



WORLD BANK GROUP
Finance, Competitiveness & Innovation



FINANCIAL SECTOR ADVISORY CENTER
ANNUAL REPORT
2022

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Abbreviations used in this report:

BRRD	EU Bank Recovery and Resolution Directive
COVID-19	Coronavirus Disease 2019
EU	European Union
FinSAC	Financial Sector Advisory Center
GDP	Gross Domestic Product
NPL	Non-Performing Loan
RRSE	FinSAC Recovery and Resolution Simulation Exercise

Foreword



Jean Pesme

Global Director
Finance, Competitiveness & Innovation
The World Bank

Financial stability remains fragile as the global economy adjusts to higher inflation and interest rates, elevated levels of debt, and the lifting of temporary measures to help financial institutions weather the pandemic. Global per-capita income growth is set to be slower during this decade than in the prior one. The war in Ukraine continues to have terrible effects on the region and beyond. Maintaining the stability of financial systems and the flow of finance to fund investment, jobs, and incomes is crucial to supporting sustainable and inclusive growth and reducing poverty.

A clear lesson that has emerged in the years since the global financial crisis and through the many challenges since then is that preparedness is vital, including in terms of the availability of backstopping mechanisms (e.g., deposit insurance, liquidity support arrangements, etc.) and resolution tools, that should be underpinned by authorities' ability to use them. The Financial Sector Advisory Center (FinSAC) provides advice, financing, and knowledge products to help governments implement good international practices for prudential frameworks. This Annual Report shows that demand for FinSAC support in the enhancement of crisis management frameworks, banking supervision, and financial safety nets continued to be strong in 2022 and it is good to note the growing interest among client countries to expand green finance, as they seek to mitigate risks and maximize the role of the financial system in the transition to a low-carbon economy. Challenges are certain to grow for emerging markets in the year to come as growth and capital flows remain weak, whereas the global financial system is undergoing yet another turbulent cycle. FinSAC will continue to build on the work accomplished during 2022 to further enhance financial stability in the client countries and contribute to a more sustainable economy in the future.



 **Federal Ministry
Republic of Austria
Finance**

Harald Waiglein

Director General
Economic Policy, Financial Markets & Customs
Federal Ministry of Finance, Republic of Austria

The Austrian Federal Government is proud to finance the continuously important work of the World Bank Financial Sector Advisory Center (FinSAC). The year 2022 was a difficult year not only for our home region of Europe and Central Asia but also for the whole world. Beyond the illegal violation of Ukraine's territorial integrity and brutal aggression towards the Ukrainian people, Russia's unjustified war has contributed to increased commodity prices, the energy crisis, and increased fiscal pressures. Countries hoping to reinvigorate their economies following the devastating effects of COVID-19 are instead faced with high inflation, high interest rates, recession risks, weaker growth prospects, and thus increasing challenges for indebted firms and households to service their debt. While higher interest rates may benefit banks in the short term, threats to asset quality are increasing given the upward pressure on provisioning and growth of non-performing loans. Financial stability risks are increasing as macro-financial conditions continue to weaken and make disorderly adjustments in the financial and capital markets more likely. This inevitably will have negative implications for the ability of both governments and private sector participants to meet their financing needs, while increasing the demand for state support. On top of this, the accelerating impact of climate change is increasingly becoming a source of risk that financial institutions and regulators need to account for in their assessments.

It is clear from the positive feedback on FinSAC's activities in 2022 included in this report, that its technical assistance support focused on financial stability is important for client countries to be able to withstand the current headwinds and be better equipped to mitigate risks to their financial systems, including those stemming from climate change. Sharing knowledge, contributing to legislative improvements, and supporting institutional reforms within FinSAC's three thematic pillars proved valuable to client countries and we welcome these continued efforts to face the many challenges together and move towards stronger, more resilient, and greener financial systems.

Chapter 1: Introduction



The Financial Sector Advisory Center (FinSAC) is a dedicated technical unit in the World Bank funded by the Austrian Federal Ministry of Finance that has been delivering financial sector reform advice and implementation assistance to client countries in the Europe and Central Asia region for more than a decade. The pursuit of financial stability remains critically relevant, especially as the impact of COVID-19 economic measures, the ongoing war in Ukraine, and the bank failures in United States and Europe in early 2023 have created new financial stability challenges, including due to tighter financial conditions, soaring inflation, and increased risks of economic recession.

Targeted bilateral technical assistance is the cornerstone of FinSAC's activities with client countries. Assistance can build either on previous achievements, for example to implement new legislation drafted under an earlier project, or there may be new areas in which client countries need knowledge and advice, such as the adoption of green finance strategies by central banks and bank supervisors. In addition, in its role as a knowledge center, FinSAC continues to organize relevant conferences, technical workshops, and other knowledge-sharing events, as well as undertake research projects.

This Annual Report gives an overview of FinSAC's activities in 2022. It sets out the purpose and mission of FinSAC, outlines the economic situation in client countries that form the backdrop to FinSAC assistance, summarizes the different FinSAC projects and products in 2022, and looks ahead to planned activities in 2023.

Highlights of 2022

2022 was marked by Russia's devastating invasion of Ukraine, which caused enormous human suffering and instigated fundamental shifts in the economic landscape. The war has prompted repricing in global financial and commodity markets and dampened the confidence of businesses and consumers that were just recovering from the COVID-19 pandemic. Intensifying inflationary pressures in the region prompted monetary authorities to respond, whereas sovereigns faced higher fiscal constraints at the time of increased demand for economic support. While rising interest rates bolster banks' profitability in the short-term, worsening asset quality and higher funding costs pose significant headwinds for banks in the medium term.

While most FinSAC client countries (with the exception of Ukraine) were able to withstand the initial economic shock triggered by Russia's aggression, higher energy and food prices have pushed inflation to levels unseen for many years, eroding purchasing power and business confidence in the region. The slowdown of economic activity in advanced economies, especially in the euro area, hampered the demand for imported goods and services from FinSAC client countries and negatively influenced the inflow of investments and remittances to those economies. Tighter global financing conditions, a slowdown in both domestic and external demand, as well as weakening business and consumer confidence will inevitably impact the region's financial sector, highlighting once more the importance of prudent financial crisis management framework, banking supervision, and financial safety nets.

Demand for FinSAC support remained strong in 2022, particularly for technical assistance. After the travel restrictions imposed during the pandemic, FinSAC was able to recommence full-scope physical missions and in-person knowledge events and to effectively combine these with the now well-established practice of virtual meetings and workshops during the year.

This ensured the best use of time and resources and proved to be a very effective approach for the delivery of technical assistance, which will be utilized in 2023 and beyond. FinSAC completed 13 technical assistance projects in 2022 and work is ongoing on two. Projects engaged the full range of FinSAC expertise and included programmatic activities (covering different areas of financial stability assistance) and new product lines (on climate-related financial risks and crisis simulation exercises focused on bank recovery and resolution). One project, with Belarus¹, was stopped because of the war in Ukraine. Summaries of all technical assistance projects and their outcomes are in Chapter 4.

In addition to technical assistance projects, FinSAC also undertook analytical work and organized knowledge events during the year. After a two-year break, FinSAC was able to host its flagship Annual Supervisory Conference in May. This was an opportunity for clients and key partners to once again meet in person and discuss key issues, including a day fully dedicated to climate-related financial risks. During the year, FinSAC contributed to the Working Group on Climate Change, established under the Vienna Initiative. Under this workstream, FinSAC, in cooperation with the National Bank of Croatia, organized a series of virtual workshops dedicated to regulatory and supervisory aspects of financial risks stemming from climate change. FinSAC also progressed with the preparation of four analytical knowledge products that were in the pipeline since the pandemic but took longer than expected to finalize. They are now expected to be published in 2023. One analytical paper was paused due to pending EU developments. Summaries of knowledge activities are in Chapter 5.

With the return to its pre-pandemic business model, FinSAC committed €2,373,144 to its activities in 2022, up from €1,837,795 in 2021. The increase in expenditure is explained primarily by the resumption of travel (although not yet at pre-pandemic levels), associated increase of consultants' fees, as well as the costs of the Annual Supervisory Conference. Expenditure remains much lower than the €3,060,923 committed in pre-pandemic 2019 due to less frequent travel and the retirement of a senior member of FinSAC staff. The savings accumulated during the pandemic have allowed the extension of FinSAC's third phase for it to safely operate until year-end 2023. In 2023, FinSAC will continue its tailored support to client countries with up to 12 technical assistance projects, 2 knowledge events, and the finalization and dissemination of FinSAC's analytical papers.

¹ On March 2, 2022, the World Bank announced that it had stopped its programs in Russia and Belarus.



Chapter 2: FinSAC at a Glance



FinSAC



FinSAC is part of the World Bank's Finance, Competitiveness, and Innovation Global Practice. Financial stability and integrity are one of the Global Practice's six global themes, through which it helps client authorities strengthen financial sector oversight and enhance the capacity to deal with financial crisis. Financial stability is essential to allow the financial system to support economic development and is therefore critical in achieving the World Bank's twin goals of reducing poverty and fostering shared prosperity.



FinSAC was created in 2011 in response to the global financial crisis to assist countries in emerging Europe identify issues and problems in national banking sectors and recommend tailored solutions.



FinSAC works with client countries to align with international good practice in establishing an effective macroprudential framework appropriately adapted to their circumstances.



FinSAC offers client-specific technical assistance assignments; knowledge-building technical workshops, conferences, and seminars; and regional research projects with corresponding outreach activities.



FinSAC is a technical unit of the World Bank focused on enhancing financial stability in client countries in Europe and Central Asia.



FinSAC is based in Vienna, Austria and funded by the Austrian Federal Ministry of Finance in support of its regional neighbors.



FinSAC provides targeted assistance and policy advice covering three thematic pillars: pillar 1 - financial stability, macroprudential frameworks, and crisis management, pillar 2 - microprudential frameworks and non-performing loan (NPL) reduction, and pillar 3 - bank resolution.



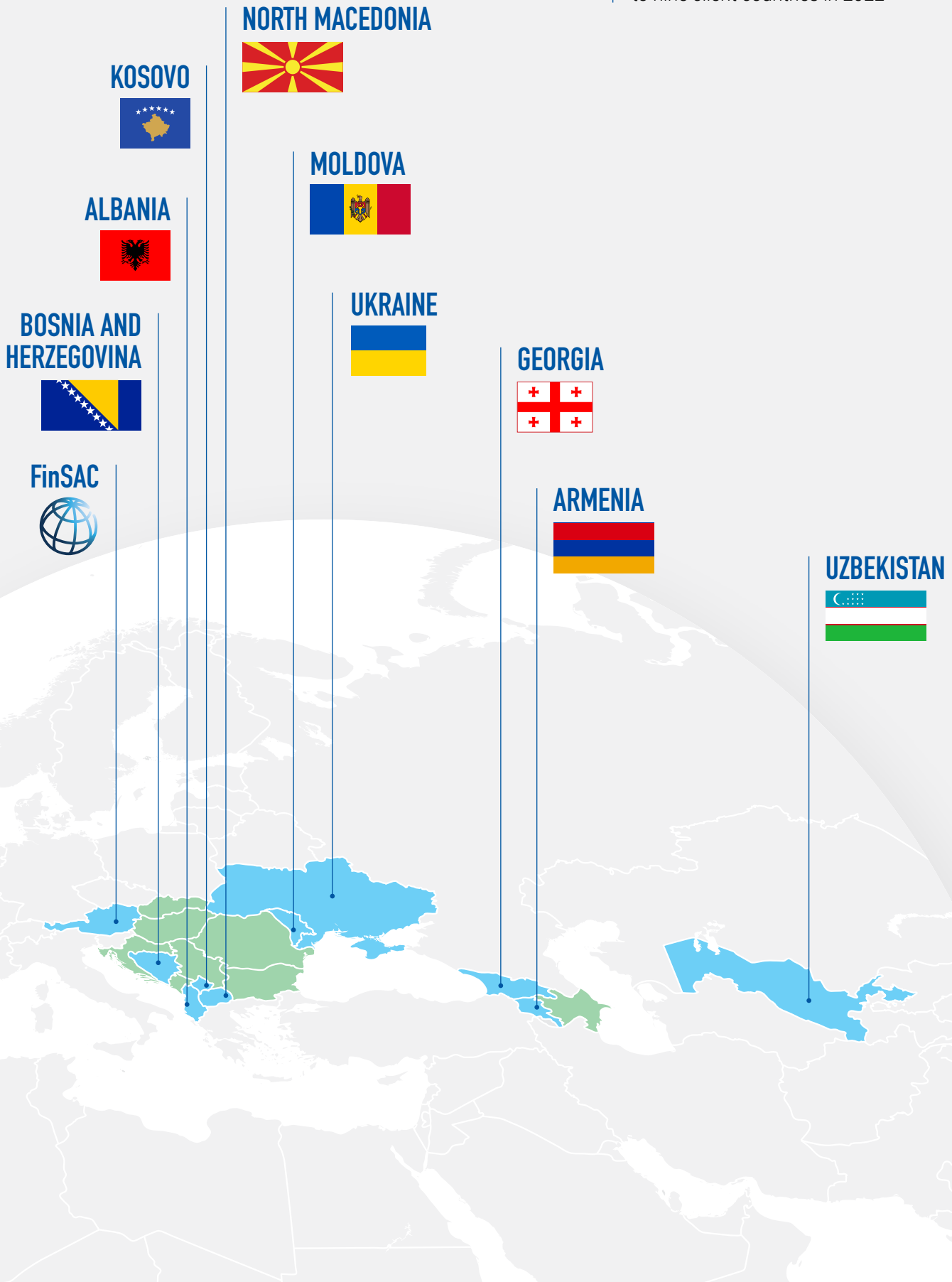
FinSAC supports regulatory authorities to increase robustness in the banking system and improve their access to information and readiness to deal quickly with issues that may arise.



FinSAC collaborates with client countries in their efforts towards green transition and capacity building to effectively identify, measure, manage and mitigate the risks to financial stability that stem from climate change.

FINSAC CLIENT COUNTRIES

FinSAC provided technical assistance to nine client countries in 2022



FINSAC AREAS OF FOCUS

FinSAC works with client countries to implement appropriate and achievable financial stability mechanisms, including in the following areas:



FinSAC also works with other World Bank units globally:

- to share knowledge and support projects in which they have expertise and experience;
- to develop knowledge products of relevance also beyond Europe and Central Asia;
- as part of World Bank lending operations contributing to achievement of required financial sector reforms;
- and as team members in Financial Sector Assessment Programs undertaken jointly by the World Bank and the International Monetary Fund, that provide a comprehensive framework for the identification of financial system vulnerabilities and developmental challenges.

FINSAC'S PARTNERS

FinSAC engages with its wide range of partners to support client countries, these include:



FINSAC'S THREE PILLARS OF TECHNICAL ASSISTANCE

FinSAC separates its technical assistance activities into three pillars. Each pillar relates to a key area of financial stability. Most FinSAC technical assistance projects are located within one primary pillar, although there is often significant work across and between the pillars as appropriate for the specific project.

Pillar **Financial Stability,** **Macroprudential Frameworks,** **and Crisis Management**

1

Within this pillar, FinSAC supports client countries to develop strong macroprudential institutional frameworks. Technical assistance is focused on building modern, effective financial stability infrastructure. FinSAC activities include identifying legal, regulatory, institutional, and operational issues, recommending solutions, and helping to operationalize reforms. Most client countries have made significant progress in this area with FinSAC's support since 2011. They have updated their legislative frameworks to better monitor and mitigate threats to financial stability and improved practices to strengthen preparedness to face episodes of financial stress. FinSAC's focus is now more on operationalizing the improvements and building on the revised frameworks to further strengthen the financial safety net and continue to adapt to the political and economic environment. This includes building robust financial stability committees; increasing the availability and appropriate use of deposit insurance funding and lender of-last-resort facilities; improving analytical capacities and policy instruments to identify and address systemic risks, including those stemming from climate change; and improving preparedness for policy coordination during financial crisis, among other things through conducting tailored crisis simulation exercises.

Pillar **Microprudential** **Frameworks and NPL** **Reduction**

2

Within this pillar, FinSAC aims to strengthen the safety and soundness of banks (the cornerstone of financial systems in client countries). Technical assistance is focused on ensuring robust prudential requirements and forward-looking risk-based supervision. FinSAC activities aim at improving prudential regulations, including capital and liquidity requirements, loan classification and provisioning, and large exposure and related party limits. FinSAC works with banking supervision departments to strengthen supervisory oversight, including onsite/offsite cooperation, supervisory cycles, the development of remedial actions and enforcement measures, and bank recovery planning. The regulatory aspects of climate related risks are becoming another key area for FinSAC support to client countries. Client countries have made significant efforts, incorporating FinSAC advice, to reduce legacy NPLs. However, in the wake of increased inflationary pressures and stagnant economic outlook due Russia's war in Ukraine, the build-up of new NPLs is likely and client countries need to renew their focus on further strengthening their NPL resolution frameworks. FinSAC, relying on its practical regional knowledge will actively advise on regulatory and supervisory policies aimed at developing tools and strategies to be effectively used in NPL resolution.

