legal framework will adapt the scope of deposit protection for legal entities, redefine the fund coverage ratio, introduce premium risk differentiations, and require the Deposit Insurance Fund to carry out payout simulation. The development of a target fund size framework will help ensure a balance between ex-ante funding and building up sufficient resources to respond to bank failures. The upgraded reporting rules will help ensure the accuracy of deposit records. Capacity building in the context of bank resolution supports the Deposit Insurance Fund to deliver on its responsibilities according to the new Law on Bank Resolution, adopted with the support of FinSAC in 2023.

FinSAC output	Status	Contribution to results area
Contribute to draft Law on Deposit Insurance Fund.	Ongoing	*Enhanced deposit insurance framework.* To be assessed on completion of project.
Assessment report on target fund size calibration. Workshops on target fund size methodology.	Complete	*Enhanced deposit insurance framework.* Assessment Report shared with clients.
Examples and draft templates for single customer view reporting. Draft implementation regulation.	Ongoing	*Enhanced deposit insurance framework.* To be assessed on completion of project.
Seminars and Q&A sessions on the use of deposit insurance fund in resolution.	Complete	*Enhanced deposit insurance framework.* Workshops for Ministry of Finance/ Deposit Insurance Fund held.

NORTH MACEDONIA

Bank Resolution Legal Amendment
Pillar 3 – Complete

CONTEXT AND ACTIVITIES IN 2023

This project focused on enhancing the legal and regulatory framework for bank resolution, updating key design features in alignment with the EU and BRRD, and developing implementation capacity to more effectively respond to financial crises.

FinSAC activities in 2023 continued support to amend the Law on Bank Resolution via several Q&A sessions as it completed its legislative process. The team offered capacity building support to enhance preparedness for the future implementation of the new resolution framework. The technical assistance helped develop understanding regarding inter agency procedures and capacity for crisis management through the operation of the financial stability committee (the Subcommittee on Preparedness for Financial Crisis Management). FinSAC shared a draft document for an internal cooperation agreement between the Supervision and Resolution Department identifying the information flows that should come from one department to another once the new resolution framework becomes operational. A draft for a future valuation by-law was shared based on the EU Delegated Regulations. In addition, FinSAC assisted the National Bank in analyzing the EU bank crisis management and deposit insurance reform proposal and held a related Q&A session.

OUTCOMES

The National Bank is working towards a modern legal framework for bank recovery and resolution in alignment with global and European standards. FinSAC's assistance has helped draft the primary legislation and prepare for the adoption of secondary legislation and its implementation.

FinSAC output	Status	Contribution to results area
Finalizing drafting of Bank Resolution Law. Implementation capacity building.	Complete	*Strengthened bank resolution framework.* Bank Resolution Law and amendments to other relevant laws ready for submission to Parliament.
Preparations for adoption of secondary legislation for bank resolution.	Complete	*Strengthened bank resolution framework.* Selected by-laws ready for approval by the National Bank (adoption depending on prior approval of the new Resolution Law by Parliament).

"The FinSAC team provides clear and precise instructions how to implement the EU standards, and comprehensive explanations of BRRD provisions."

Milica Arnaudova Stojanovska,
Advisor to the Governor,
National Bank of the Republic of North Macedonia

UKRAINE

Deposit Guarantee Fund Asset Sale Practices

Pillar 2 – Ongoing into 2024

CONTEXT AND ACTIVITIES IN 2023

FinSAC is supporting the Deposit Guarantee Fund in its role as the provisional administrator and liquidator of insolvent banks, which involves the valuation of bank assets (i.e., real estate, property, loans).

FinSAC activities in 2023 focused on developing a fair value assessment methodology to be used by the Deposit Guarantee Fund during resolution. FinSAC, together with Deloitte, undertook a detailed study on the stock of sale transactions including data showing the main trends and variables that influenced the final sale price and a sensitivity analysis of different parameters regarding the sale price. This offered a clear understanding of previous practices in asset sales and identified lessons learned. These are helping inform the preparation of a fair value assessment methodology, which includes a methodology for the estimation of future cash flows from sales in the asset divestment process and a list of available valuation methods and their suitability for certain asset classes (i.e., loans, commercial real estate, land, etc.). A tool for the calculation of estimated cash flows from sales in liquidation procedure will be provided to facilitate assimilation of the new methodology.

OUTCOMES

This project should help the Deposit Guarantee Fund to improve their valuation of assets to be acquired from failing banks and better calibrate values for assets to be sold to NPL investors in the market. Valuation of assets that aligns with the market value increases the probability of a successful asset sale through auction and will thus contribute to the development of the NPL market in Ukraine.

The proper valuation of assets will likely gain more prominence in the future as a substantial pool of assets will be recognized as NPLs in the banking system due to the consequences of the war. If the significant regulatory forbearance measures, introduced since the beginning of the war to ensure financial stability, begin to be removed there will be additional pressures on banks that could lead to insolvencies. Their liquidation will be undertaken by the Deposit Guarantee Fund, hence the relevance of the new valuation methodology.

FinSAC output	Status	Contribution to results area
Conduct a study on asset sale practices and deliver report.	Complete	*Enhanced deposit insurance framework.* Improved understanding of practices in asset sales and identified lessons learned.
Provide methodology for the valuation of assets under liquidation and valuation tool.	Ongoing	*Enhanced deposit insurance framework.* To be assessed on completion of project.

UKRAINE

Operationalizing Strengthened Microprudential Frameworks and NPL Resolution Strategies, and Integrating Climate Risks into Regulatory and Supervisory Approaches for Banks

Programmatic Pillar 2 – Ongoing into 2024

CONTEXT AND ACTIVITIES IN 2023

This programmatic project, focused on strengthening microprudential frameworks, enhancing NPL resolution strategies, and integrating climate risks into regulatory and supervisory approaches for banks, is ongoing into 2024.

FinSAC activities in 2023 included support for further strengthening and implementation of the new bank regulatory framework, and bringing supervisory practices closer to international standards. FinSAC delivered an analysis of the National Bank's Prudential Supervision Block to further inform the restructuring process. The technical assistance is also aiming to strengthen the institutional, legal, and regulatory framework for NPL resolution, including through an updated assessment of the NPL resolution framework and NPL resolution action plan. Support is ongoing to strengthen the legal framework for asset valuation. Work to update the Strategy on Sustainability continues. In 2023, FinSAC helped draft regulations, for example to impose disclosure standards for banks on environmental, social, and corporate governance and the risks from climate change, and prepare proposals for integrating the risks from climate change into supervisory requirements. FinSAC organized capacity building workshops for the National Bank as part of efforts to integrate climate risks into regulatory and supervisory frameworks for banks.

OUTCOMES

This ongoing programmatic project is working to enhance bank regulations and supervision which will be supported by the draft amendments to banking regulations and restructuring of its Prudential Supervision Block. The adoption of the action plan for NPL resolution will create an environment that is more conducive for reducing NPLs and opening the NPL market in Ukraine. Enhancements to regulations and practices on risks stemming from climate change will support implementation of the National Bank's Green Strategy.

FinSAC output	Status	Contribution to results area
Providing comments to draft amendments to relevant laws/bylaws. Review prudential templates and reporting. Analyze new conceptual framework of bank supervision.	Ongoing	*Strengthened regulatory and supervisory framework.* To be assessed on completion of project.
Propose amendments to valuation law and by-laws to implement international valuation standards.	Ongoing	*Improved regulatory and supervisory framework.* To be assessed on completion of project.
Regulation proposals on the regulatory and supervisory dimensions of sustainability. Proposals for integrating climate change risks into the ICAAP and internal liquidity adequacy assessment process frameworks. Capacity building workshops.	Ongoing	*Improved regulatory and supervisory framework.* To be assessed on completion of project.

UKRAINE

> “FinSAC provided high quality expertise that resulted in draft amendments to the Deposit Guarantee Scheme legislation.”
>
> Olga Bilai,
> Deputy Managing Director,
> Deposit Guarantee Fund of Ukraine

Bank Recovery and Resolution, and Deposit Insurance

Pillar 3 – Complete*

CONTEXT AND ACTIVITIES IN 2023

This project, supporting the National Bank and Deposit Guarantee Fund to achieve greater alignment with the EU, began in 2022. Initial activities included providing comments and recommendations on draft amendments to the Deposit Guarantee Scheme Law and holding a set of workshops on resolution tools and their operationalization.

In 2023, FinSAC held several training workshops for the Deposit Guarantee Fund and discussed draft amendments to the Deposit Guarantee Scheme Law. Topics covered by FinSAC included valuation principles under the BRRD and related European Banking Authority and Single Resolution Board guidance and the use of bridge banks, including in combination with bail-in. FinSAC shared information on how the resolution function is set up in different EU Member States and possible options for its organizational set up in Ukraine.

The FinSAC team participated in discussions and commented on a related Note regarding targeted changes to allow the Deposit Guarantee Fund to effectively resolve financial institutions, dispose of assets, and improve returns for creditors, without overall reform of the framework organized by the US Treasury’s Office of Technical Assistance.

It had been hoped to hold a public event for the banking sector to present and explain the changes to the legal framework but the situation in Ukraine did not make this possible in 2023. FinSAC remains ready to assist with such an event in the future.

OUTCOMES

The project continued FinSAC’s provision of demand based advice and technical assistance to support the National Bank and the Deposit Guarantee Fund to align the bank resolution and deposit insurance legal and regulatory frameworks with the EU. The methodology to determine minimum requirements on eligible liabilities will continue to be worked on so that it is ready to be applied when circumstances allow. Capacity building activities strengthened the knowledge of Deposit Guarantee Fund employees and improved their understanding of resolution operationalization challenges.

* The implementation of one output under the project is postponed by the client authorities for consideration in the future.

FinSAC output	Status	Contribution to results area
Support revisions to the bank resolution and deposit insurance legal frameworks.	Complete	*Strengthened bank resolution and deposit insurance frameworks*. Updated Banking Law and Deposit Insurance Laws ready for submission to Rada.
Capacity building for Deposit Guarantee Fund to operationalize new framework.	Complete	*Enhanced deposit insurance framework*. Workshops have enhanced staff capacity.
Capacity building and support with the calculation and introduction of minimum requirements on eligible liabilities.	Complete	*Strengthened bank resolution framework*. Training and advice provided to enhance understandings on bail-in and minimum requirements on eligible liabilities. Policy decisions are awaited before further progress can be made with possible assistance in a future project.
Assistance in the organization of a public event for banking sector to present a new framework.	Postponed	Postponed by clients. For further consideration when circumstances allow.

UZBEKISTAN

Banking Supervision and Regulation

Pillar 2 – Complete*

CONTEXT AND ACTIVITIES IN 2023

FinSAC support to the Central Bank of Uzbekistan has been ongoing through a series of projects in recent years to assist with building a modern supervisory function, aligned with international best practices. This project continued previous assistance of the new banking law, the assessment of the regulatory and supervisory framework, and three projects during 2020-2022 focusing on licensing, regulation, and risk-based supervision.