Pillar **Bank Resolution**

3

Within this pillar, FinSAC focuses on the ability of authorities to promptly and effectively deal with a failing bank. Technical assistance is focused on establishing effective bank recovery and resolution regimes that aim to swiftly address issues in individual banks, reducing any risk of contagion, and make shareholders and creditors bear losses, thereby protecting taxpayers and preserving the public interest. FinSAC activities include guidance on improving legal and regulatory frameworks and enhancing the capacity of dedicated bank resolution departments. Most active FinSAC client countries have made substantial improvements to their recovery and resolution regimes, though more efforts are required to operationalize the resolution framework, including via internal guidelines and rulebooks for resolution teams, enhancement of recovery and resolution planning structures, as well as coordination mechanisms with financial safety net players. FinSAC continues to work with authorities to support their efforts to further refine and improve the resolution regime and to improve preparedness for dealing with future bank failures quickly and effectively.

THE FINSAC TEAM

Based in Vienna, the core FinSAC team are:



Vahe Vardanyan

Lead Financial Sector Specialist,
FinSAC Coordinator



Ismael Ahmad Fontán

Senior Financial Sector Specialist
Supervisory and regulatory affairs



Juan Ortiz

Senior Financial Sector Specialist
Microprudential supervision



Karlis Bauze

Senior Financial Sector Specialist
Non-performing loans



Pamela Lintner

Senior Financial Sector Specialist
Bank recovery and resolution



Milica Nikolic

Financial Sector Specialist
Bank recovery and resolution



Nan Zhou

Financial Sector Specialist
Analytics and modeling



Nurgul Irsalieva

Program Assistant
Administrative support, trust fund
administration, procurement and
budgeting, event management



FINSAC OVERSIGHT AND GUIDANCE

FinSAC's operations are guided by a Steering Committee comprising two representatives of the Austrian Federal Ministry of Finance's Department of International Financial Institutions, the World Bank Global Director of Finance, Competitiveness, and Innovation, and the World Bank Finance, Competitiveness, and Innovation Practice Manager for Europe and Central Asia. The FinSAC Coordinator serves in an ex-officio capacity. The Steering Committee meets once a year or as needed to discuss progress against the annual work plan and identify areas for enhanced focus. During its meeting in May 2022, the Steering Committee discussed FinSAC's work plan and acknowledged that it was on track to meet its delivery targets. The Steering Committee discussed and endorsed FinSAC's proposed approach on green finance, supporting client countries to incorporate climate-related risks into their regulatory and supervisory frameworks. It also welcomed FinSAC's participation in the Vienna Initiative Working Group on Climate Change. Due to savings accumulated during the pandemic, the Steering Committee agreed to extend operations of FinSAC's third phase until June 30, 2024. Plans for FinSAC's fourth phase beyond 2024 were discussed and the Steering Committee decided to conduct a mid-term review of FinSAC's operations 2020-2022, aimed at providing independent feedback on the relevance of its activities in the region.

FINSAC WEBSITE

The FinSAC website, a dedicated section within the overall World Bank web architecture, had 1,399 unique visitors in 2022. 2,547 page views were recorded. As recommended in FinSAC's 2020 mid-term review, work was ongoing in 2022 to improve the website and enhance the availability of relevant material on FinSAC projects and outcomes. The new website launches in Q2 2023 and will continue to be developed and grown during the year.



FINSAC INNOVATES INTERNSHIPS IN THE VIENNA OFFICE

The FinSAC team were delighted to welcome the first two successful candidates (from a very high-quality field of applicants) to its new summer internship program in 2022. Over 30 working days, the interns were supervised in undertaking individual projects related to specific policy topics in financial stability. One intern was supported to use statistics and financial modelling to help organize quantitative information and develop and test a set of models applied by central banks and supervisory authorities for macro- and microprudential purposes, such as those on financial cycles, credit risk ratings, stress tests, and bank resolution.

“I researched numerous academic and policy articles, wrote significant portions of code in Stata, and met with and worked on materials for the client. The internship gave me a chance to apply my quantitative and qualitative skills in a real-world setting to supplement my theoretical knowledge. As a PhD student, I am used to simplifying assumptions to deliver main messages and it was an interesting challenge to tackle these issues in practice. I learnt a lot about credit markets, how to model their frictions, and about the effects of regulation and supervision, and also a lot about the functioning of the World Bank and its roles.” **Cyril Cuda**

The other intern contributed to developing FinSAC’s approach towards helping client countries understand the vast and ever-growing volume of cybersecurity regulations, guidelines, and technical standards.

“My personal and professional takeaway from the experience was an application of data science and machine learning in real-world projects. I also gained a deeper understanding of the regulatory landscape of cybersecurity and the importance of staying up-to-date on developments in this field. Overall, this internship was a valuable learning experience and helped me develop my skills in data analysis and knowledge of cyber issues. And last but not least, it was an opportunity to work in an international organization and understand how it operates and how to navigate in a diverse cultural environment.”

Yelyzaveta Savelieva

The diligent work undertaken by both interns and written reports made a real contribution to FinSAC’s operation. FinSAC wishes them every success in their future careers and looks forward to continuing the internship program in 2023.

Chapter 3: The Regional Environment



THE EUROPEAN UNION

After a strong first half of 2022, the European Union (EU) economy entered a challenging phase, as the shocks caused by Russia's invasion of Ukraine slowed down the global demand and underpinned the inflationary pressures. While the economic sentiment fell markedly in the second half of 2022, the EU economy still managed to avoid recession with recorded 0.3% and 0.1% growth in the third and fourth quarters respectively. Driven by soaring energy and food prices, the year 2022 was marked by all-time high inflation in the EU, reaching its peak of 11.5% in October. To bring inflation to its 2% target over the medium term, the European Central Bank steadily increased its key interest rates four times in 2022 by cumulative 250 basis points. It is expected to continue the course of raising interest rates in 2023 to levels that are sufficiently restrictive to ensure a timely return of inflation to the target.



2022 was marked by all-time high inflation in the EU, reaching a peak of 11.5% in October 2022

The European Commission adopted its 2022 Enlargement Package, providing a detailed assessment of the status and progress made by Western Balkan countries on their respective paths toward the EU. In December 2022, the European Council granted candidate status to Bosnia and Herzegovina. For Montenegro, the fulfillment of set interim benchmarks for the rule of law was highlighted as a priority for further progress in negotiations. Serbia was advised, as a matter of priority, to establish a government firmly committed to the EU's strategic direction and reform path. On July 19, 2022, Albania and North Macedonia opened a new phase in their relations with the EU following the first intergovernmental conferences on accession negotiations. Kosovo was advised to intensify its efforts to strengthen democracy, public administration, and the rule of law and to fight corruption. By the decision of the European Commission on June 23, 2022, Ukraine and Moldova were also granted candidate status for accession to the EU.

FINANCIAL SECTOR

Financial stability conditions deteriorated in 2022, as the post-pandemic recovery was challenged by higher inflation and Russia's war in Ukraine. As financial conditions tightened, the vulnerabilities of more-indebted sovereigns, households, and corporates became more pronounced.

Despite a worsening of the economic outlook, the asset quality of European banks showed no material signs of deterioration in the first half of 2022, though towards the year-end, the forward-looking assessment surfaced a higher share of Stage 2 loans which was last recorded during the pandemic. Looking ahead and reflecting upon the weakened macroeconomic outlook, European banks seem likely to face the risk of higher provisioning costs in 2023.

While the solvency and leverage ratios of euro area banks declined somewhat in 2022, banks still have robust capital positions and are well-prepared to absorb potential future shocks.

In the meantime, banks continued to digitalize their financial services. While boosting efficiency and facilitating better access to finance, this also increases potential vulnerabilities for more frequent and severe cyberattacks. It is crucial for policymakers to improve their monitoring and analytical capabilities for mitigating the systemic impact of cyberattacks. In addition, further efforts are needed to integrate climate risk considerations into the regulatory framework as banks need to manage the implications of the transition to a greener economy.



Nine FinSAC client countries have EU candidate or potential candidate status

Planning for structural improvements to the EU regulatory framework continued during 2022. The European Central Bank published its opinion in response to the European Commission's initiated review of the EU legislative proposal prioritizing a more flexible macroprudential policy framework aimed at early implementation and timely release of countercyclical capital buffers; promoting a common EU methodology for buffers for other systemically important institutions; and increasing the consistency of the EU capital framework. Discussion on the legislative changes to the Credit Requirements Directive and the Capital Requirements

Regulation package aimed at the implementation of Basel III requirements continued during the year. The European Commission included environmental, social and governance (ESG) risks in banking regulation more explicitly in its proposed revisions to the package. In parallel, the European Banking Authority published a discussion paper on the role of environmental risk in the prudential framework for feedback. The EBA has also introduced information standardization to increase the efficiency of secondary markets and to reduce entry barriers for smaller banks and smaller investors.





WESTERN BALKANS

The economies of the Western Balkan countries - Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia - continued to face a turbulent external environment in 2022, placing households, firms, and governments under acute stress. While economic growth began to normalize in the post-pandemic period, the Western Balkan countries entered another challenging phase as Russia's war in Ukraine caused a sharp increase in energy prices and an economic slowdown in main trading partners that weighed on performance in all six economies. Higher energy and food prices have pushed inflation to levels unseen for many years. All Western Balkan governments adopted policies to mitigate the impact of inflation and high energy prices which put budgets under elevated fiscal pressures.

The energy crisis accelerated decisions on green transition policies across EU countries, pushing Western Balkans countries to also focus on the sustainability agenda. The financial sector can play an important role in addressing climate change, thus the development of green finance strategies is a key priority. Central banks and supervisory authorities have started work in this area by developing/initiating work on strategies.

Against the backdrop of evolving geopolitical and economic shocks, financial sector stability in the Western Balkan economies was maintained. The initial direct impact of Russia's war in Ukraine on the banking sector was manageable, as after facing liquidity problems the subsidiaries of sanctioned Russian banks were rapidly taken over by local banking groups, thereby containing further negative spillover in the financial sector. Thanks to prudent supervision of the banking sectors, banks had substantial capital buffers to withstand the shocks.

Going forward, authorities need to keep their focus on monitoring credit risks and the evolution of distressed loans to take the necessary preemptive measures aimed at the prevention of a new buildup of NPLs. The authorities need to focus on ensuring an enabling environment for effective NPL resolution, with a special emphasis on insolvency regimes, enforcement frameworks, out-of-court restructuring, as well as more effective judicial procedures. On their way to EU convergence, the Western Balkan countries will need to continue alignment with EU frameworks, taking into account the new regulatory approaches that evolve in the EU.



Financial stability was maintained despite geopolitical and economic shocks



EASTERN EUROPEAN REGION – BELARUS, MOLDOVA, AND UKRAINE

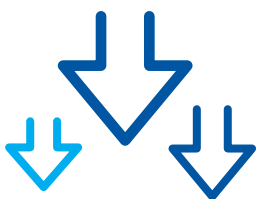
While Eastern European countries showed signs of a strong recovery in 2021, Russia's invasion of Ukraine shifted economic activity in the region downwards. All three FinSAC client countries fell into recession, with Ukraine hit the hardest. Amplified by the ongoing war, the upward inflation trajectory of the previous year continued, driven mainly by the sharp price increase on food products and energy resources on an international level. Global supply chains continued to be stressed, and tightened financing conditions slowed down economic activity in the EU, an important trading partner for all Eastern European countries.

After the recovery of the Belarussian economy to its pre-pandemic level in 2021, 2022 was marked by a 4.7% GDP contraction and annual inflation of 12.8%. Following the Russian invasion of Ukraine, almost all of the largest Belarussian banks were put under sanctions, significantly straining the functioning of the banking system.

In Moldova, the upward trend in the annual rate of inflation over the past two years somewhat reversed towards the end of the year converging to 30.2%, after reaching a peak of 34.6 % in October 2022. In 2022, the GDP contracted by 5.9% and the outlook points to only a partial rebound of economic activity in 2023. However, the banking sector continued to show growth and higher profits, with only a moderate increase in NPLs. Both the liquidity and capital positions of Moldovan banks remained strong at the end of 2022.

Ukraine suffered its sharpest economic decline and largest losses and damages in over 30 years because of the devastating invasion by Russia. Ukraine's 2022 GDP dropped by 29.2%. While the war has severely impacted the Ukrainian financial sector, the banking system entered the war in relatively sound condition and the overwhelming majority of banks remained liquid and operational during the year. Nonetheless, the direct damage to assets and collateral and an increase in NPLs due to economic fallout of the war forced banks to form close to USD 3 billion of new loan loss provisions in 2022 (12 times the amount of 2021). Since the start of the war, six banks were declared insolvent – two subsidiaries of Russian state-owned banks, three local private banks, and one private bank with Russian shareholders. The level of bank losses and their capital positions will be measurable only after forbearance measures are removed and a thorough asset quality review is conducted, presumably in the post-war phase.

The National Banks of Moldova and Ukraine continued working towards effective convergence with the EU in areas under their remit, reinforced by the European Commission's decision to grant Ukraine and Moldova candidate status for accession to the EU.



Russia's invasion of Ukraine shifted economic activity in the region downwards



SOUTHERN CAUCASUS AND UZBEKISTAN

After robust recovery from the pandemic in 2021, FinSAC client countries in the Southern Caucasus and Uzbekistan showed strong economic activity. Some had more pronounced growth due to immigration and related capital inflows triggered by Russia's war in Ukraine.

Contrary to expectations, Armenia experienced GDP growth of 12.6% in 2022, mostly driven by growth in trade and services, particularly in tourism, finance, and IT sectors. High demand, along with elevated international food and fuel commodity prices, pushed annual inflation to 8.3%. Armenian banks showed record-high profits in 2022 and deposits in the banking system grew by 43%, provoked by a huge influx of immigrants and the transfer of businesses to Armenia, mainly from Russia. During 2022, the Central Bank of Armenia continued alignment with international best practices in all relevant areas including bank supervision and resolution.

Azerbaijan benefited from high oil and gas prices in 2022, while the war in Ukraine triggered new risks from rising food prices and lower growth in economic activity. Azerbaijan's GDP grew by 4.6% in 2022. Inflation reached 14.3% in December 2022. The banking sector remained resilient, with adequate capital buffers and a continuous decline in NPLs, though a large number of restructured loans may still hide a notable volume of impaired corporate loans.

Georgia enjoyed robust growth of more than 10% in 2022. While trending downward since the middle of 2021, inflation remained elevated at the level of 9.8% at the year-end. Capital adequacy in the banking system remained high, above 20%, and the liquidity position improved, reflecting a surge in non-resident deposits. While NPLs continued to decline, the restructured loans remained close to 16%, warranting regular monitoring of delinquent and restructured loans.



GDP growth followed robust post-pandemic economic recovery

Uzbekistan's GDP grew by 5.7% in 2022, led by strong remittances, consumption, and exports. The banking system remained resilient, with capital and liquidity buffers staying well above the regulatory minimum, and profitability increasing almost twofold. The Central Bank revoked the licenses of two small private banks in October 2022, which suffered from large credit losses. The NPL ratio gradually moderated from 5.2% at end-2021 to 3.6% by end-2022. The quality of loans restructured because of the COVID-19 pandemic and Russia's war in Ukraine is yet to be seen. The Central Bank undertakes continuous steps to improve its regulatory and supervisory framework.

Chapter 4: Technical Assistance



FinSAC completed 13 technical assistance projects with client countries in 2022 (of which two were programmatic), see Table 1 on page 75. This fulfilled the commitment to complete at least nine technical assistance projects annually. A further two projects, in Kosovo and in Ukraine, are ongoing into 2023.

Technical assistance projects are summarized by country below, including an outline of activities and their outcomes. Some were focused within a single pillar while others were cross-pillar, involving activities on different but complementary areas of financial stability. Two technical assistance projects initiated in 2022 are continuing into 2023. One project, with Belarus, was stopped because of Russia's war in Ukraine.

ALBANIA



Enhancing Deposit Insurance Preparedness and Interagency Cooperation (Pillar: 1 - COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

Effective deposit insurance schemes are an important pillar of the financial safety net and play a key role in contributing to the stability of the financial system and the protection of depositors. In recent years, the authorities in Albania have devoted continuous effort to enhance the deposit insurance framework in partnership with FinSAC. This project aimed to ensure effective coordination between the Bank of Albania and the Albanian Deposit Insurance Agency during bank liquidation and resolution processes, revitalizing the Agency's emergency funding arrangement with the government in juncture with the Resolution Fund, and providing advice regarding enhancing the Board composition of the Agency and its ability to effectively procure essential services.

In 2022, FinSAC:

1. Reviewed the frameworks and practices concerning deposit insurance back-up funding and proposed implementation options, in consultation with the International Monetary Fund, in the form of a draft update of the 2012 Memorandum of Understanding between the Ministry of Finance and Economy, Bank of Albania, and the Albania Deposit Insurance Agency.
2. Proposed intermediate solutions to operational bottlenecks identified in previous assistance (e.g., liquidator appointment and duties, finalization and transfer of single customer views, and the claims process). An interagency flow chart was created with actions for various institutional functions as part of the bank resolution process. Additional procedural annexes to the 2019 Memorandum of Understanding were provided regarding cooperation between Bank of Albania and the Albania Deposit Insurance Agency.
3. Advised the Deposit Insurance Agency on a suggested amendment to the Law on Deposit Insurance, including specific provisions addressing sound and effective institutional governance.

OUTCOMES

FinSAC activities in 2022 improved knowledge of and enhanced capacity for back-up funding implementation with government, central bank, and deposit insurance counterparts and provided groundwork for the parties to prepare the operational procedures in a renewed trilateral Memorandum of Understanding, to be expanded to encompass the deposit insurance and resolution funds. In this regard, the Agency has further aligned towards the best practices in International Association of Deposit Insurers Core Principle 6 (Contingency Planning and Crisis Management) and 9 (Sources and Uses of Funds). The procedural clarification in the bilateral MoU, on the bank resolution planning, valuation, and fund use stages as well as the priorities for bank liquidator over the appointment, streamlines the cooperation mechanism between Bank of Albania and the Agency.

Suggested changes to the Law on Deposit Insurance would support the authorities in future reforms. Revision of governance-related provisions is expected to further improve institutional decision-making and operational capacity in accordance with the International Association of Deposit Insurers Core Principles 3 (Governance) and 2 (Mandate and Powers).

FinSAC output	Status	Contribution to results area
Provide draft terms of reference for back-up funding.	Achieved.	<i>Back-up funding options agreed.</i> Updating of the 2012 Memorandum of Understanding between the Ministry of Finance and Economy, Bank of Albania, and the Deposit Insurance Agency. Information on back-up funding arrangements is expected in 2023.
Provide draft procedural annexes to the 2019 Memorandum of Understanding.	Achieved.	<i>Improved coordination and operational procedures on deposit insurance.</i> The additions are to be agreed between the Agency and Bank of Albania as interim measures to provide clarity in bank resolution procedures and mitigate legal bottlenecks in the bank liquidation process.
Provide a draft amendment to the Law on Deposit Insurance and advise on the structural composition of the Deposit Insurance Agency's Governing Body.	Achieved.	<i>Updated legal framework and enhanced governance of Deposit Insurance Agency.</i> The proposed draft amendments will be considered for future legal amendment. The draft Law on Deposit Insurance incorporates options to revise the rules regarding Board members.

ALBANIA



Green Finance, Prudential Reporting, Credit Cycle Assessment, and Bank Resolution (Pillars 1, 2, & 3 - COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

Green Finance and Climate-related and Environmental Risks (Pillars 1 & 2)

The Bank of Albania are working on a multi-year strategy for assessing climate change risks to the banking system and possible approaches, including how standards may be integrated into the regulatory and supervisory frameworks. The Bank of Albania aims to ensure that banks include environmental, social, and governance elements in their business models and as part of governance and risk management; banks must properly identify, measure, control, and report risks. The Bank of Albania plans to embed assessment of these risks in the supervisory framework, including in the supervisory review and evaluation process model and on-site and off-site supervisory activities.

In 2022, FinSAC:

1. Provided knowledge, examples, and practical assistance in the development of a strategy to address the climate risk covering a 3-year period.
2. Organized a set of workshops for the Bank of Albania on regulatory and supervisory aspects of climate-related and environmental risk, this included discussion of the actions that other similar institutions are undertaking, especially the European Banking Authority, the European Central Bank, and other European regulatory and supervisory agencies.

Credit Cycle and Market Equilibrium Assessment (Pillar 1)

Despite rapidly expanding credit intermediation since 2019, Albania has experienced a persistently negative credit gap and the Central Bank lacked capacity to link macroprudential policy tools with model-based evaluations of market dynamics. It required assistance to assess the build-up of macrofinancial vulnerabilities in the context of the credit cycle, to support policy judgment in calibrating countercyclical capital buffers, and in implementing other macroprudential policy instruments aimed at mitigating systemic risks and safeguarding financial stability.

In 2022, FinSAC:

1. Developed analytical models on the evolution of credit growth and lending rates in Albania during 2007-21 with respect to demand- and supply-side drivers including economic development, banking market structure, and financial soundness;² and benchmarked the extent of market imbalance for historic periods, including since the onset of COVID-19. The final report will be delivered in 2023.
2. Delivered four capacity-building workshops on 1) econometric framework, 2) estimation techniques and programming, 3) analysis of bank lending surveys, and 4) review of empirical results. Provided the necessary estimation routine (Stata program) for the Bank of Albania to replicate and conduct ongoing analysis.

“FinSAC input in our meetings and calls was a game-changer for this project. They were invested in our project’s success and put in extra effort to complete it on time.”

Margerita Topalli,
Senior Economist,
Bank of Albania

² Based on Everaert and others (2015). “Does Supply or Demand Drive the Credit Cycle? Evidence from Central, Eastern, and Southeastern Europe.”

Prudential Reporting (Pillar 2)

Albania is implementing a new prudential reporting framework aligned with EU financial reporting requirements. Development of prudential reporting templates will enhance the availability, transparency, reliability, and comparability of financial information and, hence, bank supervision, bringing it further in line with good European practices.

In 2022, FinSAC:

Steered and participated in a working group, including Bank of Albania officials and chief accountants of selected Albanian private banks, to map the Albanian prudential reporting framework to EU financial reporting templates. The required bridging tables and reporting instructions were prepared by the group.

Bank Resolution (Pillar 3)

Albania has made significant progress, with FinSAC assistance, in developing a sound bank resolution framework. Some further strengthening was required, though, to ensure preparedness and take account of recent international developments (for example by the Single Resolution Board) and further discussion of options for resolution back-up funding was needed.

In 2022, FinSAC:

Reached agreement with the Bank of Albania on the structure and topics for inclusion in a new bridge bank manual and resolution valuation methodology. Discussions focused on what these should include. The original aim was to complete these within this project but due to time constraints it was agreed to begin the drafting process in 2023 under a new project.

OUTCOMES

FinSAC's activities in 2022 supported the Bank of Albania to establish a clear understanding of the roadmap on sustainability. The project will strengthen analytical capacity for cyclical systemic risk surveillance and improve the base of empirical evidence for macroprudential policy decisions. The Bank has enhanced capacity to improve the available prudential information. With agreement in place on the outline and content of a bridge bank manual and valuation methodology drafting work can begin quickly in 2023.

FinSAC output	Status	Contribution to results area
Draft a strategy on sustainability and deliver capacity building activities.	Achieved.	Sustainability strategy in place. Draft expected to be approved in Q1 2023 and issued by the Bank of Albania within 6 months.
Prepare a report on macroprudential policy instruments to mitigate systemic risks and deliver capacity building activities.	Not yet achieved.	Development of credit cycle and market equilibrium methodology and application of evaluation methodology. Preparatory work is substantially complete and FinSAC expects to deliver the report within 6 months. This component will be reported on in FinSAC's annual report for 2023.

FinSAC output	Status	Contribution to results area
Prepare templates of bridging tables and reporting instructions for prudential returns.	Achieved.	Adoption of new templates for financial reporting for banks. (This indicator was also relevant to the 2021 Supporting Alignment with the EU Financial Reporting Regime technical assistance project for assessment in 2022.) The Bank of Albania has not yet issued the new prudential returns but is expected to do so in 2023.
Prepare a draft bridge bank manual and draft valuation methodology.	Not yet achieved.	Strengthened internal guidance. Work on the manual and methodology were paused due to time constraints in 2022. The outline for both has been agreed and the products will be delivered under a new project in 2023 and are expected to become immediately operational.



FINSAC INNOVATES PROMOTING THE ADOPTION OF GREEN FINANCE STRATEGIES BY CENTRAL BANKS AND BANK SUPERVISORS

The financial sector can play an important role in transitioning to a less carbon-intensive economy. Greening a financial system may be seen in the context of both risk and opportunity. In the context of opportunity, it refers to increasing financing flows into sectors that contribute to climate and environmental objectives. In the context of risk, it refers to the management of climate-related and environmental financial risks.³ Green finance roadmaps are relevant instruments to outline the actions that a country may need to implement to help direct financial flows to decarbonize the activities of the economic agents.

FinSAC client countries are vulnerable to the risks that climate change brings, both physical (for example floods, wildfires, and severe droughts) and transition (reliance on coal-fired power plants for energy-generation, low energy efficiency in residential buildings, high polluting industries exposed to the cross-border carbon adjustment mechanism, etc.). Efforts to green their economies and promote green finance flows are being led by parliaments and governments. Central banks and banking supervisors have a crucial role in addressing the build-up of climate risks across financial systems. Many are in the process of defining their own strategies and roadmaps. These

focus, in line with their legal mandate, on ensuring that climate risks are adequately identified, monitored, and managed on a system-wide basis.

FinSAC began, in 2022, to work with client countries on preparing green strategies to address climate-related risks and fostering sustainability in the financial sector. Client authorities are taking a proactive role in designing their strategies to enhance banks' resilience to the emerging financial risks from climate change, and banks' ability to support the economy-wide transition to net-zero emissions. Adequately addressing the risks stemming from climate change requires a great deal of effort and commitment, including from the senior management of supervisory authorities and central banks who need to incorporate the consideration of these risks into their mandate. This was a key theme of the FinSAC Annual Supervisory Conference in 2022 and the subject of technical assistance to Albania, Bosnia and Herzegovina, Kosovo, and North Macedonia.

FinSAC technical assistance helps support the first stage of developing short to medium term sustainability strategies/roadmaps through capacity building activities such as workshops, knowledge sharing events, and technical meetings. This then

transforms into intense analytical work with different organization units of central banks/regulators and a joint process of strategy drafting.

Depending on the needs and the mandate of the client authorities, the strategies usually aim to cover the following activities:

Regulatory actions including the issuance of guidelines, expectations, or regulations for the governance, assessment, management, and control of climate-related risks, or other regulatory actions, such as amendments of corporate governance, disclosure, internal capital adequacy assessment process regulations, etc. As European and international practices evolve, the strategies will be updated to embed the climate risks into mandatory regulatory requirements.

Supervisory actions to assess banks' compliance with the new requirements and updating risk-based supervision and other assessment methodologies that are used by supervisors in their day-to-day work.

Financial stability actions, typically including the assessment and full understanding of the banks' exposure to climate risks using scenario analysis and macro-level stress testing.



Monetary policy actions, including integration of green finance principles into monetary policy activities through the enhancement of available monetary tools.

Institutional policies, knowledge sharing, and cooperation, for example the regulator's own institutional sustainability policies, including internal research capacities and cooperation with local universities. Strategies include a section dedicated to local, regional, and international cooperation, including with other local authorities responsible for climate change (primarily aimed at the design of green taxonomies).

FinSAC has already gathered substantial experience in assisting authorities to define their green strategies. This experience points to the following principles of best practice:

Clarity regarding the role of the authority, with actions defined accordingly. A central bank's mandate justifies it focusing on addressing climate risks, both micro and macroprudentially. It is not, however, for a central bank to actively promote green finance or to define a green taxonomy (unless the country does not have one but then it should be a system for exclusively prudential purposes).

Involvement of all relevant areas of the central bank at a senior level.

The commitment to sustainability should be clear to all the relevant units or departments of the central bank. Departments such as research or monetary policy should be involved in addition to the more expected roles of financial stability, banking regulation, and supervision departments.

Knowledge-based strategies. A sound strategy should be underpinned by sufficient actions that ensure deeper understanding of the possible implications of sustainability on the financial system. The strategy may consider the preparation of research reports, or cooperation with local universities. Capacity-building and engagement with the different departments is key to assist authorities understanding the potential credible actions that they can undertake.

Data-driven synergies. One of the first actions required is mapping the information needs with the potential information sources, including proxies. A sound dashboard of sustainability can be useful for several purposes, including financial stability, banking supervision, or monetary policy.

Realistic sequencing of actions.

The activities of central banks and banking supervisors need to be realistic and anchored in the capacities and traditions of the authority. For example, a stress test may be possible once data needs and sources have been identified, whereas the full integration of climate risks in the authority's supervisory procedures can only be realistically achieved after standards have been set and banks have already implemented them.

Modest expectations in monetary policy. While many central banks worldwide are greening their monetary policies, FinSAC client countries have additional challenges when doing so, as their monetary actions largely consist of draining (rather than injecting) liquidity from the banking system (mainly, through the reserves requirements).

Leading by example. Prudential authorities need to implement their own sustainability programs, including defining their own sustainability policies and indicators in their strategies, with specific actions to reduce their carbon footprints.

FinSAC will continue to work with client countries on this important agenda in the years ahead, with a particular focus on finalizing strategies and beginning the hard work of implementation.

ARMENIA



Applying the Bank Resolution Legal and Regulatory Framework (Pillar: 3 - COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

This project followed up previous FinSAC engagements to focus on support to the Central Bank of Armenia to strengthen the bank resolution legal and regulatory framework in line with international good practice and enhance its capacity to apply adequate bank resolution tools in times of bank distress.

In 2022, FinSAC:

1. Provided advisory inputs on draft bank resolution law amendments and related regulatory amendments, based on international good practice.
2. Ran workshops and training on the bank resolution framework, resolution tools, resolution funding arrangements (including the possible creation of a resolution fund and the possible introduction of loss absorbing capacity to help operationalize bail-in) and aspects of cross border bank resolution.
3. Held a virtual workshop on Bank Resolution in cooperation with the Deutsche Bundesbank (Financial Stability Division and University of Applied Sciences).
4. Virtual workshop on contractual bail-in with the Canadian Deposit Insurance Agency.
5. Provided inputs on the operationalization of the resolution framework, including on the establishment of a separate unit for resolution and internal reporting lines to ensure separation from other key functions, like supervision and monetary policy.

OUTCOMES

FinSAC's activities in 2022 contributed to further strengthening the bank resolution legal and regulatory framework. The Central Bank has now established a separate unit for bank resolution, with a head of unit and three staff. Central Bank staff have an enhanced understanding of international good practice on resolution, including planning, available tools, and possible funding options including introducing bail-in conversion, that will serve as a valuable basis for further discussions on the design of the Armenian framework. The Central Bank has begun a pilot project on resolution planning and a review of cross border cooperation agreements as regards resolution aspects. As a result, the Central Bank's capacity to deal with failing banks and apply bank resolution tools has improved.

FinSAC output	Status	Contribution to results area
Provide draft legal and regulatory amendments on bank resolution.	Achieved.	Updated legal framework. Revised Bank Resolution Law expected to be finalized in 2023.
Deliver capacity building activities.	Achieved.	Better understanding of bank resolution tools in Central Bank.
Support operationalization of the resolution framework.	Achieved.	Separate bank resolution unit in place.

“FinSAC were able to guide us to understand and implement the complex issues related to bank resolution.”

Karine Hambaryan,
Head of Financial Stability
Monitoring Division,
Central Bank of Armenia



ARMENIA



Risk-Based Supervision and Crisis Preparedness (Pillar 2 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

Previous FinSAC engagements had identified the main gaps and weaknesses in the Armenian supervisory framework and financial safety net. This project focused on assisting the Central Bank of Armenia to implement the related action plan to address the main shortcomings in a prioritized and sequenced manner. It aimed to support the Central Bank to develop a strong organizational framework and robust methodologies for banking supervision. This will enhance, in turn, the soundness of Armenian banks, as well as prudential oversight by the Central Bank.

In 2022, FinSAC:

1. Provided assistance to implement the new risk-based methodology (based on the supervisory review and evaluation process) including staff training.
2. Supported assessment of the second round of bank recovery plans according to the new regulation, including through the development of an assessment methodology with guidelines for banks on good practices.
3. Held workshops to discuss the possible development of regulatory and supervisory approaches to risks stemming from climate change.

OUTCOMES

FinSAC activities in 2022 further strengthened bank regulation and supervision of the Central Bank. The supervisory review and evaluation process framework became fully operational and staff of the Central Bank enhanced their capacity to implement the new methodology. There was sound assessment of bank recovery plans, especially with the new assessment methodology. Awareness was raised of the risks stemming from climate change.

FinSAC output	Status	Contribution to results area
Provide material and training on risk-based methodology, including supervisory review and evaluation process.	Achieved.	<i>New risk-based methodology implemented by Central Bank.</i> Operational procedures for supervisory review and evaluation process implementation are expected to be introduced by the Central Bank in 2023.
Support the assessment of bank recovery plans.	Achieved.	<i>Methodology for assessing recovery plans actively used by Central Bank.</i> The Central Bank is issuing letters to banks with supervisory assessment.
Deliver training on regulatory and supervisory approaches to climate change risks.	Achieved	<i>Central Bank initiates development of a strategy for green finance.</i> Work is expected to continue on this in 2023.

“Our questions always got complete and comprehensive answers from FinSAC, in the form of workshops, presentations, literature reviews, etc.”

Mane Harutyunyan,
Head of Risk Analysis
Department,
Central Bank of Armenia

BELARUS**Strengthening Banking Sector Supervision and Financial Stability Monitoring (Pillar 2 – STOPPED)****CONTEXT AND ACTIVITIES IN 2022**

FinSAC had been working with the authorities in Belarus on a series of projects since 2017 focused on strengthening the resolution framework, deposit insurance reforms, market conduct supervision, cybersecurity, IFRS in the banking sector, and NPL resolution. FinSAC supported the National Bank to strengthen monitoring of the liquidity risk in large-value payment systems, strengthen financial stability monitoring, and assess the feasibility of a personal insolvency system. Work on a new project for 2022, which was to focus on enhancing the supervisory capacity and improving financial stability monitoring of the National Bank, developing approaches for the introduction of IFRS, and strengthening the Deposit Insurance Agency, was progressing well at the beginning of the year. The project was suspended in March, before any outputs or outcomes were complete, as a result of Russia's invasion of Ukraine and the World Bank decision to stop all programs in Russia and Belarus.



BOSNIA AND HERZEGOVINA



Enhancing Deposit Insurance Agency Operational Readiness (Pillar 1 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

In line with the 2015 FSAP recommendations, BiH authorities embarked on a series of reforms to further strengthen financial sector oversight and bolster the financial safety net. Revised legislation provides for stronger cooperation between financial safety network participants in handling failing banks, especially between the Deposit Insurance Agency and the Banking Agencies. The three institutions are striving to improve their exchange of data and information and alignment to international best practices and standards, including regarding further shortening the payout preparatory period to 7 working days as recommended in International Association of Deposit Insurers Core Principle 15 (Reimbursing Depositors) and required by the EU Deposit Guarantee Schemes Directive. This project had the objective of improving the process of insured deposit payout from regulatory and operational perspectives.