FinSAC activities in 2023 continued support to improve the prudential regulatory framework for banks including drafting assistance with prudential regulations, review of bank capital adequacy requirements, and available stable funding, and required stable funding factors against the Basel III framework. FinSAC helped in the development of Central Bank internal manuals including the risk-based supervisory review and evaluation process manual and the internal manual on supervisory measures, sanctions, and fines. Technical assistance in the area of implementing risk-based supervision for banks focused on preparation of comprehensive risk profiles for pilot banks, implementation of the SupTech Roadmap, improving consolidated supervision, training Central Bank supervisors on supervision related topics, and helping develop a green finance strategy for the Central Bank including capacity building activities (the strategy will be finalized in Q1 2024). FinSAC provided further support to finalize draft laws on bank resolution and deposit insurance and offered just in time advice on other aspects of financial stability as requested. FinSAC had planned to assist in producing revised regulation on net stable funding ratio requirements but the clients requested that this activity was postponed, to be addressed in 2024.

OUTCOMES

The project builds on previous FinSAC engagements and complements a FIRST project focused on bank resolution, deposit insurance, and anti-money laundering/combating the financing of terrorism frameworks. The Central Bank is committed to and is making steady progress in improving its banking sector regulatory and supervisory framework to align with international standards and good practices and in readiness for the expected transition from a state-led banking sector to one with a more significant role for private investors.

* The implementation of one output under the project is postponed by the client authorities for consideration in the future.

FinSAC output	Status	Contribution to results area
Revised regulation on net stable funding ratio requirements.	Postponed	Postponed at client request.
Assessment report of current capital adequacy requirements against the Basel III requirements with recommendations on further improvements.	Complete	*Improved regulatory and supervisory framework.* The assessment report was shared with the Central Bank in September 2023, with identified gaps and recommendations.
Input to drafting of risk-based supervision manual and supervisory sanctions and fines manual.	Complete	*Improved regulatory and supervisory framework.* Part 1 and part 2 of the risk-based supervision manual was approved by the Central Bank Board in December 2023. The drafting of Part 3 of the RBS Manual was completed at the end of 2023 and is under review by the Central Bank. The sanctions manual, supported by FinSAC was approved by the Central Bank Board in mid-2023.
Implementation support for: 1) risk-based supervision of banks, 2) SupTech Roadmap, 3) training for supervisors on risk-based supervision topics.	Complete	*Improved regulatory and supervisory framework.* Pilot testing was finalized and accepted for four banks. The Central Bank will approve an internal order on gradually bringing the remaining banks under the risk-based supervision in the coming 2-3 years. As part of its long-term engagement, FinSAC has provided the agreed inputs for roadmap implementation. Several training sessions/workshops were provided on: (i) consolidated supervision; (ii) recent bank failures in US (SVB, Signature) and Europe; (iii) developing a financial consumer protection SupTech tool; (iv) interest rate risk in the banking book; and (v) next steps on implementation of consolidated supervision.

FinSAC output	Status	Contribution to results area
Capacity building activities, advice/inputs on the preparation of a green finance strategy for Central Bank and support for the potential implementation of a green strategy.	Complete	*Improved regulatory and supervisory framework.* Strategy is drafted, pending final inputs, to be finalized in March 2024. To be assessed on completion of project.
Input on draft laws on bank resolution (including liquidation) and deposit insurance.	Complete	*Improved regulatory and supervisory framework.* The drafts laws are finalized, reviewed by MoJ and in the process of review by the Presidential Administration for submitting to the Parliament.
Just in time advice.	Complete	*Improved regulatory and supervisory framework.* FinSAC developed and shared with the Central Bank just in time notes on requested topics: a) Financial Sector Assessment Program resulting in an assessment request from the Central Bank; b) justifications for integrating insurance sector regulation and supervision under the Central Bank; and c) the establishment and operationalization of horizontal microprudential supervisory risk teams in the Central Bank.

Chapter 5: Knowledge Activities

FinSAC has more than a decade of experience working with client countries and international bodies in the provision of financial stability expertise. This enables it to play a crucial role in sharing good practice and identifying knowledge gaps in relevant emerging and developing topics.

It routinely provides guidance materials and offers capacity building workshops and seminars as part of technical assistance projects. In addition, it organizes high level conferences that reinforce the importance of working level activities, works with international bodies to highlight and address issues faced by client countries, and researches and publishes policy notes of topical relevance.

In 2023, FinSAC hosted regional knowledge events (two conferences and a series of webinars), co-organized a training course on NPL management and resolution, initiated one new analytical paper, worked to finalize four earlier papers (one was published during 2023 with the others moving towards publication), and continued to work on an enhanced Digest of Cybersecurity Regulations. These are summarized below.

International Conference: Challenges in Banking Supervision and Resolution Programmatic Pillar 2 – Complete

CONTEXT AND ACTIVITIES IN 2023

The annual FinSAC international conference brings together clients and other colleagues for a high level discussion of relevant financial stability issues and current challenges. The 2023 edition focused on i) the challenges posed by the new macroeconomic and political environment; in particular to the management and supervision of interest rate risk, the operationalization of plans to reduce NPL portfolios, and the supervision of operational risk; and ii) sustainable finance and bank resolution, specifically, the proposal for amending the BRRD and the possible application of resolution measures to non-systemic banks and the need to ensure cross-border cooperation for the smooth resolution of international banks.

The conference was successfully delivered on May 9-10 and gathered over 120 policymakers, supervisors, and commercial and central bankers from European and Central Asian countries. The discussions were focused on the current situation concerning financial stability, microprudential supervision, bank resolution, NPLs, supervisory approaches to interest rate and operational risks, as well as the risks stemming from climate change.

OUTCOMES		
The conference was well attended and well received. It acknowledged the many reforms already undertaken by client countries and reinforced the importance of maintaining the focus on financial stability issues, especially as legislation evolves in the EU. As an in-person event, it continued to re-establish and build networks among FinSAC client countries at a senior level to help tackle common issues. Attendees praised the balance achieved between policy advice and technical level discussions, as well as the opportunity for constructive interaction between participants from private and public sectors and standard setters.		
FinSAC output	**Status**	**Contribution to results area**
Relevant and well attended event.	Complete	*Promote regional knowledge of financial stability topics and develop cooperative networks among client countries.* A well received event to share knowledge and encourage contact building.

Seminar on Deposit Guarantee Scheme Use of Funds and Backstop Funding Arrangements Programmatic Pillar 3 – Complete

CONTEXT AND ACTIVITIES IN 2023

A FinSAC seminar on the use of deposit guarantee scheme funds and backstop funding arrangements was held on March 9 and 10. It was attended by over 70 participants (with a further 60 joining online) including regulators, resolution authorities, and deposit insurance specialists from 26 jurisdictions together with relevant counterparts in the public sector and academia and from the European Commission, the World Bank, and the International Monetary Fund.

The seminar considered the "traditional" deposit reimbursement processes, including the challenges to ensure efficient and fast cooperation with the liquidator under court and administrative based liquidation schemes; the use of funds to support alternative measures to payouts, both within and outside resolution; and the design and implementation of different types of backstop funding arrangements with support from fiscal authorities and central banks.

OUTCOMES

Deposit guarantee schemes play a key role in maintaining depositor confidence and limiting contagion during financial crises. FinSAC is working with deposit insurance agencies in client countries to amend their legal frameworks to better deliver on the depositor protection mandate, review and update payout regulations and action plans, and enhance coordination between stakeholders via financial stability committee engagements and memoranda of understanding. This knowledge event built on FinSAC's extensive engagement and its experience with the broader financial stability agenda in client countries to promote experience sharing and outline developments at the international and EU level.

FinSAC output	Status	Contribution to results area
Two day seminar on Deposit Guarantee Scheme Funds and Backstop Funding Arrangements.	Complete	*Enhanced deposit insurance framework.* Improved awareness and capacity to enhance the framework for prompt deposit payout and funding backstop for deposit insurance agencies.

NPL Management and Resolution Training Course
Pillar 2 – Complete

CONTEXT AND ACTIVITIES IN 2023
FinSAC organized a one-week in-person training course with the European Central Bank and Joint Vienna Institute on NPL management and on resolution in Vienna on July 3-7. The workshop provided a comprehensive overview of NPL identification, management, and resolution. Workshop speakers shared best international practice and offered examples from different countries on NPL resolution frameworks. Practical exercises were included in the agenda to allow participants to work in groups and resolve specific NPL cases and work a national strategy for NPL resolution in a fictious country.

OUTCOMES
The workshop was attended by 32 preselected participants from 18 countries, primarily in ECA. It allowed specialists from central banks, ministries of finance, and deposit insurance funds to learn European and international approaches to NPL resolution. Following on from the workshop, the National Bank of the Republic of Macedonia initiated a project with FinSAC on corporate viability assessment at the national level.

FinSAC output	Status	Contribution to results area
Co-organization of a five-day workshop on NPL management and resolution practices.	Complete	*Enhanced regulatory framework*. Improved awareness and capacity to enhance the framework for NPL resolution.

Webinars on Climate Stress Testing: Building Blocks
Pillar 1 – Complete

“The webinar series are definitely useful for my current activities.”

Sample feedback from participants

“I am impressed by the delivery of the webinars and would like to join upcoming climate-related webinars.”

Sample feedback from participants

CONTEXT AND ACTIVITIES IN 2023

FinSAC organized a set of eight webinars to convene technical staff from central banks and other financial regulators from across client and donor jurisdictions, along with relevant counterparts in public sector and academia, to increase knowledge and encourage the practical implementation of climate stress testing.

Each webinar lasted 90 minutes and addressed one building block in the climate stress testing process: role of climate stress testing for financial stability; climate stress testing framework and procedural setup; required data analysis; climate stress testing scenarios; macroeconomic models used for climate stress testing and potential alternatives); transition risk modelling; physical risk modelling; and combining physical and transition risks stress tests into a coherent framework and analysis of conclusions that can be drawn from them. Average attendance at each webinar was 65 people from more than 15 countries.

The topics covered during the webinars contribute to knowledge materials provided to FinSAC clients who intend to conduct or are at an early stage of conducting climate stress testing.

OUTCOMES

Climate stress testing is a key tool to assess the impact of climate related risks on the banking system. There is growing practice to implement climate stress testing by supervisors and supervised financial institutions, but it is more complex and nuanced than traditional stress testing. FinSAC client countries are increasingly incorporating climate related risks into their financial stability frameworks. This project supported better understanding of the process and contributed to internal capacity building within the organizations through sharing of experiences and views on how climate stress testing can be institutionalized and conducted.

FinSAC output	Status	Contribution to results area
Series of eight webinars related to climate stress testing.	Complete	*Enhanced monitoring and analysis of climate related risk.* Well attended webinars with good participant feedback.
Webinar materials used as knowledge material about the implementation of climate stress tests.	Complete	*Enhanced monitoring and analysis of climate related risk.* Useful materials for technical staff in client countries (and beyond) preparing to implement climate stress tests in their institutions.

FINSAC FOCUS ON THE FUTURE:
CLIMATE STRESS TESTING OF FINANCIAL SYSTEMS

There is growing understanding of the risks that climate change brings, both physical (due to acute and chronic extreme weather events) and transitional (due to new policies and technologies). Adequately addressing these risks requires a great deal of effort and commitment, including from supervisory authorities and central banks who need to incorporate the consideration of these risks into their mandate.