In 2022, FinSAC:

1. Assisted the Deposit Insurance Agency to review its insured deposit payout rulebook, including analysis of bank membership contracts, system and data specifications, past payout cases, and crisis management guidelines.
2. Prepared a draft regulation on payout of covered deposits based on identified operational bottlenecks from the legal and regulatory review.
3. Identified additional areas for future legislative refinement to further streamline the payout process (and the rationale for these).

OUTCOMES

FinSAC's activities in 2022 helped to ensure that the deposit payout process is adapted to the legal changes and better aligned to International Association of Deposit Insurers Core Principle 15 and the EU Deposit Guarantee Schemes Directive, to be implemented as a rulebook by the client. The roles and responsibilities of stakeholders in the payout process were clarified in a draft regulation detailing the methodology, reporting requirements, obligations of the Deposit Insurance Agency, member bank, bank liquidator, and payout agent, and claims handling procedures. Priorities regarding the preparation and implementation of insured deposit payout were suggested for further legal enhancement and capacity development.

FinSAC output	Status	Contribution to results area
Prepare a draft regulation on payout of covered deposits and submit recommendations on further legal amendments.	Achieved.	Improved deposit payout process in line with international practice. Adoption of amended deposit reimbursement guidelines are pending final confirmation by the Management Board expected in early 2023.

“FinSAC’s technical assistance will result with a tangible outcome, i.e., the rulebook on insured deposit payout.”

Krešimir Šoljić,
Director,
Deposit Insurance
Agency of Bosnia and
Herzegovina



BOSNIA AND HERZEGOVINA



Green Finance and the NPL Framework (Pillar 2 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

Green Finance

Banking supervisors in Bosnia and Herzegovina are working on a multi-year strategy for assessing the risks stemming from climate change (physical and transition risks) and are looking to introduce standards integrated into BiH's regulatory and supervisory framework. The ultimate goal is for banks to consider environmental, social, and governance elements in their business models, governance, and risk management. They should properly identify, measure, manage, control, and report risks stemming from climate change and more broadly. The Banking Agencies aim over time to be able to embed the assessment of these risks in the supervisory framework. At this stage the focus is on gaining additional information on current practices and the exposure of the banking sector to climate-related risks, developing close national and international coordination, and properly communicating with the banking sector.

In 2022, FinSAC:

1. Organized a questionnaire and analysis of banks' views on environmental, social, and governance aspects and risks stemming from climate change.
2. Held a workshop raising awareness of the best regulatory and supervisory practices on green finance.
3. Assisted the Banking Agencies in the development of the strategy for addressing the sustainability risk.
4. Supported drafting and preparation of the Banking Agencies' Guidelines on Sustainability (including revisions following a public consultation).

NPL Framework

On NPLs, both Agencies have finalized standards for sound management, classification, and coverage of loans under an International Financial Reporting Standards 9 approach, based on expected credit losses. Authorities have also been requesting (since 2019) NPL strategic and operational plans from banks that report high levels of NPLs. However, the Agencies had not standardized the content required nor developed assessment methodologies for the supervisors responsible for reviewing the plans.

In 2022, FinSAC:

1. Prepared specific guidelines and report templates for banks to prepare banks' NPL reduction strategies and operational plans.
2. Prepared standardized reporting templates to be used by banks.

“FinSAC demonstrated highest level of knowledge regarding the subject matter, and they were able to transfer that knowledge to all participants, deliver required documents, and fully fulfill the project objectives.”

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

“The most useful part was knowledge exchange and drafting assistance.”

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

OUTCOMES

FinSAC’s activities in 2022 materially increased the preparedness of the authorities to address climate-related risks. FinSAC provided multiple examples of other authorities’ strategies, guidelines and recommendations and other initiatives (i.e. stress test, capital requirements) to address climate related risk. Moreover, the Team was instrumental in expanding the authorities’ knowledge on the exposure of the banking sector to climate-related risks (both physical and transition risks) and the current practices of banks in this area, including on green finance. FinSAC’s extensive assistance enabled both Agencies to prepare a Green Strategy and Guidelines on the management of climate-related risks and to prepare draft guidelines and a reporting framework for NPL reduction strategies. These documents will be officially approved by the Boards of Agencies in early 2023.

FinSAC output	Status	Contribution to results area
Provide a draft strategy for assessing the risks stemming from climate change and support the preparation of guidelines on sustainability.	Achieved.	Banking Agencies’ Strategy and Guidelines on Sustainability in place. Strategy and Guidelines are expected to be issued in Q1 2023.
Provide guidelines and report templates for banks’ NPL reduction strategies and operational plans.	Achieved.	Standardized NPL reporting by banks. Guidelines for NPL operational plans and template reports for NPL projections have been internally adopted by BARS and FBA. Guidelines will be issued in Q2 2023.

GEORGIA



Bank Recovery and Resolution Simulation Exercise (Pillar 3 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

The National Bank of Georgia has undertaken significant work to implement its bank recovery and resolution framework in recent years, a regime broadly based on that in the EU. To help improve operational readiness to implement the framework and identify any areas of legal uncertainty and areas for improvements, the National Bank asked FinSAC to run its new bank recovery and resolution simulation exercise (RRSE) (see also article below) for participants in the financial safety net.

In 2022, FinSAC:

1. Prepared a relevant scenario of a failing bank and associated data.
2. Held a simulation exercise focused on the recovery and resolution of a single failing bank, in particular the analysis of effects of recovery options, the financing of a fictional loss and cooperation within and among authorities (up to the publication of the resolution decision) and a hot debrief to discuss the first take aways and lessons learned. Participants from all relevant departments of the National Bank, the Ministry of Finance, and the Deposit Insurance Agency played a full and active role in the exercise which significantly contributed to its success and effectiveness.
3. Provided a detailed report with comments on the exercise and recommendations to improve readiness for an actual event.

OUTCOMES

The RRSE facilitated members of the financial safety net to practice their actions, coordination, and communication in the event of a potentially systemic banking incident. It allowed authorities to enhance their readiness to deal with a bank failure and test their recently introduced framework. The exercise required authorities to prepare/check relevant generic documents in advance. It provided key players with an opportunity to practice implementation of the framework, to analyze and discuss the effectiveness of recovery options, to assess available financing options and to test internal and external decision-making procedures and communication with the media. In an ex-post report, developed in close cooperation with all participating teams, existing uncertainties in the regulatory framework and areas for further improvements in its operationalization were identified. The National Bank and other safety net players have a better understanding of the application of bank resolution tools and know areas for improvements, including of manuals, flow charts, decision making procedures etc.

FinSAC output	Status	Contribution to results area
Deliver a targeted exercise and a follow up report with recommendations.	Achieved.	<i>National Bank and other safety net players have a better understanding of bank resolution tools and cooperation procedures.</i> There were further discussions on the exercise findings and a final report was delivered in Q1 2023.

“The FinSAC team provided us with really useful feedback.”

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



FINSAC INNOVATES BANK RECOVERY AND RESOLUTION SIMULATION EXERCISES

The FinSAC RRSE facilitates teams from across the financial safety net to practice handling a failing bank scenario in their real roles but in a “safe space”.

FinSAC develops a tailored scenario for each RRSE adapted to the economic and financial circumstances and regulatory framework of the country. The economic situation and potential risk areas are manipulated to create a scenario in which a fictional bank enters into recovery mode and could conceivably reach the point of failing or likely to fail. Participants are from relevant departments of central banks, supervisory and resolution authorities, ministries of finance, and related agencies such as deposit insurance/deposit guarantee funds, etc. Entire departments can take part and perform their actual roles and functions focused on the unfolding fictional scenario.

The RRSE is an opportunity to:

- Consolidate improvements achieved
- Increase staff understanding and raise awareness of senior management

- Enhance preparedness and support evidence-based decision making
- Reveal gaps or ambiguities in the regulatory and operational environment
- Enhance internal and external communication including with social and mainstream media
- Test a new or updated system

Communication between teams is almost exclusively through a closed email system, developed for this purpose by FinSAC. Use of this system reduces the risk of any accidental sharing of material outside the exercise, with clear disclaimers embedded in all exchanges, and provides a record of the entire exercise to facilitate further reflection on the actions and decisions taken. The inclusion of language software allows for translation, if needed. High level in person board meetings, to discuss findings and assess options before taking a “formal” decision, may be held as part of the exercise.

All participants are set up on the email system in advance and receive background information that will

frame the bank failure. The exercise usually begins with the troubled bank, played by the FinSAC team, notifying the supervisors of its worsening situation. From this point it is for the teams to react, consult, initiate the appropriate action, and share information among each other. When possible and available, playing teams use their existing (pre-drafted) documents, as they would use in a real case. A FinSAC team of experts with experience of the various aspects of the process play the roles of the failing bank, the media, and any other parties as relevant (this can include potential interested buyers, valuers, administrators, foreign central banks, or representatives of the financial safety net not taking part in the RRSE). FinSAC provides any additional documentation required as the exercise progresses for example, supervisory reports, recapitalization plans, valuations, or bidding offers, building up the stress scenario and triggering actions from the relevant teams. During all phases internal and external / inter-agency cooperation as well as communication with the public through social and mainstream media play a key role.



The RRSE is normally held over a period of 1 or 2 days or split into two or three shorter exercises (staggered approach). FinSAC agrees in advance the stage that the exercise should reach and manipulates the information flow to make sure that this stage is achieved. The scenario addresses any or all of three main phases, tailored to what authorities want to focus on:

- 1. Recovery options and early intervention:** cooperation among supervision and resolution during recovery, analysis of suitability and effects of recovery option, analysis of bids, pros/cons of taking early intervention measures; preparations during run up to resolution (hiring of valuers, etc).
- 2. Failing or likely to fail and exercise of resolution power:** managing the “resolution weekend”; analysis of available options; covering losses (use of resolution fund, deposit guarantee scheme, public support, etc.); drafting of a resolution decision.
- 3. Execution of resolution decision:** implementation of the selected resolution tool(s); bail-in technicalities and information; restructuring plan; liquidity; cooperation with financial market infrastructure.

The FinSAC team understands its role as facilitator, stress maker, and observer. Immediately after the exercise, a debrief meeting is held with all participants to share initial thoughts and findings. FinSAC then write a full report of the exercise, analyzing the decisions taken and proposing recommendations for further enhancements in the regulatory and operationalization environment. Comments are invited from the client and then a full discussion meeting is held to follow up all the points and identify solutions that aim to further grow the authorities’ capacities.

KOSOVO



Capacity Development of the Deposit Insurance Fund (Pillar 1 -COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

This was the fourth FinSAC technical assistance project to the Deposit Insurance Fund of Kosovo, following previous successful cooperation between the Kosovo authorities and FinSAC regarding crisis management and preparedness. To further enhance the deposit insurance framework, Kosovo needed to develop a business continuity strategy to preserve operations under extreme circumstances and enhance analytical capacity to establish target fund size calibrations in view of Kosovo's upcoming bank resolution framework.

In 2022, FinSAC:

1. Drafted a business continuity plan for the Deposit Insurance Fund as part of its overall contingency planning framework.
2. Organized capacity development workshops regarding the implementation of Kosovo's resolution regime, including on the uses of deposit insurance funds in the EU Bank Recovery and Resolution Directive (BRRD) framework in terms of contribution to the bank resolution process and related legal safeguards.
3. Prepared a baseline methodology for determining the Fund's target fund size.
4. Provided an extensive legal corpus to support the Fund to calibrate draft legal specifications regarding administrative sanctions.

OUTCOMES

FinSAC activities in 2022 resulted in a draft business continuity plan including critical business scenarios, business continuity strategies, operational models with necessary back-up modalities, crisis response procedures during and after contingency events, and implementation strategies. This has further advanced the Deposit Insurance Fund towards international best practices in regard of International Association of Deposit Insurers Core Principles 3 (Governance and Risk Controls) and 6 (contingency planning) as part of overall risk management. FinSAC contributed to increased knowledge and capacity development regarding the regulatory and implementation aspects of Kosovo's alignment towards EU BRRD/DGSD and International Association of Deposit Insurers Core Principles 9 (Sources and Uses of Funds) and 14 (Failure Resolution). The introduction of main concepts regarding resolution as part of the funding policy will enrich determination of target fund size. The proposed methodology for target fund size will take account of credit risk as the main financial risk channel and show the resource implications for the Fund under bank liquidation and preliminary resolution scenarios. The legal corpus facilitated inclusion of the Fund's power to compel member institutions to comply with their obligations in the Law on Deposit Insurance and improved the practical aspects of the Fund's mandate and powers in the context of International Association of Deposit Insurers Core Principle 2.

“Overall quality of the deliverables was very satisfactory.”

Arijeta Neziraj Elshani,
Managing Director,
Deposit Insurance Fund
of Kosovo

FinSAC output	Status	Contribution to results area
Deliver a draft business continuity plan.	Achieved.	<i>Business Continuity Plan adopted by Deposit Insurance Fund.</i> Management Board considering the draft and approval expected in 2023.
Organize capacity development workshops.	Achieved.	<i>Improved familiarity with the modalities and safeguards of resolution financing.</i>
Deliver a baseline methodology for determining target fund size.	Achieved.	<i>Determination of target fund size on an empirical basis.</i> DIFK to incorporate necessary steps for estimating target fund size with respect to the main credit risk channel.
Provide legal corpus regarding administrative sanctions to support drafting of legal specifications.	Achieved.	<i>Calibration of approach to administrative sanctions in the Law of Deposit Insurance amendment draft.</i> The wordings are reflected in the draft Law on Deposit Insurance, which is to be sent for legislation in 2023.

KOSOVO



Green Finance, Bank Resolution, & Risk-Based Bank Supervision (Pillars 2 & 3 - ONGOING INTO 2023)

CONTEXT AND ACTIVITIES IN 2022

Green Finance (Pillar 2)

The Central Bank of Kosovo is working towards a multi-year strategy to assess physical and transition risks to the banking system related to climate change. This is needed to ensure that banks incorporate environmental, governance, and social aspects in their planning and governance and also that they properly identify, measure, control, and report risks. The Central Bank sought to enhance its supervisory framework to embed the assessment of these risks in its supervisory activities.

In 2022, FinSAC:

1. Prepared and submitted a survey including multiple questions for individual banks on their practices for the management of climate risks.
2. Delivered a first draft of the Strategy/Roadmap for Climate Risk for the Central Bank, including potential actions that the different departments might take in the coming years.
3. Capacity building for staff on regulatory and supervisory aspects related to climate-related and environmental risks including actions being taken by other similar institutions, the EBA, the ECB, and other European regulatory and supervisory agencies.

CONTEXT AND ACTIVITIES IN 2022

Risk-Based Supervision (Pillar 2)

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, but first requires some fine-tuning of the existing organizational arrangements and methodologies.

In 2022, FinSAC held a workshop to discuss the organization of the supervisory authority and possible changes that could enhance performance of risk-based supervision through the supervisory review and evaluation process methodology.

Bank Resolution (Pillar 3)

Kosovo had developed a draft revised legal and regulatory bank resolution framework with the objective of EU alignment. They needed assistance to ensure that the laws and implementing regulations are fit for the purpose of orderly resolution of a failing bank and preventing disruption to the provision of critical economic functions by the banking sector.

In 2022, FinSAC:

1. Provided comments on the recovery and resolution part of the regulatory amendments proposed to the Law on Banks. These highlighted a number of aspects on the legal drafting as well as practical challenges to be considered in the implementation of a BRRD-aligned framework in the country-specific context.
2. Organized a virtual workshop for the Central Bank, Ministry of Finance, and the Deposit Insurance Agency showcasing different resolution framework options, including the use of deposit guarantee scheme funds for resolution purposes.

OUTCOMES

FinSAC's activities in 2022 supported the Central Bank in developing a clear understanding for their roadmap on sustainability and input to their new strategy. They also contributed to enhanced understanding of the implementation of risk-based supervision and ensuring the Central Bank's Supervision Department is organized in an efficient way. FinSAC's review of bank resolution legislation is supporting the Central Bank's capacity building and readiness to ensure tailored alignment with the EU framework. The project will continue to encourage alignment with BRRD 2 and help authorities to better assess the practical effects of a BRRD-aligned resolution framework including with a view to ongoing topical developments under the EU Crisis Management and Deposit Insurance reform. This project is ongoing and will be reported on in the FinSAC annual report for 2023.

FinSAC output	Status	Contribution to results area
Support in developing a green finance strategy.	Ongoing.	To be assessed on completion of project.
Support in developing a risk-based methodology for bank supervision.		
Support implementing revised legal and regulatory bank resolution framework.		



MOLDOVA



Strengthening the Bank Resolution Framework (Pillar 3 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

FinSAC has been working with the National Bank of Moldova over several years to upgrade the institutional capacity to handle failed banks. Areas of assistance have included risk-based contributions to the industry-funded bank resolution fund, preparation of bank resolution plans, and policies and legislation on minimum requirements for own funds and eligible liabilities and bail-in. The focus of this project was to further improve resolution planning, conduct a gap analysis of the current law and BRRD 2, prepare a regulation on valuation in resolution to ensure resolution decisions are based on independent valuations, and contribute to guidelines for the operationalization of a bail-in tool.