Climate stress tests are a useful tool in these efforts. They can be used to assess banks' exposure to transition risks, such as the effects of the introduction of new climate related policies on the banking sector, or changes in the technology of companies. They can also factor in the effects of physical hazards, for example floods, wildfires, or severe droughts. This allows central banks and supervisors to identify banks' vulnerabilities and work with those institutions to address them, enhancing resilience to the emerging financial risks from climate change, and supporting the economy wide transition to net zero emissions.

FinSAC is working to raise awareness of and support for the introduction of climate stress testing by client countries. To promote this, FinSAC organized a set of webinars throughout 2023 for technical staff from central banks and other financial regulators across client and donor jurisdictions for discussions and knowledge building with relevant counterparts in the public sector, international institutions, and academia.

Each webinar examined a different aspect of how to operate and analyze climate stress tests in financial systems. The eight sessions addressed:

- The main elements of climate stress testing, design considerations, main challenges, and the agenda for developing and refining these tests.
- The different organizational arrangements for undertaking climate stress testing and using the results. It included experiences of introducing a stress testing framework, the procedural set up to conduct testing, and how testing was coordinated with other projects and activities.
- Data needed for climate risk stress testing, the availability of relevant data in emerging market economies, identification of primary and secondary sources, linking data on economic and non-economic variables, the appropriate degree of granularity, and the different challenges related to transition risk and physical risk.
- The available climate change scenarios and how country authorities and financial institutions choose which scenario(s) to use for various purposes, the different approaches taken in their construction, their relative strengths and weaknesses, how to customize global scenarios for local conditions by adding detail or simplifying certain elements, and the current research agenda.

- Macroeconomic modelling and the challenges of bringing together economic variables and behavioral relationships, on the one hand, and non-economic projections (emissions and climate trends), on the other. It addressed incorporating non-traditional factors in modelling, such as the level and the incidence of a carbon tax; chronic or acute geoclimatic changes (e.g., drought or flood), energy transition plans, and technological innovation; generating projections that can be used in relatively disaggregated sector satellite models (e.g., for carbon intensive manufacturing or residential real estate); and negotiating the interaction between climate change risks and other risk factors, such as sovereign risk, and the need to construct medium- to long-term scenarios.

- Stress testing of transition risk, including the main components of transition risk modelling; the design choices that must be made; construction and calibration of satellite models; data requirements; macro feedback (e.g., via effects on interest rates); and the necessary auxiliary assumptions, for example, about the level and incidence of any carbon tax.

- Physical risk modelling as part of stress testing, focused on issues such as identifying the most relevant physical risks; estimation of effects by sector; linkages to global climate change scenarios; and how to deal with limited availability of granular data.

- How to combine transition and physical risk stress testing by taking a more complex approach to generate insights into how different climatic trends, transition paths, mitigation measures, and local conditions interact and affect macrofinancial performance and the stability of the banking system, and on that basis to assess alternative policies.

FinSAC technical assistance projects in Albania and North Macedonia in 2023 included components related to climate stress testing, mostly internal capacity building, data gap analysis, and understanding on the currently used methods and models that can be employed in the climate stress testing process. Ongoing projects in 2024 are a continuation of this work and should lead to setting up the framework for climate stress testing.

Cybersecurity Regulatory Digest
Pillar 1 – Complete

CONTEXT AND ACTIVITIES IN 2023

FinSAC's Cybersecurity Digest was introduced in 2017 to bring together diverse laws, regulations, guidelines, and other significant cyber security literature relevant to the financial sector in one accessible reference document to help authorities identify good practice and update their existing regulations. A revised Digest in a new interactive web format was planned to be launched in 2023 but ongoing personnel challenges and technical issues prevented this being achieved. Instead during 2023, FinSAC added to the 6th Digest and produced an initial consolidated summary of its contents using OpenAI text summarization techniques (see following article). The development, validation, and tokenization of the 7th edition of Cybersecurity Digest will continue in a new project in 2024.

OUTCOMES

The most recent edition of the Digest was published in 2022. This continues to be added to, and is accessed and downloaded from the FinSAC website.

FinSAC output	Status	Contribution to results area
Hosting the Cybersecurity Digest on the FinSAC website.	Complete	*Improved awareness of cybersecurity issues.* Resource for financial sector authorities.

FINSAC FOCUS ON THE FUTURE: OPTIMIZING THE FINSAC CYBERSECURITY REGULATORY DIGEST

Regulatory authorities recognize cybersecurity risks as a significant destabilizing factor to financial stability. Incidents such as data breaches, ransomware attacks, and service disruptions have affected financial markets with increasing frequency and severity in recent years. Consequently, the approach to cybersecurity supervision has been rapidly evolving as part of the operational risk framework to safeguard financial service providers against financial and reputational losses.

FinSAC has been compiling relevant laws, regulations, guidelines, and related documents since 2017, to assist authorities and practitioners navigate the cross section between cybersecurity and the financial sector. During 2022-23, 164 documents newly issued by governments, financial industries, and international standard setters were added to the current 6th edition of the *Cybersecurity Regulatory Digest*, bringing the total to more than 400. Varying in their scope and length, the documents reflect recent developments and practices in numerous relevant areas, including on threat intelligence, third party risks, operational resilience, incident response, and system-wide coordination mechanisms, among other topics of interest for supervisors.

To assist readers to identify and access individual items in this expansive library, FinSAC worked on a prototype digital language model that could determine thematic topics, for example "threat intelligence," in the *Cybersecurity Regulatory Digest* and produce a succinct, document specific summary for each topic to help the reader access specific areas of interest.

The machine assisted summaries produced were found to be highly relevant, though a close review against the original corpus would be needed to ensure the accuracy and validity of the content. This proof of concept exercise demonstrates a promising way to analyze and interpret the *Cybersecurity Regulatory Digest* in a consistent and time efficient manner. Furthermore, artificial intelligence as guided by experts may be scaled up for legal and regulatory comparative analysis in the future, drawing upon volumes of relevant references to generate insights and advice for FinSAC's thematic engagement areas.

> **"The fast pace of change can make it challenging to keep up with global good practices in the regulatory framework. FinSAC's approach offers an easily accessible, high-level overview of relevant regulation."**
>
> Ramzi Chariag,
> FinSAC Intern and Economics PhD candidate from the Central European University

Policy Note on Distressed Asset Management and Sales Practices in Selected ECA Countries Pillar 2 – Ongoing

CONTEXT AND ACTIVITIES IN 2023

The policy note summarizes the experience of state entities in charge of distressed asset management in selected ECA countries, including deposit guarantee funds and state asset management companies, to help improve understanding of relevant management practices. It reviews and provides good practice examples in the areas of sound governance practices and clear legal frameworks, comprehensive asset management and sales strategies, active asset management and improvement of assets to maximize return, transparent and proper asset valuation, and transparent and competitive asset sales.

It will go through the World Bank publication process and be published in 2024 and launched with a dissemination event for client countries.

OUTCOMES

The review of asset management and sales practices will provide policy input into state entities in charge of distressed asset management efforts to maximize asset returns within legal frameworks defined by respective laws. A timely return of distressed assets to productive economic sectors will facilitate economic growth and will develop the NPL market.

FinSAC output	Status	Contribution to results area
Study and policy note on asset management and sales practices by state entities in charge of distressed asset management.	Ongoing	*Enhanced deposit insurance and financial stability frameworks.* To be assessed on completion of project.

Update on analytical papers discussed in previous annual reports

Analytical Paper: Stocktake of Financial Stability Committees in Eastern Europe and Central Asia Pillar 1 – Ongoing

CONTEXT AND ACTIVITIES IN 2023

This analytical paper assesses the institutional characteristics of financial stability committees, in terms of mandate, legal basis, power, lead agency, and decision making mechanism, to offer client countries guidance on their optimum design. The paper aims to provide guidance on the design of financial stability committees and supports FinSAC technical assistance in this area.

OUTCOMES

The draft paper is broadly finalized but the review and publication process could not be completed in 2023. It will offer client countries strong evidence-based information on the role, responsibilities, and composition of a financial stability committee to help guide their optimal creation/redesign.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	*Improved regulatory and supervisory framework*. To be assessed on completion of project.

Analytical Paper: No More Sweet Deals: The Need to Reform Banks' Related Party Transactions Pillar 2 – Complete

CONTEXT AND ACTIVITIES IN 2023

Within the intricate world of banking, activities captured under the term related party transactions often fly under the radar, seemingly innocuous and appearing perfectly legal on the surface. However, if the layers are peeled back, a different picture unfolds - revealing a breeding ground of potential abuse and financial crisis. This paper sheds light on why related party transactions matter and how banks, supervisors, and standards setters can address these risks.

OUTCOMES

This analytical paper completed the peer review and clearance process and was published in 2023. It is available on the FinSAC website, was shared with FinSAC contacts and partners, and will be further disseminated through a World Bank blog and at the 2024 FinSAC annual international conference and other high-level events.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Complete	*Improved regulatory and supervisory framework.* Highlights key risks of related party transactions and how to address these.

Analytical Paper: Dealing with weak banks in FinSAC client countries: progress and challenges ahead Pillar 3 – Ongoing

CONTEXT AND ACTIVITIES IN 2023

Most ECA countries have embarked on a sustained, long-term effort to make their banking systems more resilient, upgrading their regimes to manage failed banks, introducing new resolution authorities with far reaching resolution powers, and improving governance structures. The paper looks into the use of the supervisory powers by authorities, possible asset quality reviews and other comprehensive assessments, and application of newly created resolution regimes. The need for ensuring a sound regime for systemic liquidity and for cross-border coordination is also examined.

OUTCOMES

The paper is completing the review and clearance process before publication. It will support FinSAC client countries to further enhance their preparedness for managing systemic banking crises.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	*Improved regulatory and supervisory framework.* To be assessed on completion of project.

Analytical Paper: A Harmonized Framework for Sm[All] Bank Resolution in FinSAC Client Countries Pillar 3 – Ongoing

CONTEXT AND ACTIVITIES IN 2023

This analytical paper focuses on the application of resolution powers to a failing bank, especially the differentiation between big and small banks and makes the case for FinSAC client countries to consider introducing a single bank resolution framework that would be applicable to any size of failing bank. It takes account of recent EU changes in the crisis management and deposit insurance frameworks.

OUTCOMES

Work on the analytical paper was paused pending the EU's reassessment of crisis management and deposit insurance frameworks. It has now been relaunched and is in the process of review.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	*Improved regulatory and supervisory framework.* To be assessed on completion of project.

Sharing FinSAC Expertise

Given its expertise and knowledge, FinSAC is regularly asked to contribute to events addressing topics of financial stability. In 2023 these included the following.

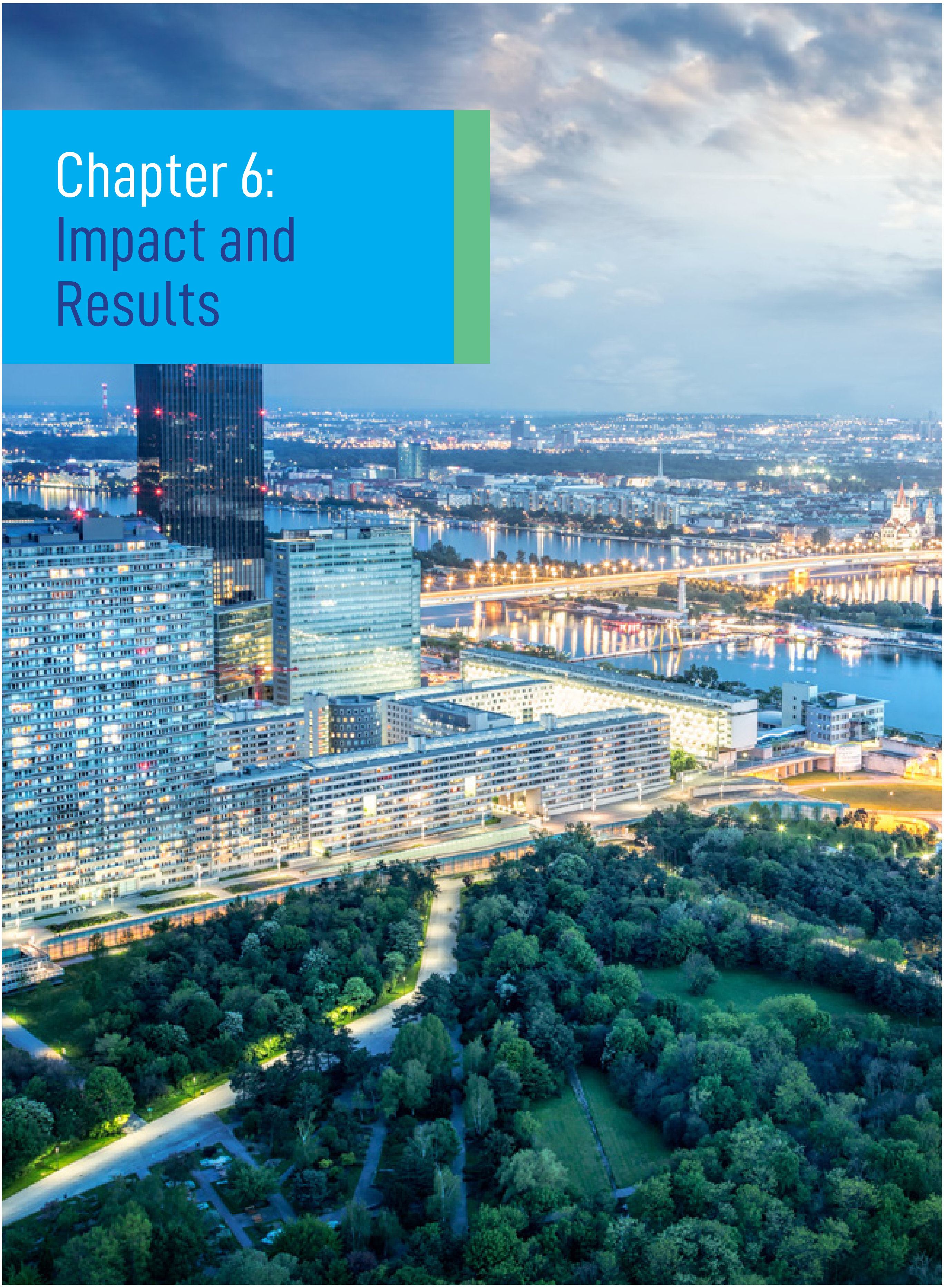
Event title	Date	Purpose
World Bank Finance, Competitiveness, and Innovation Global Practice knowledge week	January 2023 Washington D.C.	FinSAC participation discussing climate transition plans and systemic crisis management
Vienna Initiative Full Forum	March 2023 Skopje	FinSAC participation as speaker discussing the regulatory approach to climate related risks
Joint Vienna Institute Course on Macrofinancial Stability in Central, Eastern, and Southeastern Europe	April 2023 Vienna	FinSAC presentation on Bank Resolution in Action: bank resolution cases and resolution regimes and lessons learned so far
2023 International Conference of the European Federation of Deposit Insurers	May 2023 Budapest	FinSAC participation in panel on "Global thoughts on a resilient safety net"
Conference of the Group of Supervisors of Central and Eastern Europe	June 2023 Sarajevo	FinSAC panel moderation on emerging trends in supervision, including challenges from digitization and climate related risks
International Association of Deposit Insurers Africa Regional Committee Webinar: Business Continuity and Risk Frameworks for Deposit Insurance Systems	July 2023 Online event	FinSAC presentation to an online audience of more than 120 experts from Africa, Asia, and the Americas on the essential aspects in designing business continuity plans for deposit insurance schemes
The International Public Asset Management Company Forum International Conference on Stronger Recovery through Regional Financial Cooperation, organized by Asian Development Bank	September 2023 Bali	FinSAC presentation on NPL resolution in Asia focused on the Pan-Asian debt trading platform.

Event title	Date	Purpose
The European Recovery & Resolution Summit by Informa Connect	October 2023 Frankfurt	FinSAC panel member on exploring the impact of the EU crisis management and deposit insurance package on resolution and speaker discussing liquidity and funding in resolution
Training for Vietnam Asset Management Company on NPL resolution	October 2023 Hanoi	FinSAC training on options available for NPL resolution in banks and how to build an electronic trading platform for 22 staff of the Vietnam Asset Management Company
Sustainable Banking Forum, by IFC and Central Bank of Kosovo	October 2023 Pristina	FinSAC panelist discussing the regulation and supervision of climate related risks
7th South-East European NPL Forum	November 2023 Belgrade	FinSAC participation in panel discussion on current NPL trends in the region and impediments for NPL resolution for 260 industry leaders from 12 countries
Seminar on ESG and climate risks for banks and supervisors	November 2023 Almaty	FinSAC speaker on the treatment of climate related and ESG risks through different mechanisms
Supervisory training on climate risks for the Kyrgyz Republic	December 2023 Bishkek	FinSAC training for banking supervisors aimed to build capacities on the assessment and supervising climate related risks
Program on Preventing Financial Crisis (In collaboration with Yale Program on Financial Stability (YPFS), USA, Systemic Risk Centre, London School of Economics, and the World Bank)	December 2023 Mumbai	FinSAC participation as instructor and speaker on building supervisory capacity

Participation in the Vienna Initiative Working Group on Climate Change

FinSAC continues to play a significant role in the Vienna Initiative Working Group on Climate Change. The high-level objectives of the working group are to promote the ability of both supervisors and financial institutions to identify and assess relevant climate change related risks; and to suggest how these assessments should be incorporated into prudential oversight and other policies aimed at the maintenance of financial stability and a sound supply of financing. The Working Group draws on knowledge and experience sharing among participants from the private and public sectors in assessing and managing climate risks and in understanding the repercussions of the green transition for the financial sector, taking into account the specificities of the region. The Working Group has three workstreams, focused on availability of relevant data and improving data quality; supervisory and regulatory practices; and transition strategies and Paris Agreement alignment. In 2023, FinSAC participated in a full meeting of the Working Group and contributed to the preparation of a report on the findings of the workstream on supervisory and regulatory practices.

Chapter 6: Impact and Results



2023 saw significant engagement across all active client countries and within all thematic pillars. These were universally valued by clients, as demonstrated by the high ratings received from client satisfaction surveys summarized in this chapter.

Demand for FinSAC support remained high in 2023, emphasizing the evolving need for climate change related technical assistance. Despite the macroeconomic and geopolitical situation in the region, the client country authorities showed high commitment to reform implementation to further enhance financial sector resilience in their respective jurisdictions. While enhancing legal frameworks remains the core of FinSAC's engagement, technical assistance projects are increasingly aimed towards operationalization of the existing frameworks and capacity building for the authorities. While some authorities still face limitations in absorbing wider scope technical assistance, all client countries have made significant progress in adopting and implementing good international practice on crisis management, risk-based supervision, recovery and resolution, deposit insurance, etc. Regulatory frameworks continue to evolve in the EU and globally. As a knowledge hub in the region, FinSAC carefully monitors all relevant developments to ensure client countries are aware of key changes and understand how these may impact them so that they can be reflected in national reform priorities in the respective areas

A Snapshot of 2023

Table 1 below lists the completed projects in 2023: 16 country specific technical assistance projects (of which two were programmatic) and six regional knowledge building activities.

Table 1: List of completed technical assistance projects and knowledge products in 2023

Country	Technical Assistance / Knowledge products
Albania	Fiscal Backstop for Deposit Insurance
	Bank Resolution and Assessment Methodology
	Climate Related Risks
Armenia	Banking Supervision and Regulation
	Bank Resolution and Development of a Methodology for Systemic Risk Assessment
Bosnia and Herzegovina	Gap Analysis on Deposit Insurance Legal Framework
	Banking Regulation, Supervision and NPLs
Georgia	Bank Recovery and Resolution Simulation Exercise – Execution
Kosovo	Enhancing Deposit Insurance Funding and Investment Policies
	Green Finance, Bank Resolution, and Bank Supervision (Programmatic)
Moldova	Strengthening the Bank Resolution Framework
Montenegro	Strengthening Bank Supervision and Deposit Guarantee Frameworks (Programmatic)
North Macedonia	Addressing Climate Related Risks in the Banking Sector
	Bank Resolution Legal Amendment
Ukraine	Bank Recovery and Resolution, and Deposit Insurance
Uzbekistan	Banking Supervision and Regulation
Regional Knowledge Event	FinSAC International Conference: Challenges in Banking Supervision and Resolution
	Series of eight webinars on Climate Stress Testing: Building Blocks
	Seminar on Deposit Guarantee Scheme Funds and Backstop Funding Arrangements
	Training course on NPL management and on resolution, co-organized with the Vienna Institute and European Commission
Analytical Paper	Analytical Paper: No More Sweet Deals: The Need to Reform Banks' Related Party Transactions
	Cybersecurity Digest

FinSAC was active within each of its three pillars and across the overarching theme of climate related financial risks. For the purposes of this section, the programmatic projects are assigned to the pillar which represented the bulk of work in 2023. Table 2 summarizes activities by deliverable, pillar, and country.