In 2022, FinSAC:

1. Supported operationalizing of resolution plans including assistance with assessing resolution plans and preparing a summary report for banks.
2. Worked with the National Bank to identify amendments required to bank recovery and resolution legislation and help prepare a by-law on valuation in resolution.
3. Assisted in the preparation of an internal operational plan/procedure for bail-in execution. Clarified a framework for banks whose preferred resolution strategy is based on bail-in and assisted in preparing a set of internal tools for bail-in execution.

OUTCOMES

FinSAC's activities in 2022 helped the National Bank of Moldova deepen understanding of bank recovery and resolution and further prepare the legislative framework for handling a bank failure in accordance with the EU framework. The National Bank is upgrading resolution plans and progressing revised resolution by-laws, particularly on the criteria for selecting independent valuers and the minimum requirements and conditions to be met by a valuer to qualify as independent, the methodologies and assumptions that the valuer should consider when preparing the valuation in resolution, and the conditions and timeframe for preparing a final valuation when the resolution authority has based its decision on a provisional valuation. Assistance in identifying actions needed to adapt Moldova's Bank Recovery and Resolution Law to the EU's BRRD2 are important not just to upgrade the resolution regime, but also to facilitate the accession process to the EU following Moldova's designation as a candidate country. The authorities were also able to gain a closer understanding of the operationalization of bail-in, including the roles and responsibilities of the different units of the National Bank.

FinSAC output	Status	Contribution to results area
Assist operationalizing resolution plans.	Achieved.	<i>Enhanced understanding of bank recovery and resolution among banks.</i> National Bank to reflect further and implement identified improvements.

“FinSAC had an excellent knowledge of the national legal framework and the latest relevant local and international evolutions.”

Viorel Moraru,
Principal Expert, Banking
Resolution Division,
National Bank of
Moldova

FinSAC output	Status	Contribution to results area
Help identify necessary legislative amendments to bank recovery and resolution and prepare a by-law on valuation in resolution.	Achieved.	Enhanced bank recovery and resolution framework. National Bank to take forward legislative process.
Clarify a framework for a resolution strategy based on bail-in. Assist in the preparation of an internal operational plan/procedure for bail-in execution. Draft playbooks outlining the internal and external execution of actions required to implement bail-in.	Achieved.	Enhanced understanding of bank recovery and resolution among banks. National Bank to progress operationalization of bail-in.
Help identify necessary legislative amendments to bank recovery and resolution and prepare a by-law on valuation in resolution.	Achieved.	Enhanced bank recovery and resolution framework. National Bank to take forward legislative process.



MOLDOVA



Bank Recovery and Resolution Simulation Exercise (Pillar 3 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

In light of Moldova's significant efforts to enhance its bank resolution framework, this exercise was an opportunity for the National Bank of Moldova and Deposit Guarantee Agency to test their operational readiness for its implementation. The exercise provided a fictional, but realistic, stress scenario involving a failing bank and participants had to take decisions and analyze the options available to them under the existing regulatory framework. (See also earlier feature article on RRSEs).

In 2022, FinSAC:

1. Created a plausible scenario to meet the National Bank's requirements for the exercise.
2. Ran a 1.5-day RRSE at the National Bank of Moldova followed by a hot debrief with all participating teams to discuss the first takeaways and lessons learned.
3. Shared a report summarizing the outcomes of the exercise and including identified issues and recommendations with the National Bank.

OUTCOMES

FinSAC activities in 2022 provided a platform to practice actions, coordination, and communication in the event of a potentially systemic banking incident. The RRSE was also a test of the appropriateness and coherency of the recovery and resolution framework, recovery and resolution planning, as well as on internal and interagency coordination. The Governor, all members of the Executive Board, and all key departments of the NBM as well as the Deposit Guarantee Fund played full and active roles in the exercise which significantly contributed to its success. The various teams, with clear direction and strategic guidance from the Board, successfully worked together to rule out the presented recovery options and discuss resolution financing options. The resolution decision was signed off along with a public statement before the banks opened after the fictional resolution weekend. FinSAC shared a draft ex-post report analyzing the decisions taken and suggesting areas for improvements which will be discussed during a follow up meeting in January 2023 to consider findings and how they might best be addressed. The exercise gave participants a better understanding of bank resolution tools and cooperation procedures and identified areas of improvements in the regulatory framework and to internal manuals, flowcharts, decision making procedures, etc.

FinSAC output	Status	Contribution to results area
Deliver a targeted exercise and a follow up report with recommendations.	Achieved.	<i>National Bank and other safety net players have a better understanding of bank resolution tools and cooperation procedures.</i> Further discussions on the findings from the exercise took place and a final report was delivered in Q1 2023.

“The level of preparation exceeded our expectations.”

Arcadie Albul,
Deputy Governor,
National Bank of
Moldova

NORTH MACEDONIA



Review of Deposit Insurance Law and Design Features (Pillar 1 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

The Government and National Bank have been working on a substantive legislative agenda on banking and financial stability in recent years, with FinSAC assistance including in revision of the Law on Bank Resolution and the Law on Financial Stability. A current focus is to improve the deposit insurance framework towards alignment with the EU. This has been given extra urgency following the country's experience with bank failure in 2020 and associated Constitutional Court decision in 2021. The Law on Deposit Insurance required a material update, which was an opportunity for the authorities to consider a thorough analysis of the current law and proposals, benchmark against international standards and practices, and tailor them according to local financial sector contexts and implementation experiences while advancing on the EU alignment agenda.

In 2022, FinSAC:

1. Conducted a comparative analysis of the current legal frameworks for deposit insurance against key technical standards, e.g., International Association of Deposit Insurers Core Principles and EU Deposit Guarantee Schemes Directive, identifying gaps and potential areas of improvements and recommending revisions to the Law on Deposit Insurance Fund.
2. Prepared a detailed analysis report on the scope and level of deposit insurance coverage, based on currently available data, evaluating potential impact of a legal proposal to extend deposit protection to legal entities with the option of potential coverage level increases. Identified areas of improvement in bank deposit data reporting framework. Presented the main principles and methodological alternatives in evaluating the adequacy of target fund sizes to the Deposit Insurance Fund and the Ministry of Finance.

OUTCOMES

FinSAC activities in 2022 assisted with the process of amending the Law on Deposit Insurance Fund to be in general alignment with international standards, including International Association of Deposit Insurers Core Principles and EU legislation. The gap assessment and legal examples provided useful benchmarks for the authorities to focus continued reform efforts and offered guidance and ideas for the potential future development of implementing regulations and procedures.

The assessment of coverage policy consolidated the available empirical evidence for the authorities to quantify the financial stability benefits against the cost of the financial safety net. It recommended an expansion in the scope of coverage while encouraging the authorities to continue regular monitoring of deposit dynamics and determine a transition plan towards higher coverage levels. It also provided the groundwork for further methodological development regarding funding and premium policies, in line with International Association of Deposit Insurers Core Principle 9 (Sources and Uses of Funds).

FinSAC output	Status	Contribution to results area
Deliver recommendations on amendments to the Law on Deposit Insurance Fund.	Achieved.	Law on Deposit Insurance Fund aligned with international standards. Legal drafting in progress, expected to be presented to Parliament in 2023.
Deliver report on the scope and level of deposit insurance coverage. Present methods of evaluating the adequacy of target fund sizes.	Achieved.	Appropriate scope and level of deposit insurance coverage. Recommendations will be considered further by the authorities. Further progress on model-based methodology to determine target fund size will follow advances on coverage policy issues.

NORTH MACEDONIA



Green Finance, Bank Resolution, and Supervisory Challenge Model (Pillars 1, 2, & 3 – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

Supervisory Challenge Model (Pillar 1)

As banks increasingly use modelling, for instance in capital assessment, loan loss provisioning, or credit scoring, supervisory dialogue is enhanced if the supervisor has a model with which to challenge the outcomes of banks' models.

In 2022, FinSAC:

1. Organized a workshop on supervisory modelling to discuss in detail the technical requirements and data needed to build robust loss given default and exposure at default models. Existing data enabled the building of an expected credit loss model.

Green Finance (Pillar 2)

The National Bank of the Republic of North Macedonia is exploring environmental, social, and governance risk elements and, more concretely, the risks that climate change may pose to the banking sector. The focus is to ensure that banks properly identify, measure, control, and report these risks and take proper account of them in business models, governance, and risk management. The National Bank also plans to embed the appropriate assessment of these risks in aspects of its supervisory framework.

In 2022, FinSAC:

1. Held a workshop in Skopje in April on regulatory and supervisory aspects of climate-related and environmental risks to raise awareness of regulatory and supervisory practices.
2. Worked with all relevant departments of the National Bank (including Monetary Policy, Financial Stability, Supervision, Regulations, etc.) in the development of a strategy to address the sustainability risk.

“Every part of the assistance was useful, relevant, and interesting.”

Mihajlo Vaskov,
Senior Advisor,
National Bank of the
Republic of North
Macedonia

“Everything was prepared on time, adapted to our local circumstances, and was well explained.”

Frosina Celeska,
Manager,
National Bank of the
Republic of North
Macedonia

3. Provided draft versions of a strategy/roadmap for supervisory approaches to green finance.
4. Assisted with drafting an internal cooperation agreement between Supervision and Resolution Departments regarding recovery and resolution issues.

Bank Resolution (Pillar 3)

The National Bank is working towards adapting the legal framework for bank recovery and resolution to global and European standards. FinSAC has previously assisted with drafting a new Bank Resolution Law and amendments to other relevant laws and continues to support their passage through Parliament and the drafting of other necessary related legislation.

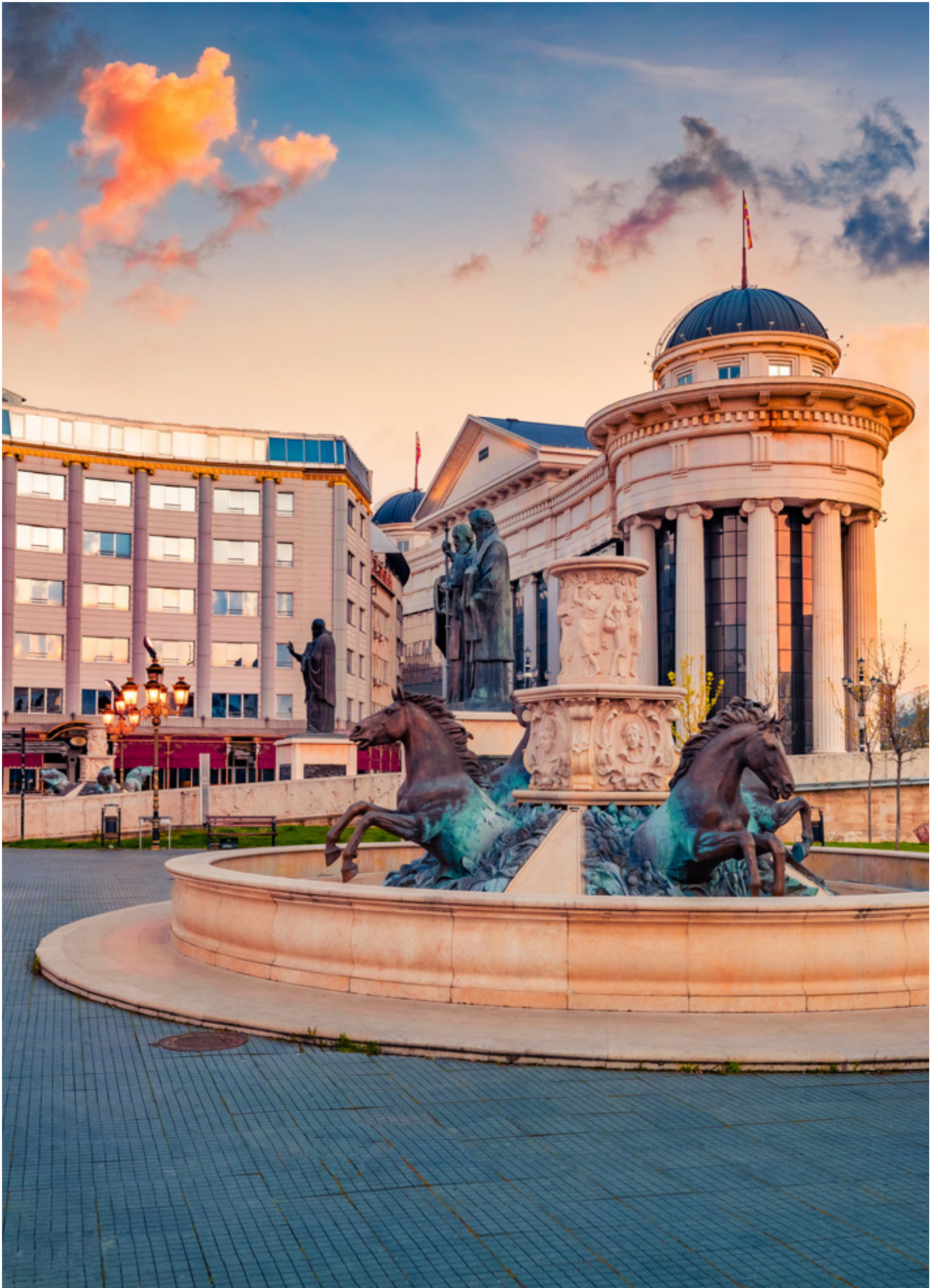
In 2022, FinSAC:

1. Provided comments and had discussions on revisions to the Bank Resolution Law.
2. Prepared and discussed the Valuation by-law.
3. Organized a workshop about valuation in resolution.

OUTCOMES

FinSAC's activities in 2022 helped the National Bank develop a clear understanding to guide development of their strategy on sustainability and environmental, social, and governance topics. This process is still ongoing. After several rounds of drafting proposals, improvements to bank resolution legislation have been proposed to the National Bank to make further progress towards a modern, EU-aligned, bank resolution framework. These will need to be finalized through Parliamentary approval. There is now much better understanding of the use of models in banking supervision. The National Bank finalized the expected credit loss model much earlier than planned and is now able to calculate provisions for corporates and challenge supervised banks' expected credit loss reserves.

FinSAC output	Status	Contribution to results area
Discuss technical requirements for supervisory modelling.	Achieved.	Implement appropriate supervisory model. Expected credit loss model finalized ahead of schedule (originally projected for 2023).
Draft a strategy on sustainability and deliver capacity building activities.	Achieved.	Sustainability strategy in place. The National Bank is studying the draft strategy.
Deliver suggested revisions to legislation on bank resolution and valuation.	Achieved.	Bank Resolution Law and amendments to other relevant laws approved by Parliament. Awaiting parliamentary approval.
Discuss technical requirements for supervisory modelling.	Achieved.	Implement appropriate supervisory model. Expected credit loss model finalized ahead of schedule (projected for 2023).



UKRAINE



Bank Recovery and Resolution, and Deposit Insurance (Pillar 3 - ONGOING INTO 2023)

CONTEXT AND ACTIVITIES IN 2022

The World Bank has been engaged in Ukraine with budget support operations over a wide set of financial sector conditionalities, including enhancing the bank resolution, deposit insurance, bank supervisory and NPL resolution frameworks. This project was planned to build on FinSAC's previous assistance projects, including identifying gaps with the EU BRRD, and was aimed to support the drafting of revisions to the bank resolution and deposit insurance legal frameworks and their operationalization. Unfortunately, the war disrupted the work of counterparts, preventing the project being undertaken fully in 2022. Activities will be ongoing into 2023 in the hope that more progress can be made.

Despite the challenges, in 2022, FinSAC:

1. Provided comments and made recommendations on draft amendments to the Deposit Guarantee Scheme Law.
2. Organized a set of workshops that explained practical aspects of resolution tools and their operationalization using EU cases and comparison of these practices with Ukraine.

OUTCOMES

FinSAC activities in 2022 resulted in draft updated Deposit Guarantee Scheme legislation with the objective of BRRD alignment. Workshops were well attended, including participants from the National Bank and Deposit Guarantee Fund, and helped enhance understanding of the operationalization of tools under the EU framework. This will support changes to the current temporary administration-based purchase and assumption approach. The project is improving understanding of the EU framework and differences with the current Ukrainian regime, for example regarding bridge banks.

Work in 2023 will continue to support the National Bank and Deposit Guarantee Fund staff to take forward alignment work with the EU regime including the envisaged EU crisis management and deposit insurance reform.

FinSAC output	Status	Contribution to results area
Support revisions to the bank resolution and deposit insurance legal frameworks.	Ongoing.	To be assessed on completion of project.



UZBEKISTAN



Enhancing Banking Supervision and Regulation (Pillar 2 - COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

FinSAC is supporting the Central Bank of Uzbekistan to establish a modern supervisory function, aligned with international best practices. This project aimed to enhance the prudential regulatory framework in line with newly adopted laws on the Central Bank, banks, and banking; improve the content and availability of internal manuals, procedures, guidelines, and criteria for effective implementation of the Central Bank's supervisory role; and assist the Central Bank to ensure a smooth transition of all commercial banks to use of International Financial Reporting Standards for their accounting and reporting (required from January 1st, 2021).

In 2022, FinSAC:

1. Assisted with drafting a regulation on risk management in banks and a regulation on information to be disclosed regularly by banks.
2. Supported the development of Central Bank internal manuals, including further improvement of the risk-based supervision manual.
3. Supported preparation of comprehensive risk profiles for the pilot banks based on the developed risk-based supervisory methodology.
4. Supported the development, finalization, and approval of the Central Bank's SupTech Strategic Framework and Roadmap for the next five years.
5. Trained supervisors on requirements for the internal capital adequacy assessment process, consolidated supervision, bank risk profiles, and climate change risks and delivered workshops on the large exposure framework, SupTech solutions, and on supervisory organization structures.