Table 2: List of completed projects by deliverable, pillar, and country in 2023

Completed products by deliverables	Pillar 1	Pillar 2	Pillar 3	Total
Knowledge events/products	2	3	1	6
Technical assistance	5	5	6	16
Total	7	8	7	22

Completed products by country/pillar	Pillar 1	Pillar 2	Pillar 3	Total
Albania	2	-	1	3
Armenia	-	1	1	2
Bosnia and Herzegovina	1	1	-	2
Georgia		-	1	1
Kosovo	1	1	-	2
Moldova	-	-	1	1
Montenegro	-	1	-	1
North Macedonia	1	-	1	2
Ukraine	-	-	1	1
Uzbekistan	-	1	-	1
Regional	2	3	1	6
Total	7	8	7	22

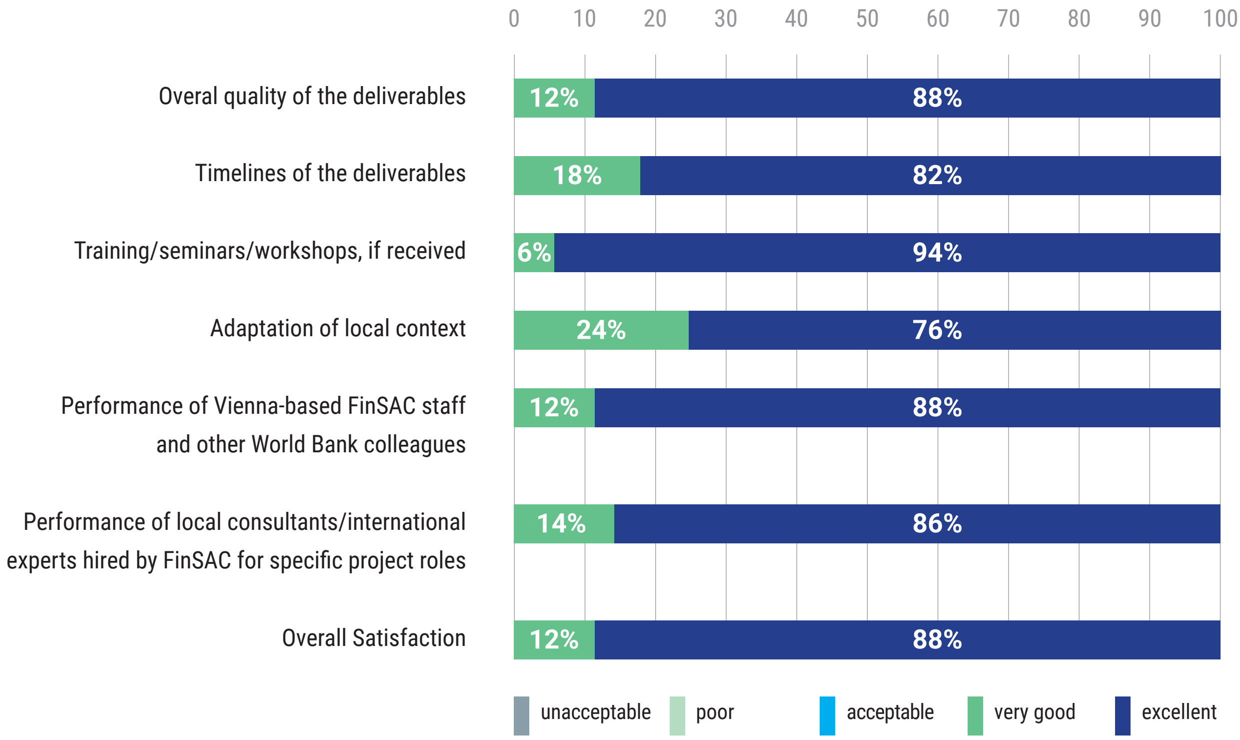
Client country feedback

Each year FinSAC requests feedback on each of its completed technical assistance projects from client authorities. This aims to gather information on the effectiveness of technical assistance and the areas in which it is having most impact. It also seeks views on areas for improvements.

Technical assistance was largely rated excellent

The key project interlocuter in client countries for technical assistance projects/ workstreams was asked to complete the FinSAC survey. The feedback for projects completed in 2023 confirms that all activities were well received, with very strong scores on all aspects of the assistance. Across all projects, FinSAC achieved an 88% overall satisfaction rating of "excellent." No areas of any project received scores below "very good" (see Figure 1 below).

Figure 1: Results of the FinSAC Client Survey 2023

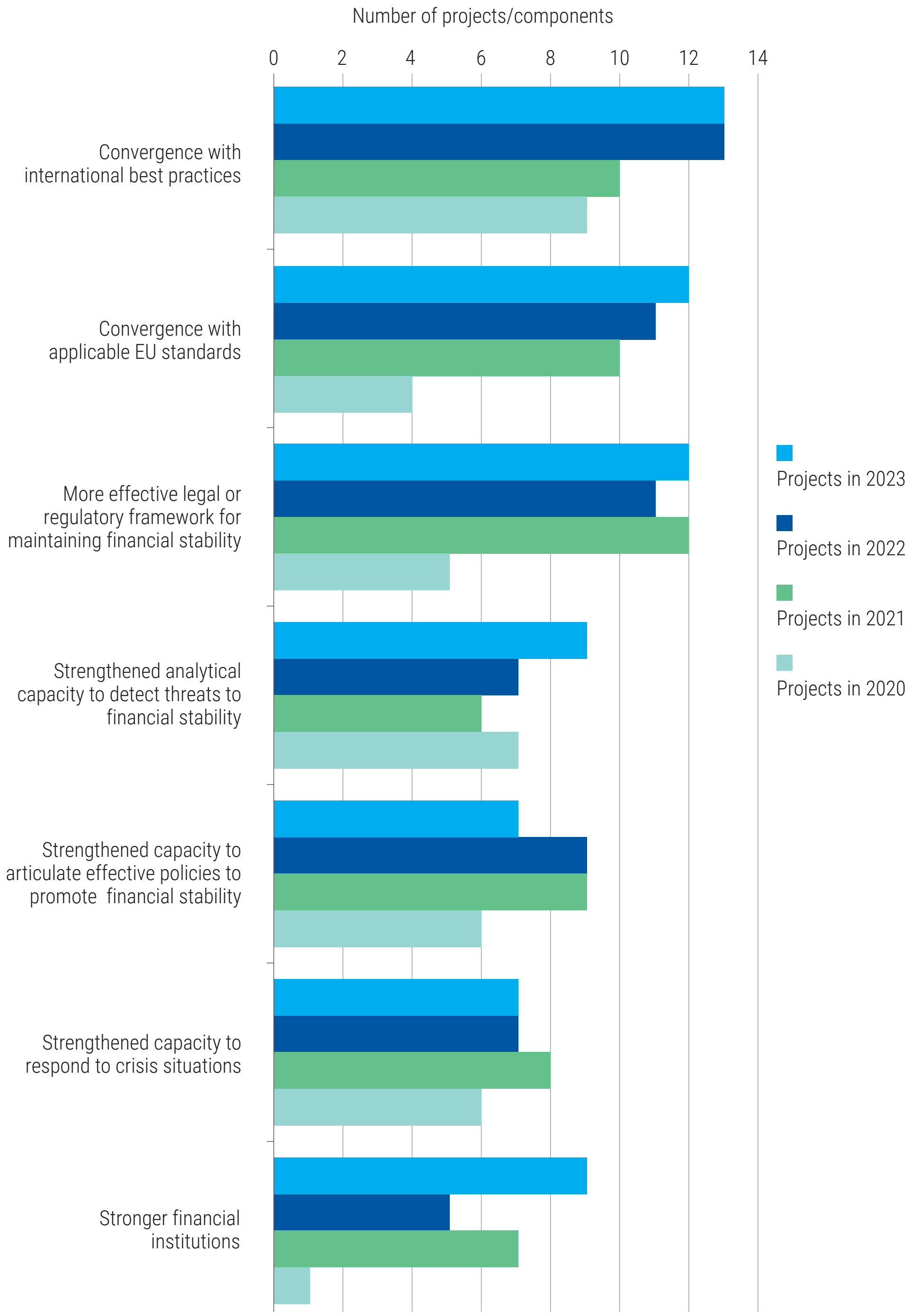


Clients were asked if there were any aspects of technical assistance that were less useful or that could be improved. There was very little response to this, one comment suggested that initial presentations were rather general but that the appropriate level of detail and tailoring to the country context was later achieved.

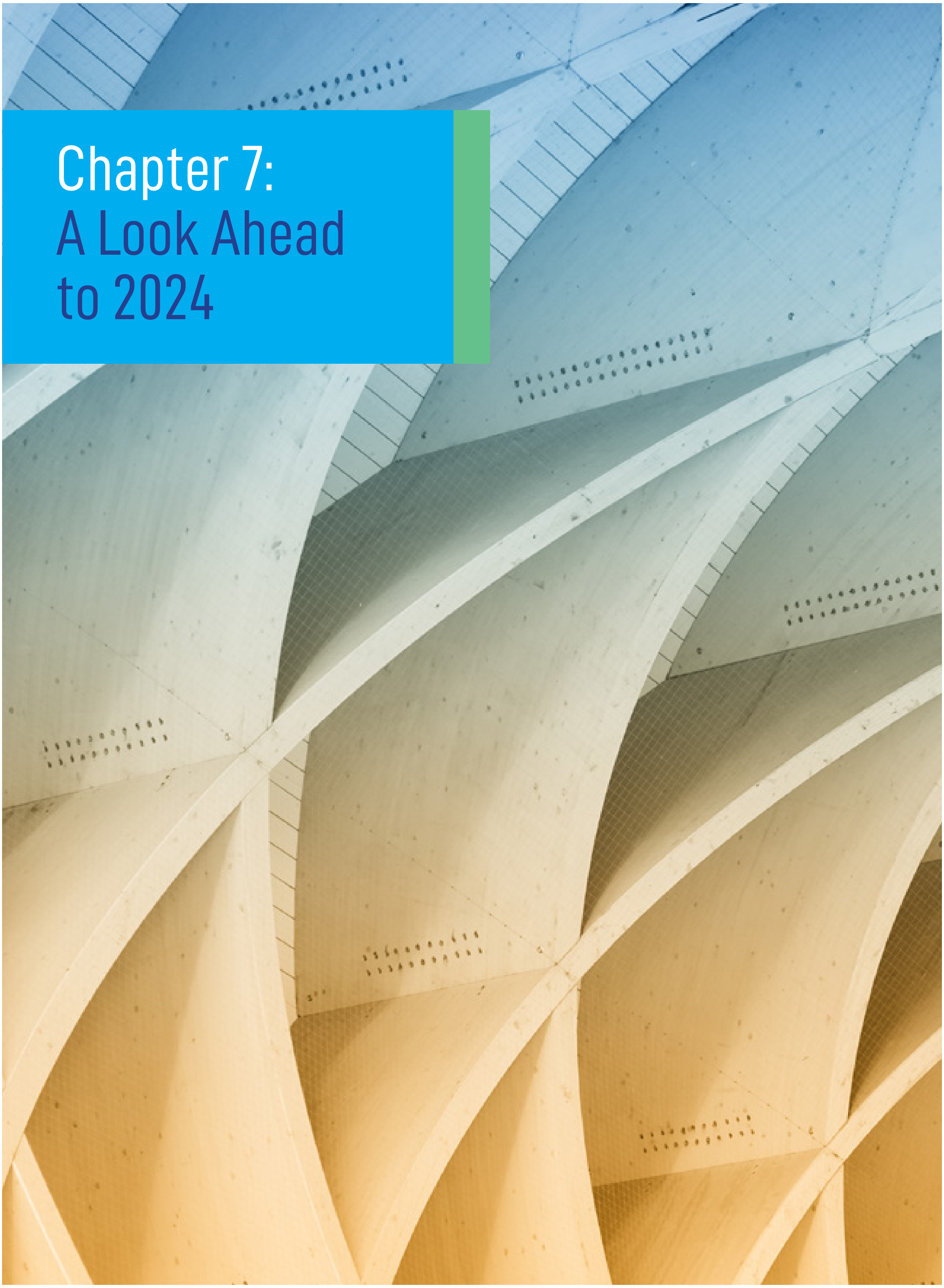
Areas in which FinSAC is contributing to change in client countries

The survey gathered views on the impact of FinSAC technical assistance projects in key policy areas. Convergence with international best practices remains a key outcome for clients. Convergence with applicable EU standards and more effective legal or regulatory frameworks saw an increase in perceived impact. Stronger financial institutions and analytical capacity to detect financial stability threats were noticeably increased from earlier years. Figure 2 shows the main outcomes of technical assistance according to clients and compares this with earlier years.

Figure 2: Main outcomes of FinSAC technical assistance in 2023 and compared to earlier years



Chapter 7: A Look Ahead to 2024



The World Bank forecasts, in the Global Economic Prospects Report, that most economies—advanced as well as developing—are set to grow more slowly in 2024 and 2025 than they did in the decade before COVID-19. Global growth is expected to slow to 2.4 percent in 2024—the third consecutive year of deceleration—reflecting the lagged and ongoing effects of tight monetary policies to rein in decades-high inflation, restrictive credit conditions, and anemic global trade and investment. The recent conflict in the Middle East, coming on top of war in Ukraine, has heightened geopolitical risks which could lead to surging energy prices, with broader implications for global activity and inflation.

The EU economy enters 2024 on a weaker footing than previously expected and the growth outlook for 2024 has been revised down to 0.9%, with the prospect of 1.7% expansion of economic activity in 2025. However, the conditions for gradually stepping up economic activity appear to be in place. As inflation decelerates, the growth of real wages and a remarkably resilient employment market should support a rebound in consumption and hence accelerate growth.

Like the EU economic outlook, the tight financial conditions, high inflationary pressures, and descending growth prospects could pose additional risks for the financial systems of FinSAC client countries. While widening net interest margins have continued to boost banks' profitability, the muted loan growth and rising funding costs may create further headwinds for banks, the first signs of which are already visible in some jurisdictions. Against this backdrop, many client countries may need to utilize macroprudential buffers and strengthen NPL restructuring frameworks.

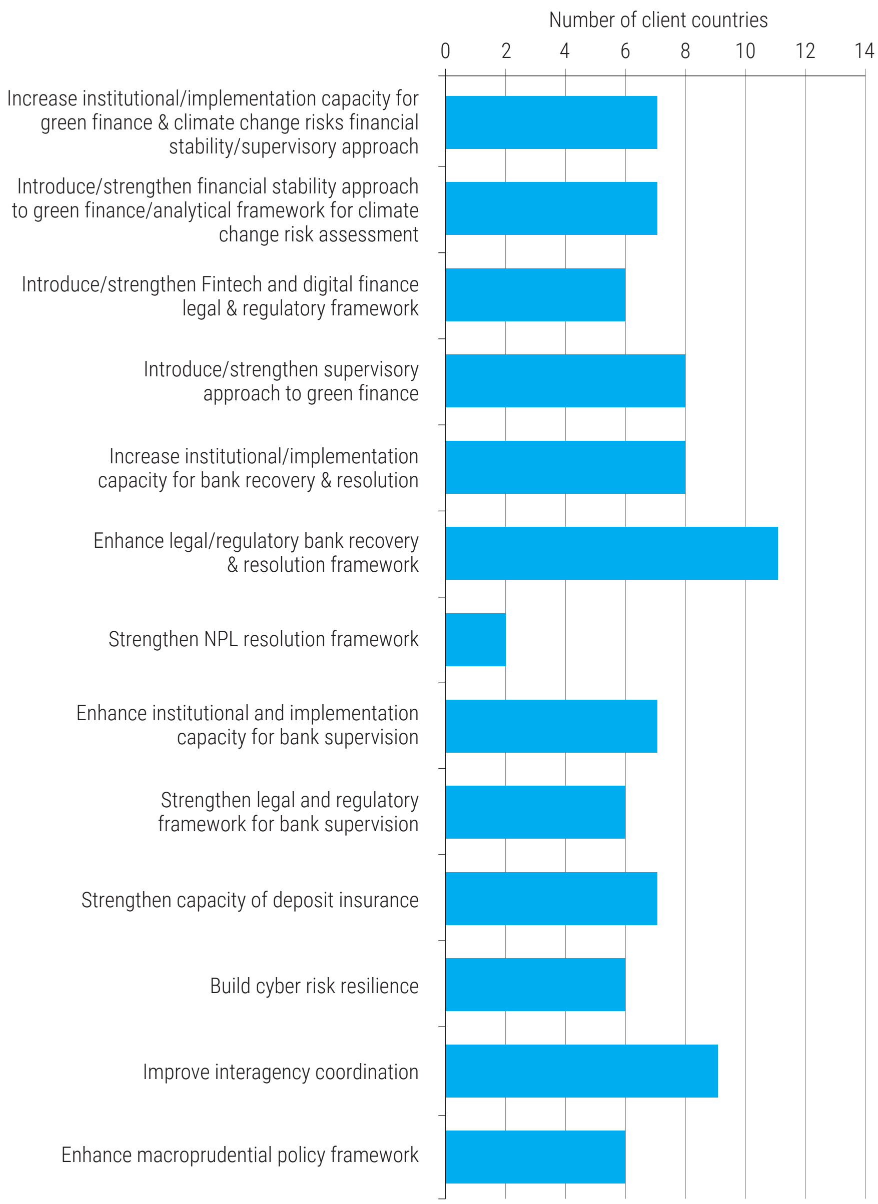
FinSAC's Portfolio

Building upon strong engagement with client country authorities in recent years, FinSAC begins 2024 with a full work program in 10 active client countries. This year will be transformational for FinSAC as it completes the third phase of operations and embarks on a new phase four program, generously funded by the Austrian Federal Ministry of Finance, aimed at covering more strategic and programmatic reforms across all three FinSAC pillars, with a specific focus on the climate change agenda. As in previous programs, bilateral technical assistance projects will remain the backbone of FinSAC's activities in 2024. Three-year country programs have been agreed for all 10 active client countries, these include flexibility for revisions at the implementation stage to take account of progress made and new reform priorities identified by the authorities. FinSAC will continue to make the best use of available time and resources through a combination of frequent country visits and focused virtual missions, supporting client countries to maximize the benefit of their engagement with FinSAC.

Client Countries' Continued Interest in Technical Assistance

Focus on the financial stability agenda has been amplified by financial turbulence caused by recent bank failures and regional conflicts. This is fueling clients' strong demand and commitment to FinSAC technical assistance. Client countries are continuing to strengthen their capacities to adjust to changing circumstances and effectively handle potential crises, including through the alignment with the EU's evolving regulatory framework, a crucial milestone for the accession countries. In the annual FinSAC survey they were asked to indicate areas in which they envisaged further policy reform over the medium term (one to three years). This showed significant work was still anticipated relevant to all three FinSAC pillars, but work on bank recovery and resolution frameworks and implementation remains a priority. Deposit insurance and enhancing capacity in climate-change related risk were also identified by many authorities, as was improving interagency coordination (see Figure 3 below). All client countries that were surveyed expressed interest in further FinSAC technical assistance.

Figure 3: FinSAC survey responses on areas for policy reforms in the short/medium term.



FinSAC's Focus for 2024

As the financial stability risks stay elevated in the region, FinSAC's emphasis on a three-pillar engagement framework, with a cross-cutting focus on climate change-related financial risks, remains highly relevant for the client countries. On their way to EU accession, the alignment with international best practices and EU frameworks will be the guiding vector for many FinSAC client countries. However, in parallel, the authorities are making efforts to operationalize their crisis management frameworks and enhance the utilization of the financial safety nets in the broader context. Hence, crisis preparedness and NPL resolution, interagency cooperation mechanisms, emergency liquidity assistance frameworks, as well as facilities for effective financing of deposit payouts and resolution of failed banks will be at the core of FinSAC's operational engagement in the region.

The green transition is inevitably becoming a more distinct priority for client countries, channeling more resources towards the sustainability agenda and further enhancing demand for FinSAC support across the pillars.

Pillar 1

Financial Stability, Macroprudential Frameworks and Crisis Preparedness

Despite all client countries weathering the macro-financial shocks during 2023 relatively well, the financial stability risks in the region are yet visible, requiring continuous monitoring to identify potential systemic impact and enhancement of mitigating policies. Those risks could be amplified by developments in military conflicts in Ukraine and the Middle East, as well as by a slow rebound of economic activity in Europe, highlighting the need for further strengthening of the crisis management framework and operationalization of financial sector safety nets. FinSAC will continue supporting authorities in their efforts to test the crisis management frameworks using crisis simulation exercises and provide tailored technical assistance to address the identified shortfalls, among other things covering interagency coordination, emergency liquidity assistance, as well as operational readiness for quick and effective bank resolution. The assessment of systemic risks and design of follow-up macroprudential policy actions are getting more attention these days, triggering more demand for such types of policy engagements. Following the path of green transition, there is an increased emphasis on the macro level assessment of financial risks stemming from climate change, FinSAC will be supporting client country authorities in the design of macro climate stress tests on a much bigger scale. Deposit insurance is another area in which the demand from client countries grows steadily, primarily explained by a new legislative proposal of the European Commission to upgrade the Crisis Management and Deposit Insurance framework in Europe.

Pillar 2

Microprudential Oversight and Non-Performing Loan Resolution

FinSAC faces unceasing demand from client countries for support on the conventional bank regulatory and supervisory agenda, including among other things supervisory architecture, supervisory review and evaluation process-like methodologies, bank business models, etc. However, as the local markets develop, banks are gradually transitioning to more advanced internal models for financial risk management, prompting regulators to upgrade their supervisory methodologies as well. Together with revisions in the European Capital Requirements Directive/Capital Requirements Regulation framework, it is expected that demand from client countries for more advanced supervisory models will increase during the next years. As the sustainability agenda evolves into a cross-cutting policy issue, FinSAC technical assistance products on regulatory and supervisory approaches to climate-related financial risks are becoming a key engagement area with client countries. Given the evolving demand, FinSAC will continue supporting central banks and regulators in 2024 to build internal capacities around physical and transition risks and contribute to the preparation and follow-up implementation of sustainability strategies. As was envisaged at the beginning of 2023, the first signs of yet immaterial deterioration in credit quality are surfacing. While corporate profitability held up well, higher interest rates are weighing on the debt servicing capacity of more vulnerable firms, moving them into the NPL zone. As these risks evolve, FinSAC will step-up to support client countries with comprehensive diagnostic and follow-up technical assistance on a wide range of topics covering corporate viability analysis, prudential regulations, corporate insolvency, and enforcement frameworks, creating NPL secondary markets, as well as disclosure requirements.