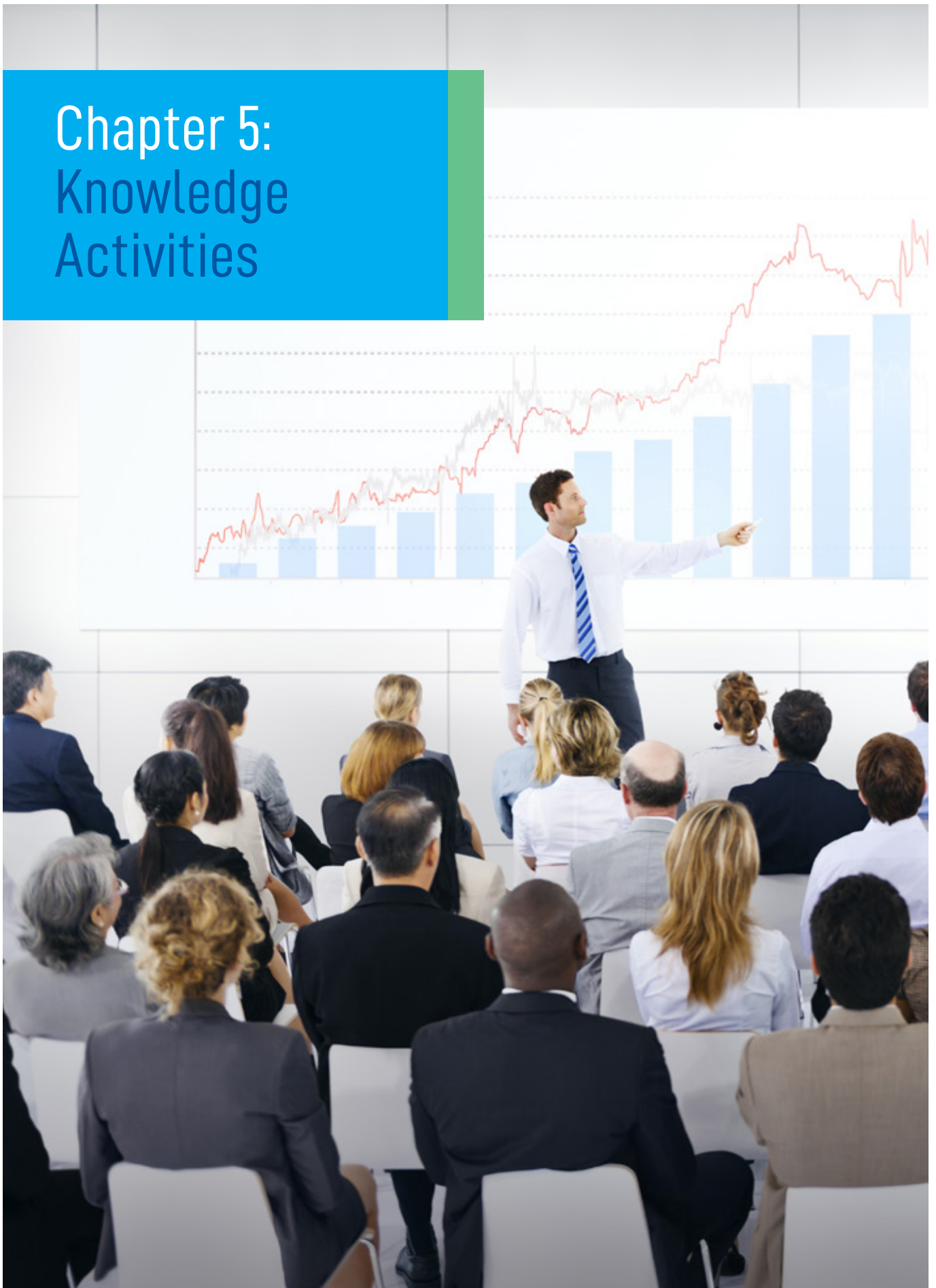
OUTCOMES

FinSAC activities in 2022 supported strengthening of the regulatory and supervisory framework of the Central Bank. Internal manuals are being updated and beginning to be actively used in supervision, including for the preparation of comprehensive risk profiles for pilot banks. The project is building capacity of staff and strengthening supervisory capabilities.

FinSAC output	Status	Contribution to results area
Contribute to draft regulations on risk management and information disclosure.	Achieved.	Improved regulatory framework. Revised regulations await final Central Bank Board and Ministry of Justice approval.
Support the development of Central Bank internal manuals.	Not yet achieved.	Availability of comprehensive internal guidance. Process of revisions is ongoing with final updates to be forwarded to client by mid-February 2023 and expected to be approved by the Central Bank Board after finalization of the risk profile preparation for pilot banks later in 2023.
Support risk-based supervision of pilot banks.	Achieved.	Risk-based supervision methodology rolled out and key supervisory products developed and continuously updated for pilot banks. Methodology in use by Central Bank since March 2022 for the preparation of risk-profiles of pilot banks.
Support the development of a SupTech Strategic Framework and Roadmap.	Achieved.	Apply SupTech solutions to improve supervision. Strategic Framework and Roadmap agreed. Automated data reporting tender documents developed.
Build capacity through workshops and training.	Achieved.	Improve knowledge and skills of Central Bank staff. Approx 20-30 supervisors trained.



Chapter 5: Knowledge Activities



FinSAC delivered two significant regional knowledge building activities in 2022; the Annual Supervisory Conference and work on the Vienna Initiative Working Group on Climate Change.

FinSAC undertakes to publish at least one analytical paper per year. Unfortunately, the focus on timely delivery of much needed technical assistance had some impact on the completion of knowledge products in 2022. Four analytical papers were planned but none were fully completed and published by the end of the year. Three are being published in 2023 and one has been paused.

Annual Supervisory Conference: Supervisory Challenges and Green Transition in Post-pandemic Environment (Regional – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

FinSAC hosted its Annual Conference “Supervisory challenges and green transition in post-pandemic environment” on May 17-18, 2022, in Vienna, Austria. After two years in which meetings in person were not possible, the Conference welcomed over 100 participants from all active client countries; with speakers including the European Central Bank, client countries, Hungary, Croatia, England, Romania, and France; and other experts including from the Basel Committee on Banking Supervision, the European Banking Agency, the Bank for International Settlements, and representatives of the Vienna Initiative.

As COVID-19 related travel restrictions eased, FinSAC was pleased to once again be able to bring together clients and other colleagues for a high-level discussion of relevant financial stability issues and current challenges. This was an opportune moment to consider the ongoing impact of measures taken during the pandemic and what now needed to be considered, for example, the effect on corporate viability and the ability to repay existing (and leverage further) debt to maximize economic growth. The additional theme of green finance and climate related risk was very relevant for FinSAC client countries, as they increasingly focus on financial sector regulation, supervision, and capacity in this area.

There was recognition at the Conference that the banking systems of the Europe and Central Asia region had navigated through unprecedented times of pandemic without significant rises in non-performing loans, this needs to be maintained as borrower relief measures are phased out and the relaxation of prudential standards is reversed. Authorities face new challenges in the post-COVID-19 environment, the transition to more advanced credit risk assessment methodologies and models to manage their risks and classify credit risk and estimate expected credit losses. Internal rating-based models could be introduced to calculate regulatory capital and the implementation of IFRS 9 could be postponed. Most FinSAC client countries have modern bank resolution regimes, compliant with the Key Attributes of Effective Resolution Regimes for Financial Institutions. Discussions focused on internal and external policies to ensure operationalization of the framework in place and tools for identifying gaps, including the value added and limits of testing resolution scenarios in simulation exercises. Client countries are actively engaging on the green agenda, and there are clear opportunities to do more in response to climate-related risks through strengthened regulation, supervision, and capacity. However, regulatory frameworks face important challenges, such as accurately measuring climate risk over the long term, and the need for new methodological approaches, so that prudential frameworks adequately reflect actual risks, without weakening prudential regulation.

“The topics were very actual and useful.”

Conference Participant

OUTCOMES

FinSAC activities in 2022 resulted in draft updated Deposit Guarantee Scheme legislation with the objective of BRRD alignment. Workshops were well attended, including participants from the National Bank and Deposit Guarantee Fund, and helped enhance understanding of the operationalization of tools under the EU framework. This will support changes to the current temporary administration-based purchase and assumption approach. The project is improving understanding of the EU framework and differences with the current Ukrainian regime, for example regarding bridge banks.

Work in 2023 will continue to support the National Bank and Deposit Guarantee Fund staff to take forward alignment work with the EU regime including the envisaged EU crisis management and deposit insurance reform.

FinSAC output	Status	Contribution to results area
Deliver relevant and well attended event.	Achieved.	<i>Promote regional knowledge of financial stability topics and develop cooperative networks among client countries.</i> Over 100 participants. Client surveys upon conclusion of the event recorded an overall satisfaction rating of 4.75 out of 5.



Workshops for Vienna Initiative Working Group on Climate Change (Regional – COMPLETE)

CONTEXT AND ACTIVITIES IN 2022

As co-chair of the supervisory and regulatory oversight and practices workstream of the new Vienna Initiative Working Group on Climate Change, FinSAC conducted three workshops during 2022 and contributed to the Working Group physical meeting held in Ljubljana, Slovenia on September 30, 2022.

The first FinSAC workshop, on September 8, addressed the challenges European banking groups faced while trying to quantify and embed climate-related risks into their business models. European banks with cross-border subsidiaries in FinSAC client countries explained how they were addressing climate risks and embedding sustainability in their credit or operational risk framework. During the same workshop, the European Central Bank outlined its activities to address climate risks, including microprudential climate stress testing, thematic review, and the introduction of on-site inspections focused on climate risks.

The second workshop, on October 11, considered supervisory approaches to climate-related risks by both the European Banking Authority and Eastern European supervisors. The European Banking Authority provided an overview of its upcoming regulatory actions and program on climate risks for 2023. The Turkish Banking Regulation and Supervision Authority, the Bank of Slovenia, and the National Bank of Croatia outlined the supervisory actions they were taking in addressing sustainability. During a roundtable, representatives of central banks and supervisory agencies from Albania, Bosnia and Herzegovina, Montenegro, and North Macedonia discussed their progress in defining actions plans and strategies for climate risks.

The third workshop, on November 3, covered green transition plans and macroprudential aspects of climate change related financial risks. The European Banking Authority, European Central Bank, and regional banks discussed the main challenges in the definition of carbon transition plans, a tool that is expected to be key in the supervisory efforts to ensure that banks tackle climate risks, when the new EU amendment of the prudential framework is approved (CRR3/CRDVI). Challenges of data-gathering and target definition and potential action plans were thoroughly discussed during the session.

OUTCOMES

A report on the workstream, based on the outcomes of the workshops and including recommendations, will be presented to the Vienna Initiative Full Forum in Q2 2023.

FinSAC output	Status	Contribution to results area
Co-lead Working Group activities on supervisory and regulatory oversight and practices and organize relevant workshops.	Achieved.	<i>Enhance client countries' knowledge of supervisory and regulatory oversight and practices relevant to climate change-related risks.</i> More than 80 participants attended the meetings, including from regional banks, central banks, and banking supervisors and from international financial institutions active in the region.



FINSAC INNOVATES CONTRIBUTING TO THE VIENNA INITIATIVE ON GREEN FINANCE

The Vienna Initiative brings together public- and private-sector stakeholders of EU-based cross-border banks as part of efforts to safeguard wider European financial stability. FinSAC's establishment in 2011 was inspired by the Vienna Initiative, with the intent to build on its cooperative approach, going beyond short-term crisis response by providing longer-term support.

FinSAC has always maintained its close contacts with the Vienna Initiative.

Recognizing the growing relevance of green finance to economies and central bank decision-making, the Vienna Initiative established a new 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.

FinSAC joined the working group in 2022 and jointly chairs, with the Croatian National Bank, the second workstream on supervisory and regulatory oversight and practices. The workstream seeks to promote the ability of supervisors and financial institutions to identify and assess relevant climate change-related risks and suggest how these assessments could be incorporated into prudential oversight. The three FinSAC workshops in September, October, and November 2022 convened a range of international expertise and representatives of both banks and supervisors from client countries to discuss the challenges and opportunities in taking a more pro-active approach to embedding climate-related risks into business models and supervisory approaches.

Cyber-Crisis Management for Financial Sector Authorities/ Cybersecurity Digest (Pillar 1 – ONGOING)

CONTEXT AND ACTIVITIES IN 2022

FinSAC has been engaged with financial sector authorities to raise awareness of cybersecurity threats since 2015. Identifying a gap in knowledge of regulations related to mitigating cyber risk challenges and strengthening financial sector resilience to cyber incidents, in 2017 FinSAC innovated a Cybersecurity Digest with six editions published on its website. The Digest brings together diverse laws, regulations, guidelines, and other significant cyber-security literature relevant to the financial sector in one accessible reference document to help authorities update existing regulations. It has proven to be one of the most accessed items on the FinSAC website.

Work continued in 2022 to shape the Cybersecurity Digest into an even more useful tool for financial sector authorities. Part of this was exploring the merits of ongoing updates to the Digest, rather than publishing, for example, annual updated editions, and how to ensure effective communication of these updates, for example LinkedIn was found to have a particularly receptive audience. It also involved analysis of materials such as regulations, industry standards and guidelines, transcripts, and statements from public organizations (using data science and machine learning techniques) to identify the most important concepts for cyber security for inclusion in future Digest updates. The focus was to publish the Digest in a new interactive web format from the 7th edition. Over 150 documents have been added to the previous 305, with many jurisdiction-specific documents. Unfortunately, publication of this new and revised Digest was subject to some unavoidable delays and technical issues. These should be resolved in 2023.

OUTCOMES

FinSAC is working to address the technical difficulties of hosting an interactive format and expects to publish an updated and ongoing Digest in 2023. The new FinSAC website and other social media avenues will be used to regularly promote the addition of new material.

FinSAC output	Status	Contribution to results area
Publication of inter-active Cybersecurity Digest online.	Ongoing	<i>To be assessed on completion of project.</i>

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

CONTEXT AND ACTIVITIES IN 2022

FinSAC has been assessing 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. An initial detailed stock-take was undertaken in 2020, looking into the extent to which the performance of financial stability committees in facilitating macroprudential policies could be attributed to their underlying design features. Analysis of the institutional arrangements for the monitoring and timely mitigation of threats to financial stability and technical assessments regarding the severity of systemic risk factors, including on general credit and liquidity conditions, sectoral risks, and transmission channels continued in 2021. FinSAC revisited the initial stock-take in 2022 to update and revise the evidence base and has now finalized this paper which provides guidance on the design of financial stability committees and supports FinSAC technical assistance in this area.

OUTCOMES

The *Stocktake of Financial Stability Committees in Eastern Europe and Central Asia* paper is significantly complete, but time constraints prevented its publication in 2022. It will be published in 2023. It offers 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 are already using the findings in work with clients.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	To be assessed on completion of project.

Analytical Paper: Related Parties Transactions and Associated Risks (Pillar 2 – ONGOING)

CONTEXT AND ACTIVITIES IN 2022

Related-party transactions concern any bank transaction with a party that exerts control over the bank or over which the bank exerts control. They are often not looked at rigorously or consistently enough, and there is widespread poor practice (unlike corporate governance or risk management, there is no separate set of supervisory guidance or principles on this topic released by the regulatory community). This paper considers what should be done to guard against abuses in lending to related parties going forward and provide a set of actionable recommendations for banks, supervisors, and standards setters.

FinSAC has been exploring the issue for several years with a wide range of interlocutors to produce an analytical paper. Analysis, discussions, and gathering of international practices were ongoing from 2019 to 2022, with some interruptions caused by the pandemic. The paper was completed in late 2022, but the peer review process has delayed publication until 2023. The paper summarizes the key issues and draws some conclusions that aim to be useful to policy makers. It uses a sample of country cases to highlight the problems arising from related-party transactions in both developed and developing countries and how they have affected local economies. It then discusses the underlying causes that have escaped authorities' attention and signs of possible resurgences. Finally, it suggests possible avenues to guard against abuses in operations with related parties through a set of policy recommendations, some of them inspired by national examples.

OUTCOMES

Banks' Transactions with Related Parties: Why We Should Care More About the Risks?, was finalized in 2022 but will be published in 2023 following a peer review process. Once published, FinSAC will organize dissemination events for internal and external audiences.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	To be assessed on completion of project.



Analytical Paper: Policy Note on Bank Crisis Management in Europe and Central Asia Region (Pillar 3 – ONGOING)

CONTEXT AND ACTIVITIES IN 2022

Countries across the ECA region learnt tough lessons during the global financial crisis when their banking sectors, highly dependent on wholesale and intragroup funding, had to severely curtail domestic lending, with huge implications both for the countries' financial stability and more broadly, to their economies.

Since then, most ECA countries have embarked on a sustained, long-term effort to make their banking systems more resilient, including by implementing Basel Standards, by laying out demanding standards for internal governance and risk management, conferring supervisors with broad early intervention measures to address banks' problems at a sufficiently early stage, and by requesting banks to regularly prepare recovery plans. Crucially, certain countries in the ECA region have also upgraded their regimes to manage failed banks; new resolution authorities were set up, typically as operationally independent divisions within central banks, new, far-reaching resolution powers have been conferred to these authorities. Countries in the ECA region have also underpinning their mechanisms for providing systemic liquidity where required.

As a result, banks across the region have been operating with sound levels of capital, liquidity and asset quality, also with strong profitability indicators. Governance structures have been improved. In a nutshell, business models have been improved.