Pillar 3 – Bank Recovery and Resolution

Reinforced by recent bank failures in Europe and US, the bank resolution field will continue to be a core business line for FinSAC. Extensive support has been provided to client countries in establishing legal and regulatory regimes aligned with the Key Attributes and the BRRD, operationalizing recovery and resolution planning framework, and providing capacity development support to newly established resolution departments. This will continue in 2024, including methodological assistance in the identification and measurement of banks’ critical economic functions. Some client countries are still at an early stage of reforming their bank resolution frameworks, seeking FinSAC assistance mainly with primary and secondary legislation. However, most are at a more advanced development stage, and primarily seek advice on operationalization: via conducting recovery and resolution simulation exercises, designing operational handbooks for resolution tools such as the bail-in instrument or bridge bank, enhancing the asset valuation framework for resolution purposes, improving coordination mechanisms among supervisors and deposit insurance agencies, as well as hands-on support in dealing with failing banks. The ongoing enhancements as part of the EU Crisis Management and Deposit Insurance framework are expected to introduce new approaches to the resolution of smaller non-systemic banks. This is already generating new technical assistance requests, to be supported in the coming years.

KNOWLEDGE ACTIVITIES

In May 2024, FinSAC will hold its Annual Flagship Supervisory Conference aimed at facilitating in-depth discussions with policymakers on “Getting the financial sector reform priorities right”. FinSAC, in coordination with the European Central Bank and the Joint Vienna Institute, will organize a further one-week NPL management and resolution workshop in July 2024. FinSAC will finalize and publish at least three analytical papers ongoing from 2023 to 2024. The new FinSAC website will be launched in early 2024 to be populated over the years, seeking to improve and broaden the materials available. A technical solution will be explored further to allow better utilization of the repository of cyber related regulations aimed at identifying regulatory trends to guide potential technical assistance engagements on cybersecurity topics with client countries.

Annex A: Financial Indicators for Client Countries

Economy		Capital			Liquidity			Profitability	
		Regulatory capital / RWA	Tier 1 capital / RWA	Tier 1 capital / total assets	Liquid assets / total assets	Liquid assets / short-term liabilities	Deposits / total noninterbank loans	Return on assets	Return on equity
European Union member states	Bulgaria	21.8	20.7	10.3	28.1	35.9	134.9	↑ 2.5	↑ 19.7
	Croatia	23.3	22.7	9.2	36.5	↑ 47.3	129.8	2.3	16.9
	Poland	20.9	19.0	6.5	26.7	44.2	109.3	↑ 1.4	↑ 11.9
	Romania	22.8	19.7	8.1	29.2	38.5	130.2	1.9	21.1
EU candidate and potential candidate countries	Albania	19.4	17.7	8.7	30.1	42.5	211.5	2.0	↑ 17.3
	Bosnia and Herzegovina	19.5	18.6	10.1	28.8	47.0	130.0	2.0	15.9
	Georgia	22.1	19.7	15.2	20.9	38.5	81.2	4.2	26.5
	Kosovo	15.8	13.9	9.8	25.1	34.7	124.8	2.5	19.9
	Moldova	31.0	30.1	13.8	54.6	285.0	167.7	3.6	17.8
	Montenegro	20.7	20.1	8.5	25.7	35.3	156.2	↑ 2.6	↑ 20.3
	North Macedonia	18.4	17.4	↑ 12.5	21.0	35.4	119.0	↑ 2.3	↑ 18.3
	Serbia	21.4	19.7	11.9	41.0	54.0	132.1	2.5	18.1
	Ukraine	↑ 25.3	14.9	5.7	73.1	90.6	201.3	6.7	55.6
EU neighbouring countries	Armenia	20.2	18.1	↑ 14.5	33.2	100.5	112.1	3.1	16.5
	Azerbaijan	18.5	14.3	9.2	28.7	53.8	142.3	3.0	20.3
	Belarus	19.3	15.9	13.5	19.0	136.0	↑ 98.4	↑ 3.3	↑ 18.5
Ctr. Asia	Uzbekistan	17.5	14.1	13.0	16.2	↓ 37.1	46.9	↑ 2.6	14.2

Note: Note: The statistics, represented in percentages, are prepared using latest information available by March 27, 2024, typically reflecting conditions of financial systems as of September 2023. Albania, Georgia, Kosovo, Serbia, and Uzbekistan are represented using December data; Ukraine October; Armenia August; Bosnia and Herzegovina and Romania June 2023. The background colors of indicators represent their rankings among the countries, with deeper blue reflecting more favorable positions and red otherwise. The arrows left of values indicate changes beyond one historical standard deviation away from the most recent three-year averages. The icons on the right illustrate indicator evolutions over a 10-year timespan. Underlines indicate calculations for countries that unilaterally adopted euro (Kosovo and Montenegro) as their domestic currency. "." and "-" respectively indicate cases of missing and censored report values.

Sources: IMF Financial Soundness Indicators and supplementary data from Central Bank of Armenia, National Bank of Bulgaria, National Bank of Serbia, and Central Bank of Uzbekistan.

Economy		Exposures					
		NPLs net of provisions / capital	NPLs / total gross loans	Large exposures / capital	FX-denominated loans / total loans	FX-denominated liabilities / total liabilities	Net open FX position / capital
European Union member states	Bulgaria	11.4	3.8	0.0	.	.	.
	Croatia	6.9	3.5	124.9	.	.	0.0
	Poland	5.3	2.5	.	25.4	.	0.2
	Romania	6.9	2.6	.	32.2	29.9	0.7
EU candidate and potential candidate countries	Albania	5.5	4.6	147.8	44.6	52.2	6.1
	Bosnia and Herzegovina	4.2	4.1	100.3	40.0	41.7	2.2
	Georgia	3.8	1.5	33.4	41.2	51.0	2.7
	Kosovo	3.3	1.9	71.7	0.2	3.3	0.6
	Moldova	3.8	6.7	6.4	26.4	0.0	-10.9
	Montenegro	18.3	5.9	117.6	0.1	4.8	0.0
	North Macedonia	-7.0	2.7	228.3	41.4	46.6	11.4
	Serbia	6.0	3.2	85.6	59.7	57.9	0.8
	Ukraine	27.2	37.7	100.0	31.5	35.5	360.2
EU neighbouring countries	Armenia	-0.8	2.5	92.4	28.3	.	.
	Azerbaijan	5.1	2.5	75.9	29.7	36.1	2.3
	Belarus	16.0	5.3	163.6	28.8	55.4	5.5
Ctr. Asia	Uzbekistan	9.9	3.5	183.7	44.1	52.5	4.5

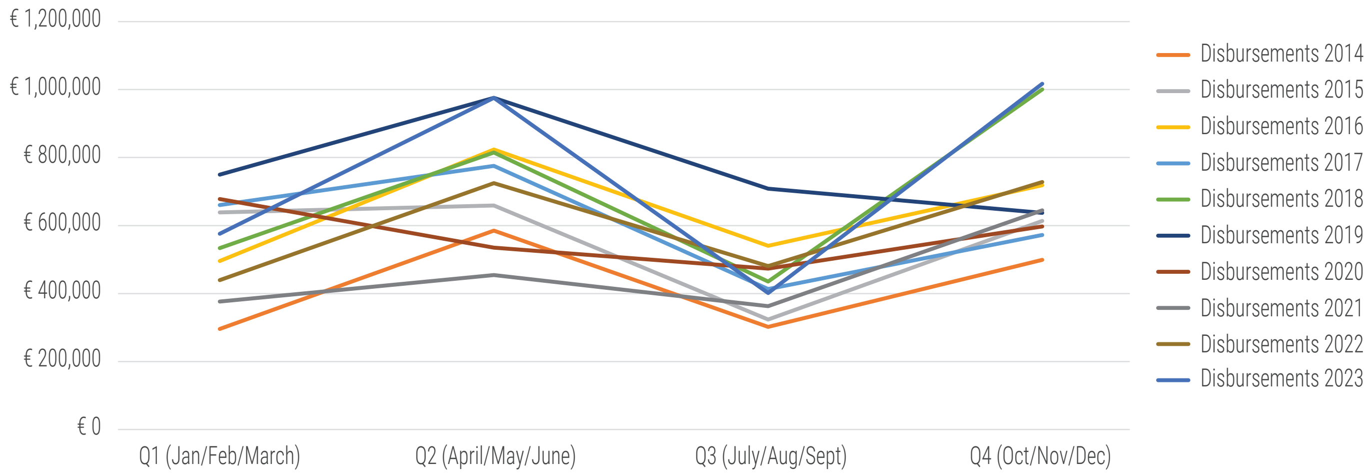
Annex B: Trust Fund Disbursement

Disbursement of the trust fund by FinSAC as of December 31, 2023

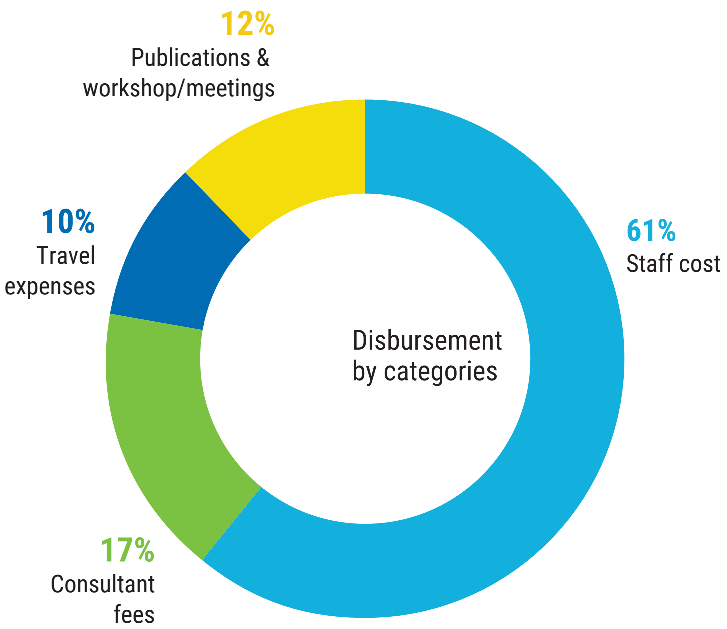
FinSAC 3 (TF072993 – Trust Fund disbursement end date is 31 October, 2024)*	
Contributions paid in	€ 13,300,000
Investment income**	€ (13,418.12)
Disbursements	€ 12,645,578.59
Fund Balance including commitments	€ 641,003.29

* FinSAC 3 TF includes original Administration Agreement (AA) for €8 million and amendment to AA for €5,3 million
** Due to negative savings rate in EUR before 2023

Disbursement	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Q1 (Jan/Feb/Mar)	€ 295,836	€ 638,483	€ 495,853	€ 660,469	€ 533,788	€ 749,983	€ 677,770	€ 376,105	€ 439,262	€ 584,377
Q2 (Apr/May/June)	€ 585,282	€ 659,242	€ 823,747	€ 775,256	€ 814,793	€ 965,546	€ 534,821	€ 454,119	€ 724,894	€ 967,272
Q3 (July/Aug/Sept)	€ 301,968	€ 323,288	€ 540,713	€ 433,911	€ 414,172	€ 708,361	€ 473,043	€ 362,921	€ 480,865	€ 410,215
Q4 (Oct/Nov/Dec)	€ 499,193	€ 613,310	€ 718,554	€ 572,154	€ 1,000,470	€ 637,033	€ 597,110	€ 644,651	€ 728,124	€ 989,732
Total	**€ 1,682,278**	**€ 2,234,323**	**€ 2,578,867**	**€ 2,441,790**	**€ 2,763,223**	**€ 3,060,923**	**€ 2,282,744**	**€ 1,837,795**	**€ 2,373,144**	**€ 2,951,597**