Nonetheless, the world and particularly the ECA region have been suffering from back-to-back crises, as the COVID Pandemic was followed by the Russian invasion of Ukraine, impacting global inflation levels. In response, interest rates have quickly raised, whereas inflation is still to be tamed. In this context, high levels of interest rates, whereas at first being positive for banks' margins, may end up negatively impacting borrowers' creditworthiness and the value of some bank portfolios.

OUTCOMES

As ECA countries look to upgrade their preparedness for managing systemic banking crises, 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.

The Paper was largely finished during 2022 and, after undergoing review, it is expected to be published in 2023.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	To be assessed on completion of project.

Analytical Paper: Policy Brief on Big and Small Bank Resolution (Pillar 3 – ONGOING)

CONTEXT AND ACTIVITIES IN 2022

FinSAC envisaged preparing a Policy Brief targeted at deepening decision makers' understanding of the available options and legal justification for the application of resolution powers to a failing bank in client countries and especially the differentiation between big and small banks. The Policy Brief is centered on the requirements under EU legislation, the BRRD, as this is the framework being adopted or adapted by FinSAC client countries. Work began in 2021, with an analysis of resolution systems in FinSAC client countries and a comparative analysis between the EU and the US, taking into account evolving case law in the EU. The paper was sent for internal review but was then paused in 2022 when it became clear that, as part of the crisis management and deposit insurance reform consultation, a fundamental reassessment of the crisis management and deposit insurance framework in the EU was underway.

OUTCOMES

Work on the Policy Brief remains paused, pending EU decisions on this, and will recommence once the EU context is clearer.

FinSAC output	Status	Contribution to results area
Publication of analytical paper.	Ongoing	To be assessed on completion of project.

Participation in non-FinSAC events and knowledge products

Given its expertise and experience on financial stability themes, FinSAC is regularly asked to present at conferences and other events and to contribute to papers and other knowledge products. In 2022 FinSAC presented at a number of events, listed below, and initiated papers including on corporate viability methodology and on deposit guarantee fund asset sales practices in Ukraine and Serbia; to the Finance & COVID-19 Crisis chapter of the World Development Report 2022; and was involved in the assessment of the Basel Committee's Core Principles for Effective Banking Supervision, which will be published shortly. FinSAC contributed expertise to a range of other World Bank projects during the year including to: World Bank/IMF Financial Sector Assessment Program updates for Chile, Mexico, and Turkey, and development module for Cabo Verde; Financial Sector Development for the Kyrgyz Republic: the second Financial Sector Development and Reform Program in South Africa; Nationally Determined Contribution Implementation Support for Kazakhstan; Financial Sector Reform in Uzbekistan; Promoting Banking and NPL Markets in Tunisia; Central Asia Financial & Private Sector Monitoring; Vietnam Banking Soundness and Development; Ukraine Financial Sector Recovery and Resilience; and Long Term Finance of the Central African Economic and Monetary Community.

FinSAC participation in external events in 2022

JUNE

Presentation on *Financial Viability Assessment in the Corporate Sector* to the Virtual Course of Policy Support for the Private Sector organized by Joint Vienna Institute.

Presentation on The World Bank *Study on Online Sales Platforms used by Asset Management Companies* and moderation of related discussion and moderation of online panel discussion on *Effective Implementation and Operation Strategy for Domestic Online NPL Trading Platforms* as part of the 7th International Public Asset Management Company Forum organized by the Asian Development Bank and the Korean Asset Management Company.

JULY

Organization of one-week training course on *NPL Management and Resolution* in cooperation with the European Central Bank and the Joint Vienna Institute. Held in a virtual format with participants from the Western Balkans, Eastern Europe, the Caucasus, Central Asia, Turkey, and Iran.

OCTOBER

Organization of one-day workshop for the Turkish Banking Regulation and Supervision Agency on *Assessment of NPL Strategies and Operational Plans prepared by Banks* in Istanbul.

Presentation and discussion on *International Experience in Using Online NPL Trading Platforms* at the international conference “Regional Cooperation for Safeguarding Macroeconomic and Financial Stability” in Manila, Philippines organized by the Asian Development Bank and the International Public Asset Management Forum.

Presentations on *Cross Border Aspects of Bank Resolution and on Minimum Requirements for Own Funds and Eligible Liabilities* at the 4th European Recovery & Resolution Summit.

NOVEMBER

Presentation on *International Experience in Using Online NPL Trading Platforms* and discussion of the potential for opening the NPL market in Vietnam at the workshop “Developing the NPL Trading Market in Vietnam” in Hanoi, Vietnam organized by the Vietnam Asset Management Company and the State Bank of Vietnam.

FinSAC roundtable session, with the Canada Deposit Insurance Corporation, on *Business Continuity Planning, Digital Transformation, and Cybersecurity*, at the “Cyber Security and Enterprise Risk Management for Deposit Insurers” 2nd Study Visit of the International Association of Deposit Insurers (IADI) Asia Pacific Regional Committee in Bali, Indonesia as part of the G20 Side Events.

Presentation on *International Experience in Introducing Climate Related Aspects in the Banking Risk Framework and their Supervision* at the Green Finance Conference in Tirana organized by the Albanian Financial Supervisory Agency.

Presentation on *Key Design and Operational Considerations for Implementing Backup Funding for Deposit Insurance Schemes* at the International Association of Deposit Insurers Europe Regional Committee Workshop on Core Principle 9: Sources and Uses of Funds for Deposit Insurers.

“On behalf of my colleagues and personally, I extend our highest appreciation for the NPL Resolution Workshop. The professionalism and extensive knowledge of the FinSAC team translated a multidimensional conceptual subject into a well-understood practical understanding. The knowledge gained and international experience shared guided us to develop a wider perspective towards the subject and to shape our approach. The design was brilliant, reflecting the experiences of both banks and supervisory authorities, and the accompanying case study is very useful, which covers valuable contents and perfectly qualifies as a training material. As an outstanding knowledge hub, FinSAC has been and will be one of the main stakeholders of the Banking Regulation and Supervision Agency and we look forward to future projects.”

Aslihan Yildirim

Senior Banking Specialist
Risk Management Department
Banking Regulation and Supervision Agency of Türkiye

Chapter 6: Impact and Results



2022 saw a return to more in person activities for FinSAC, with an increase in mission travel, while retaining the flexibility of virtual activities. This best of both worlds approach is confirmed by the high ratings received from client satisfaction surveys summarized in this chapter.

Demand for FinSAC support remained high in 2022. The deep working relationships established during earlier projects has helped ensure ongoing commitment to reform activities despite other competing priorities and political changes. The advances made as a result of earlier projects are able to be seen more clearly now. Primary and secondary legislative changes that were completed with earlier technical assistance are being implemented. Procedures and systems recommended by FinSAC are being rolled out or the underpinning systems of data collection and human capacity to introduce them are being addressed. Each achievement must be embedded in practice and culture which can be challenging when capacity is limited. Client countries have made significant progress in adopting frameworks that include good international practice, such as on NPLs, bank recovery and resolution, and deposit insurance. But this is not a static area, an important function for FinSAC is follow international trends and ensure client countries are aware of key developments and are able to assess what these mean for them and how and when they should address them.

A Snapshot of 2022

Table 1 below lists the completed projects in 2022: 13 country specific technical assistance projects (of which two were programmatic) and two significant regional knowledge building activities.

Table 1: List of completed technical assistance projects and knowledge products in 2022

Country	Technical Assistance
Albania	Enhancing Deposit Insurance Preparedness and Interagency Cooperation Green Finance, Prudential Reporting, Credit Cycle Assessment, and Bank Resolution*
Armenia	Applying the Bank Resolution Legal and Regulatory Framework Risk-Based Supervision and Crisis Preparedness
Georgia	Strengthening the Deposit Insurance Agency
Bosnia and Herzegovina	Enhancing Deposit Insurance Agency Operational Readiness Green Finance and the NPL Framework
Kosovo	Capacity Development of the Deposit Insurance Fund
Moldova	Strengthening the Bank Resolution Framework Bank Recovery and Resolution Simulation Exercise
North Macedonia	Review of Deposit Insurance Law and Design Features Green Finance, Bank Resolution, and Supervisory Challenge Model
Uzbekistan	Enhancing Banking Supervision and Regulation
Knowledge Events/Products	
Regional	FinSAC Annual Conference: Supervisory Challenges and Green Transition in Post-pandemic Environment Workshops for Vienna Initiative Working Group on Climate Change

* Limited components of this programmatic project that could not be completed in 2022 were removed from the project and assigned to a new project in 2023

FinSAC was active within each of its three pillars. The programmatic approach projects, in Albania and North Macedonia, included different elements of engagement across the pillars. For the purposes of this section, however, each has been assigned to one pillar which represented the bulk of work in 2022. Table 2 summarizes activities by deliverable, pillar, and country.

Table 2: List of completed projects by deliverable, pillar, and country in 2022

Completed products by deliverables	Pillar 1	Pillar 2	Pillar 3	Total
Knowledge events/products	–	2	–	2
Technical assistance	5	4	4	13
Total	5	6	4	15
Completed products by country/pillar	Pillar 1	Pillar 2	Pillar 3	Total
Albania*	2	–	–	2
Armenia	–	1	1	2
Bosnia and Herzegovina	1	1	–	2
Georgia	–	–	1	1
Kosovo	1	–	–	1
Moldova	–	–	2	2
North Macedonia*	1	1	–	2
Uzbekistan	–	1	–	1
Regional	–	2	–	2
Total	5	6	4	15

* Projects in Albania and North Macedonia included work on more than one pillar. However, in this table we assigned them to the pillar in which the majority of work was done based on a spent budget.

Client country feedback

FinSAC invites client feedback on each of its completed projects. From this FinSAC seeks to better understand the effectiveness of its projects, identify drivers of clients' demand, assess satisfaction with technical assistance projects, and identify areas for improvements. The survey also seeks views on topics of possible future interest for technical assistance that are used to help guide the design and targeting of new products.

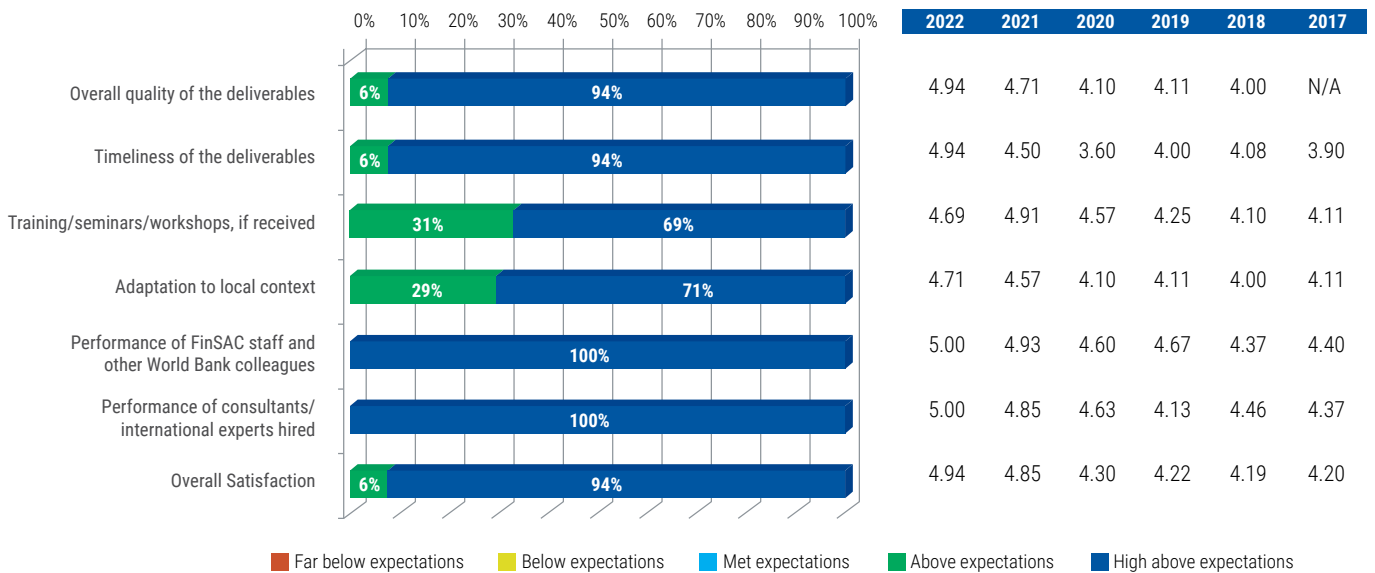
The survey collects one response for each single pillar project and one response for each workstream of programmatic projects. This year the response rate was 100%. The feedback indicates that all activities were well received, with the highest possible scores for FinSAC staff and FinSAC recruited consultants and experts. No areas of any project received scores below "very good" (see Figure 1 below).

Strong survey results across the board

The survey results for 2022 were strong, improving in all areas compared to 2021 except training/seminars/workshops which showed a slight decrease in 2022 but was still better than the four years 2017 to 2020. Staff performance was particularly high, with 100% of clients finding FinSAC and the experts and consultants they hired for specific tasks to be excellent.

Clients were asked if there were any aspects of technical assistance that were less useful or that could be improved. The responses were overwhelmingly that all aspects were useful, although some accompanying feedback noted that where there are many recommendations requiring action, these could usefully be prioritized by low cost/high impact. It was also noted that a lack of capacity or necessary data was the reason for some projects not resulting in immediate changes.

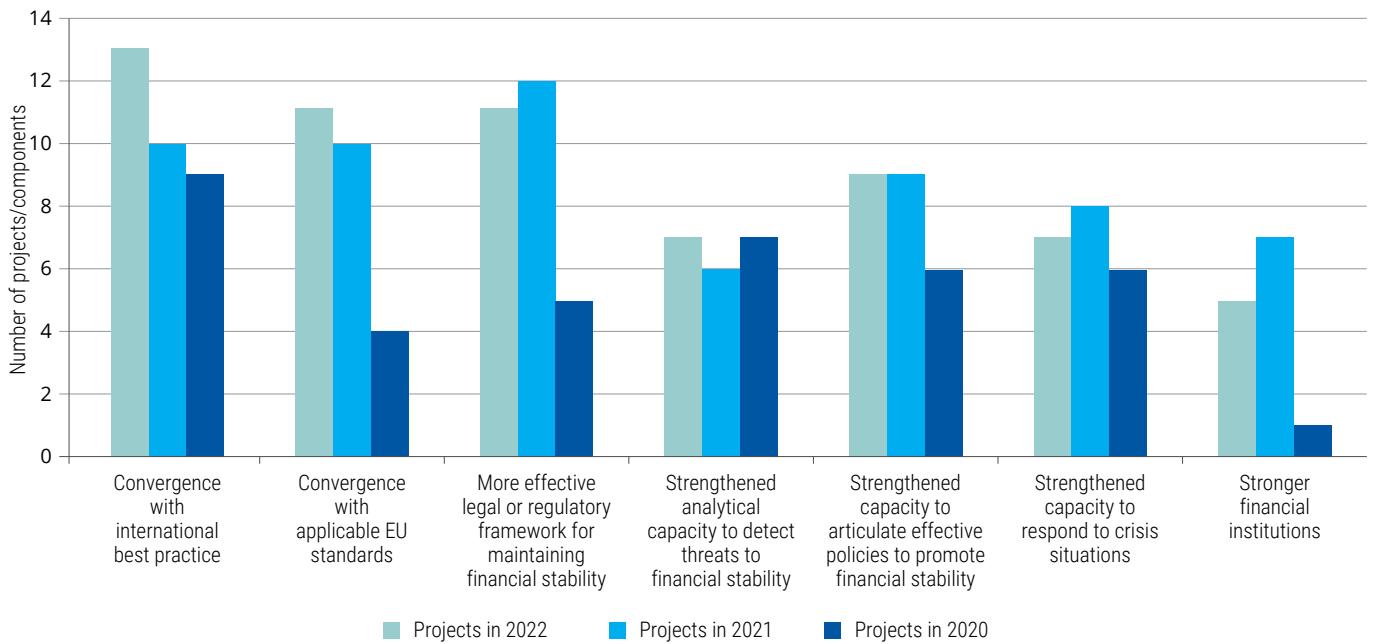
Figure 1: Percentage client satisfaction with aspects of technical assistance in 2022 and compared to earlier years.



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. All projects had contributed to convergence with international best practices, and most also with applicable EU standards. Most were believed to be contributing to more effective legal or regulatory frameworks that would maintain financial stability. 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 2022 and compared to earlier years





Chapter 7: A Look Ahead to 2023



According to the latest Global Economic Prospects Report of the World Bank, global growth will slow from 2.9% in 2022 to 1.7% in 2023, staying well below the pre-pandemic average of 3.8%. The fight against inflation and Russia's war in Ukraine will continue to weigh on global economic activity, and especially in Europe. The EU economy managed to avoid recession in 2022 but it is still beset with challenges. As the inflationary pressures broaden, monetary tightening will continue, exerting a drag on investment and consumption, as inflation keeps outpacing nominal wage growth. Against this backdrop and reflecting a non-supportive external environment, the EU economy is forecast to grow only 0.8% in 2023, posing some headwinds for the EU financial system.

Amplified by this weaker economic outlook in Europe and ongoing war in Ukraine, the financial systems of the FinSAC client countries (excluding Ukraine) are yet vulnerable to credit risk shocks driven by soaring local inflation, enfeebled purchasing power of consumers, and weaker export demand from main trading partners. The economic and financial stability prospects for Ukraine remain extremely uncertain and will need to be separately assessed in the post war phase. With tighter monetary conditions and lower growth potentially affecting financial and debt stability, many client countries may need to deploy macroprudential tools and strengthen NPL restructuring frameworks.