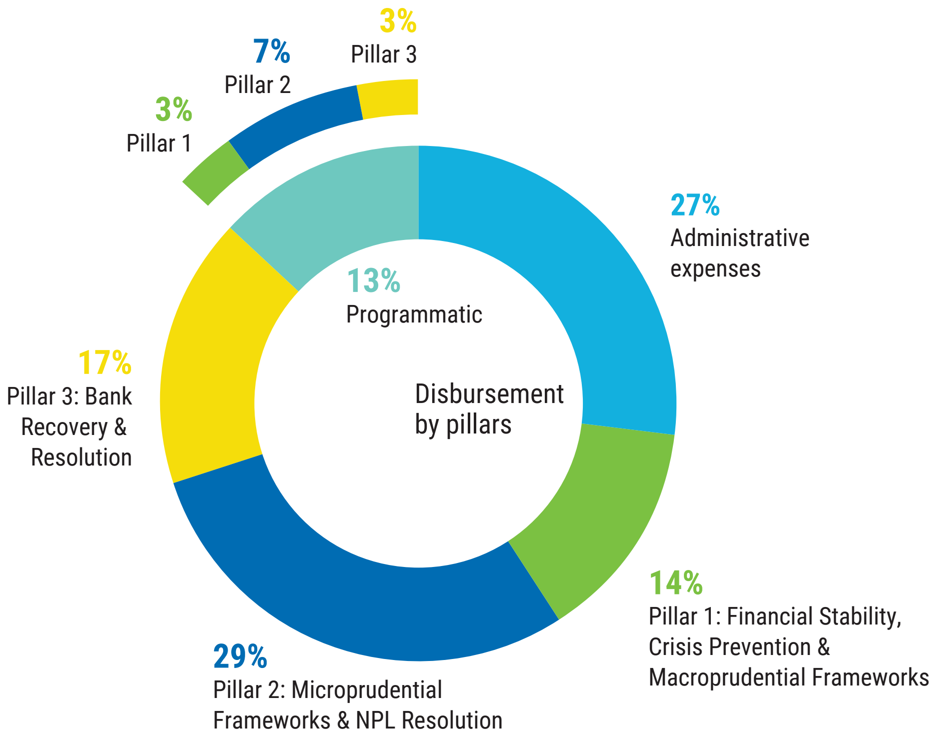


Disbursement by categories (for the period of 1 January 2023 – 31 December 2023)		
Staff costs[1]	€ 1,806,796.42	61%
Consultant fees[2]	€ 515,161.70	17%
Travel expenses[3]	€ 339,592.86	12%
Publications & workshop/meetings	€ 290,046.28	10%
Total	**€ 2,951,597.26**	**100%**



1 Incl. FinSAC Coordinator, one program assistant, six TTLs and related unit TTLs supporting FinSAC program
2 Incl. Short Term consultants and consultant firms
3 Incl. travel expenses of staff and consultants

Disbursement by pillars (for the period of 1 January 2023 – 31 December 2023)		
Administrative expenses[4]	€ 811,060.71	27%
Pillar 1: Financial Stability, Crisis Prevention & Macroprudential Frameworks	€ 417,895.03	14%
Pillar 2: Microprudential Frameworks & NPL Resolution	€ 841,499.32	29%
Pillar 3: Bank Recovery & Resolution	€ 505,275.04	17%
Programmatic[5]	€ 375,867.16	13%
Pillar 1		3%
Pillar 2		7%
Pillar 3		3%
Total	**€ 2,951,597.26**	**100%**



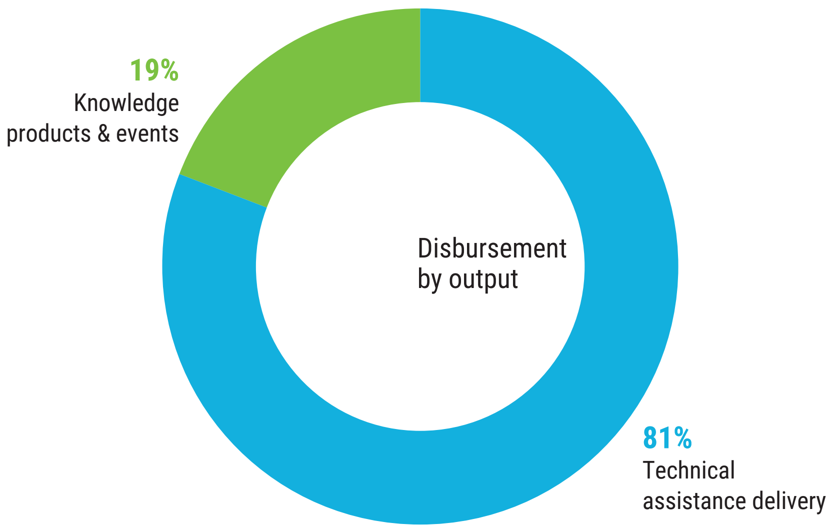
4 Incl cost of all types of categories not related to the particular TF activities and all general expenses: program management, contracts of designer, editor, staff cost of coordinator, program assistant/back up, travel cost for staff for training, general translations services, utilities, office maintenance, office supplies, depreciation, publications and other related services, representation cost, coordination and some business development activities.

5 percentage break by countries is on a next page

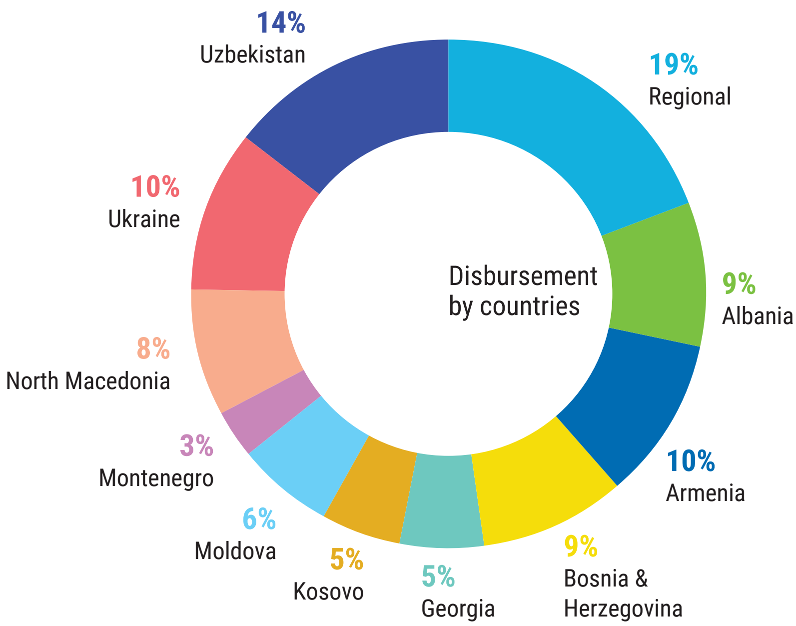
Disbursement by pillars for programmatic projects (for the period of 1 January 2023 – 31 December 2023)	Pillar 1	Pillar 2	Pillar 3
Kosovo: TA on Green Finance, Bank Resolution and Bank Supervision Project		3%	0.2%
Ukraine programmatic FinSAC TA on Microprudential Frameworks, NPL Resolution and Climate Risks		0.5%	
Seminar on Deposit Guarantee Scheme Funds and Backstop Funding Arrangements	1.5%		1.6%
May annual conference 2023*	1.1%	4%	1.3%

* FinSAC annual conference 'Renewed supervisory challenges in light of tightened financial conditions and economic slowdown', May 9-10, 2023

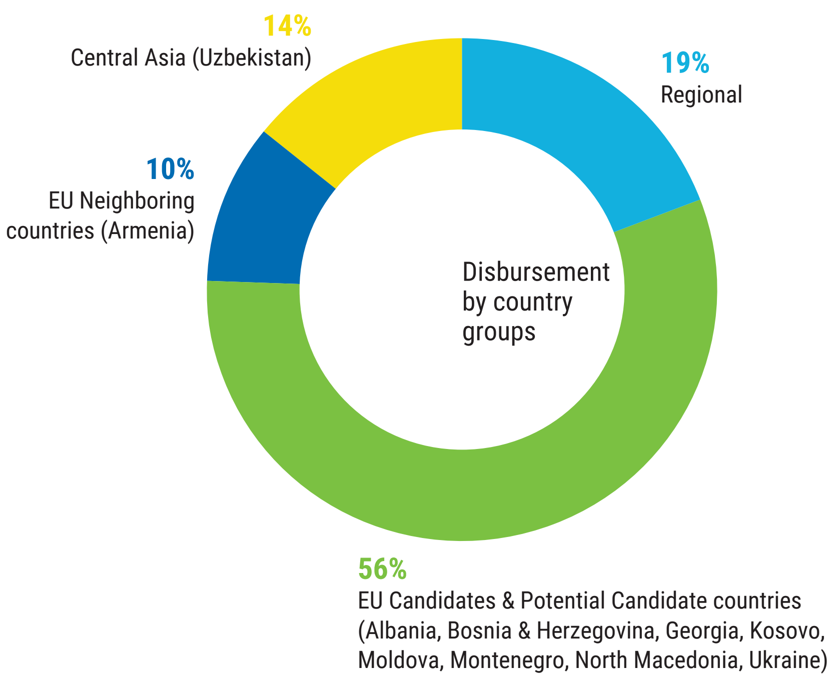
Disbursement by output (for the period of 1 January 2023 – 31 December 2023)		
Technical Assistance Delivery	€ 1,724,966.66	81%
Knowledge products & events	€ 415,569.89	19%
Total (excluding admin expenses)	**€ 2,140,536.55**	**100%**



Disbursement by countries (for the period of 1 January 2023 – 31 December 2023)		
Regional	€ 415,569.89	19%
Albania	€ 188,805.32	9%
Armenia	€ 221,837.11	10%
Bosnia & Herzegovina	€ 202,880.20	9%
Georgia	€ 110,653.80	5%
Kosovo	€ 110,976.41	5%
Moldova	€ 125,835.75	6%
Montenegro	€ 72,667.86	3%
North Macedonia	€ 174,959.64	8%
Ukraine	€ 213,474.55	10%
Uzbekistan	€ 302,876.02	14%
Total (excl admin expenses) €	**€ 2,140,536.55**	**100%**



Disbursement by country groups (for the period of 1 January 2023 – 31 December 2023)		
Regional	€ 415,569.89	19%
EU Candidates & Potential Candidate countries (Albania, Bosnia & Herzegovina, Georgia, Kosovo, Moldova, Montenegro, North Macedonia, Ukraine)	€ 1,200,253.53	56%
EU neighboring countries (Armenia)	€ 221,837.11	10%
Central Asia (Uzbekistan)	€ 302,876.02	14%
Total (excl admin expenses)	**€ 2,140,536.55**	**100%**



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