In this context, FinSAC activities in 2023 will be guided by the need to contain the impact of inflation and risks stemming from the war in Ukraine on financial stability and to ensure that banks continue to support the economic recovery towards more inclusive, resilient, and sustainable development. Being a trusted partner in the region, FinSAC will continue providing tailored technical assistance support across all three of its pillars, primarily helping client country authorities with financial stability challenges they face, but also building upon the path of EU convergence and longer-term objective of green transition and sustainable finance.

FinSAC's Portfolio

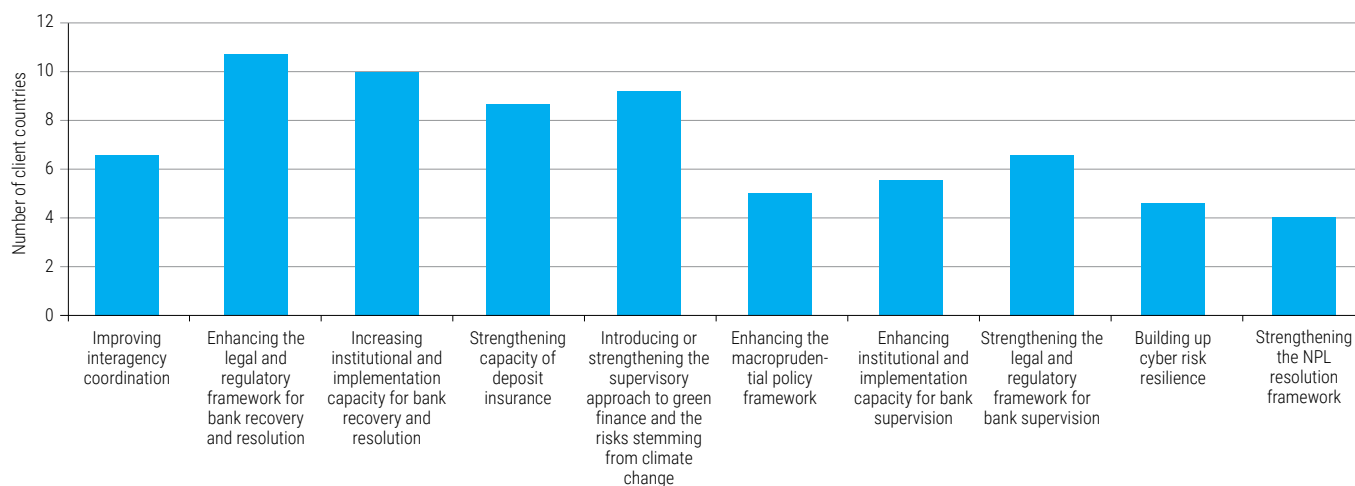
FinSAC begins 2023 with a full work program, continuing the strong engagement with client countries in recent years and reflecting high demand for financial stability work, driven by renewed uncertainties that authorities face in the current environment. Bilateral technical assistance projects will continue to be the backbone of FinSAC's activities in 2023. Several projects are already agreed with counterparts and work is underway, while discussions are ongoing with some counterparts on new technical assistance. The aim is to complete at least 12 technical assistance projects in 2023, including with new financial sector counterparts in Montenegro. 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 from their engagement with FinSAC.

Client Countries Continued Interest in Technical Assistance

Fortunately, there remains strong commitment to the FinSAC agenda. Client countries are continuing to strengthen their planning and capacity to react quickly and effectively to changing circumstances. 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 especially in the areas of bank recovery and resolution, deposit insurance, and supervisory approaches to green finance (see Figure 3 below).

All client countries that were surveyed expressed interest in further FinSAC technical assistance. This was focused on capacity building (all countries), strengthening regulation (most countries), and further work on the legislative framework (some countries).

Figure 3: Areas identified by client countries for further reforms



FinSAC's Focus for 2023

Judging from the deepening and multidimensional engagement in the region in recent years, FinSAC's three pillars remain highly relevant for client countries. While the alignment of client countries' regulatory and supervisory frameworks with international best practices and EU standards remains to be of high priority, Russia's ongoing war in Ukraine and the appearance of new risks for financial stability could shift emphasis towards crisis preparedness, operationalization of financial safety nets, and enhancement of NPL resolution frameworks in client countries. Furthermore, the green transition and the alignment with Paris Agreement are becoming more pronounced priorities for client countries, allowing deeper and wider engagement on the sustainability agenda, including in line with the increasing number of green strategies being drafted and implemented in the region.

Pillar 1: Financial Stability, Macroprudential Frameworks and Crisis Management

Even if direct risks to financial stability are avoided, continuation of Russia's war in Ukraine still accumulates wider risks to financial stability in client countries. This highlights the need for technical assistance to further strengthen crisis preparedness frameworks and financial sector safety nets. FinSAC is receiving renewed requests to conduct crisis simulation exercises and identify gaps/provide tailored technical assistance on the topics like operational readiness, interagency coordination mechanisms, and emergency liquidity assistance as well as deposit insurance and bank resolution. Macroprudential analysis for assessing systemic risks and designing follow up policy actions are increasingly of interest to client countries, especially in the context of climate related financial risks. Deposit insurance is another area in which demand from client countries remains strong, with a particular focus on deposit insurance coverage, target fund ratio, risk-based premiums, and the role of the deposit insurer in the bank resolution process. FinSAC can also provide targeted support to client countries through cyber security-focused crisis simulation exercises and technical assistance on improving regulatory frameworks to mitigate cyber security risk in financial institutions.

Pillar 2: Microprudential Frameworks & NPL Reduction

In light of anticipated changes in the European CRD/CRR framework, FinSAC expects increased client country demand for support in strengthening regulatory and supervisory frameworks, with significant focus on supervisory architecture, supervisory review and evaluation process-like methodologies, bank business models, and enhancement of financial sector regulations. The regulatory aspects of climate related risks are becoming a core business line for FinSAC's engagement, as the sustainability agenda evolves into a cross cutting policy issue for client countries at a national level. FinSAC will continue supporting central banks and regulators build awareness about physical and transition risks and contribute to the preparation of sustainability strategies. In client countries with strategies already in place, FinSAC can advise on strategy implementation, including via relevant regulations, policies, and risk management practices. While the banking systems in the region have not recorded substantial increases in NPLs during the pandemic, even after all pandemic-related borrower relief measures were removed, the evolving stagnation risks in Europe coupled with soaring inflation are snowballing the credit risk in their balance sheets. This could inevitably trigger demand for technical assistance enhancing the NPL toolkit and resolution frameworks. In case of systemic shock, the international experience shows that a functional and efficient NPL resolution framework is essential for countries to overcome the accumulation of NPLs. With its expertise and practical experience addressing NPLs, FinSAC is well-positioned 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 the disclosure requirements.

Pillar 3: Bank Resolution

Bank resolution continues to be a key business line for FinSAC, which was reinforced by the resolution cases of Russian bank subsidiaries in Europe in 2022. FinSAC has provided extensive support 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. In 2023, FinSAC will continue its full-fledged support to client countries, also adding methodological assistance in 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. Clients at a more advanced stage are seeking operationalizing assistance, for example gaining practical experience through RRSEs, designing operational handbooks for resolution tools such as the bail-in instrument or bridge bank, how to apply an asset valuation framework in the context of resolution, enhancing 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 resolution of smaller non-systemic banks. This will open new technical assistance possibilities as, being outside of direct coverage by the single resolution mechanism, those new legislative initiative will be especially relevant for FinSAC client countries.

Knowledge activities

In 2022, the evolving demand for technical assistance, especially on climate related risk, unfortunately rather eclipsed the knowledge agenda. In 2023, FinSAC will get this back on track, focusing on key topics of concern to financial sector policymakers in Europe and the client countries. Building on the successful first in-person conference post-pandemic in 2022, FinSAC is set to hold two conferences in 2023. The first, in March, will focus on the use of deposit guarantee scheme funds and backstop funding arrangements. The Annual Flagship Conference, in May, will facilitate policymakers' discussions on the renewed supervisory challenges given tightened financial conditions and economic slowdown in Europe. FinSAC will finalize and publish the analytical work that was in progress during the pandemic and ensure that it is appropriately disseminated. In addition, a policy note with recommendations for regional authorities on the regulatory aspects of climate related risks, prepared together with the National Bank of Croatia in the Working Group on Climate Change under Vienna Initiative will be published. The new FinSAC website should be launched in early 2023 and will continue to be populated over the year, seeking to improve and broaden the materials available. A technical solution will hopefully be implemented to allow the publication of a continuously updated Cybersecurity Digest on the website or linked from it.



Annex A: Financial Indicators for FinSAC Client Countries

Economy		Capital			Liquidity			Profitability		Exposures					
		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	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	20.9	20.5	9.8	29.7	33.5	141.1	1.6	12.3	15.7	4.1	74.7			
	Croatia	24.0	23.5	10.3	33.5	38.6	133.1	1.5	10.2	0.4	4.3	135.7			4.1
	Poland	17.2	15.2	6.0	19.0	41.1	95.8	0.4	1.2	6.3	2.6		21.5		3.6
	Romania	21.5	18.8	8.1	12.8	17.2	134.8	1.5	16.6	7.1	2.8		29.4	31.5	0.9
EU candidate and potential candidate countries	Albania	18.1	16.9	8.6	28.5	39.6	207.8	1.4	12.3	7.3	4.8	123.1	49.3	52.7	5.0
	Bosnia and Herzegovina	19.2	18.4	9.8	30.8	49.8	129.3	1.6	12.6	5.7	4.9	78.7	44.3	42.4	1.4
	Georgia	20.3	17.1	13.0	22.8	42.0	85.0	3.8	24.8	3.4	1.5	39.1	40.4	54.7	1.6
	Kosovo	14.8	12.8	8.9	26.8	36.5	127.9	2.6	20.7	3.6	1.9	104.1	0.3	3.0	2.3
	Moldova	29.5	28.5	13.5	51.7	300.2	151.4	3.4	17.2	0.5	6.4	7.8	29.9	41.2	-9.8
	Montenegro	19.3	18.4	7.9	30.7	42.9	151.8	1.7	13.9	21.4	6.3	132.6	0.2	4.8	0.1
	North Macedonia	17.7	16.6	11.2	20.8	33.8	116.7	1.6	12.2	-6.8	2.8	260.5	41.7	48.0	6.5
	Serbia	19.5	18.2	11.8	35.0	45.4	114.4	1.5	10.9	7.4	3.2	109.3	66.6	63.7	0.4
	Ukraine	19.2	13.1	6.2	73.1	90.6	155.2	1.3	9.4	28.0	36.7	129.0	32.3	40.0	47.6
EU neighbouring countries	Armenia	20.3	19.0		37.0			4.1	27.9		2.8				
	Azerbaijan	19.3	14.5	8.1	35.9	60.8	169.5	2.7	18.5	6.0	2.6	108.6	36.5	45.0	4.7
	Belarus	16.9	15.4	12.2	17.9	154.0	83.5	1.7	11.4	16.9	5.2	250.0	42.2	63.9	7.3
Central Asia	Uzbekistan	17.8	14.5	12.2	21.5	47.3	47.8	2.5	13.3	9.0	3.6	223.1	46.7	55.4	1.7

Note: The statistics, represented in percentages, are prepared using latest information available by March 6, 2023. They typically reflect conditions of financial systems as of September 2022. Albania, Armenia, Bulgaria (except NPL indicators dating to June 2022), Georgia, Kosovo, and Uzbekistan are reflected using December 2022 data; Ukraine November 2022; Croatia and Poland June 2022; Belarus March 2022. 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, EBRD NPL Monitor 2022H2, and data from Central Bank of Armenia, National Bank of Bulgaria, National Bank of Serbia, and Central Bank of Uzbekistan.

Annex B: Disbursement of the Trust Fund by FinSAC

As of December 31, 2022

FINSAC 3 (TF072993 – disbursement end date is 31 October 2024)*

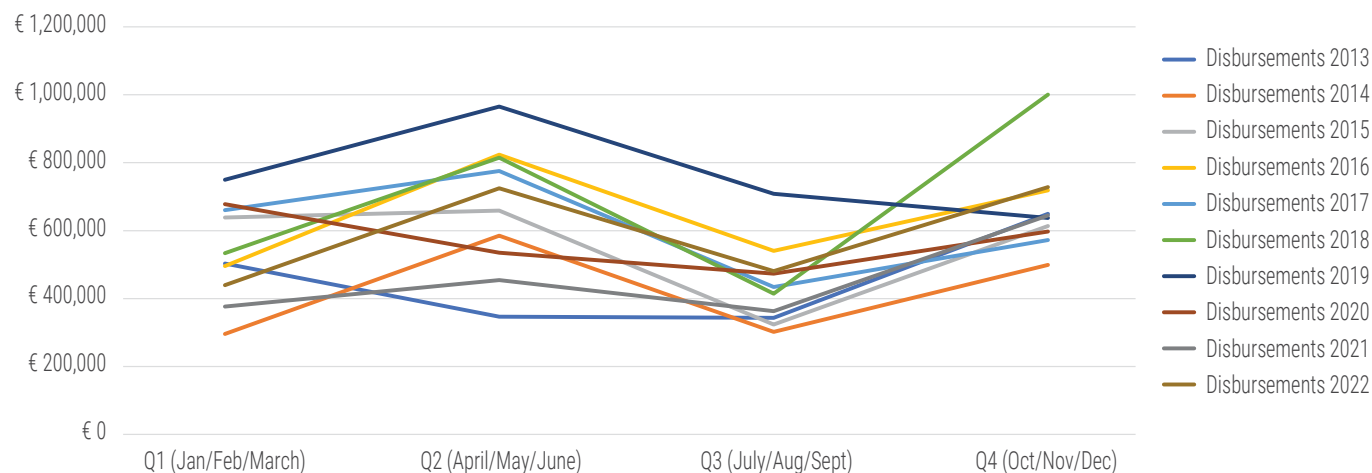
Contributions paid-in	€ 13,300,000
Investment Income**	€ (80,360.09)
Disbursements	€ 9,701,928.10
Fund Balance incl. commitments	€ 3,517,711.81

* 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

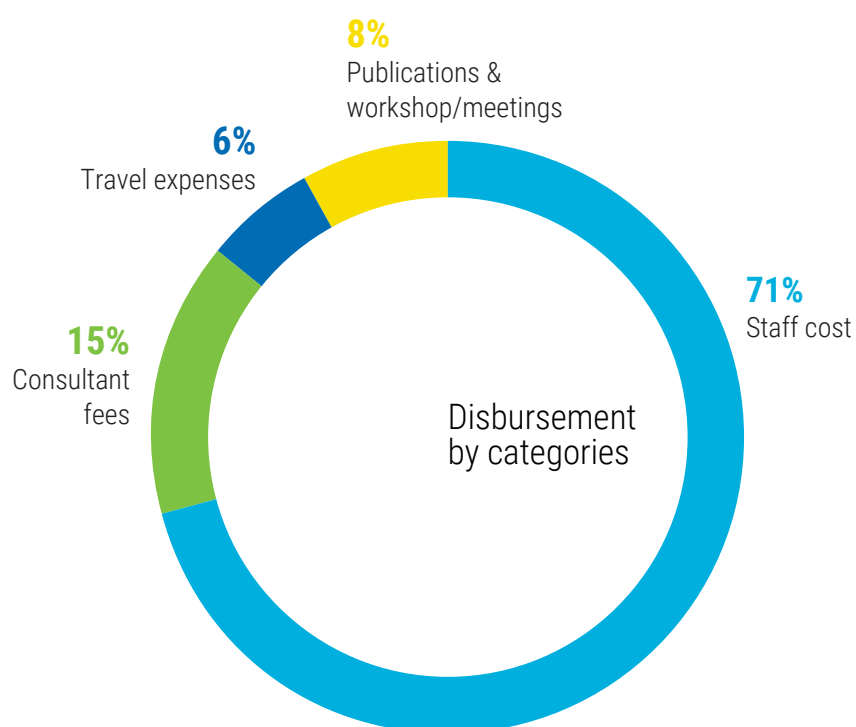
Disbursement	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Q1 (Jan/Feb/Mar)	€ 503,296	€ 295,836	€ 638,483	€ 495,853	€ 660,469	€ 533,788	€ 749,983	€ 677,770	€ 376,105	€ 439,262
Q2 (Apr/May/June)	€ 346,791	€ 585,282	€ 659,242	€ 823,747	€ 775,256	€ 814,793	€ 965,546	€ 534,821	€ 454,119	€ 724,894
Q3 (July/Aug/Sept)	€ 343,023	€ 301,968	€ 323,288	€ 540,713	€ 433,911	€ 414,172	€ 708,361	€ 473,043	€ 362,921	€ 480,865
Q4 (Oct/Nov/Dec)	€ 649,640	€ 499,193	€ 613,310	€ 718,554	€ 572,154	€ 1,000,470	€ 637,033	€ 597,110	€ 644,651	€ 728,124
Total	€ 1,842,749	€ 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

*includes FinSAC3 TF072993



Disbursement by categories (for the period of 1 January 2022 – 31 December 2022)

Staff costs ⁴	€ 1,697,425	71%
Consultant fees ⁵	€ 345,399	15%
Travel expenses ⁶	€ 145,556	6%
Publications & workshop/meetings	€ 184,764	8%
Total	€ 2,373,144	100%



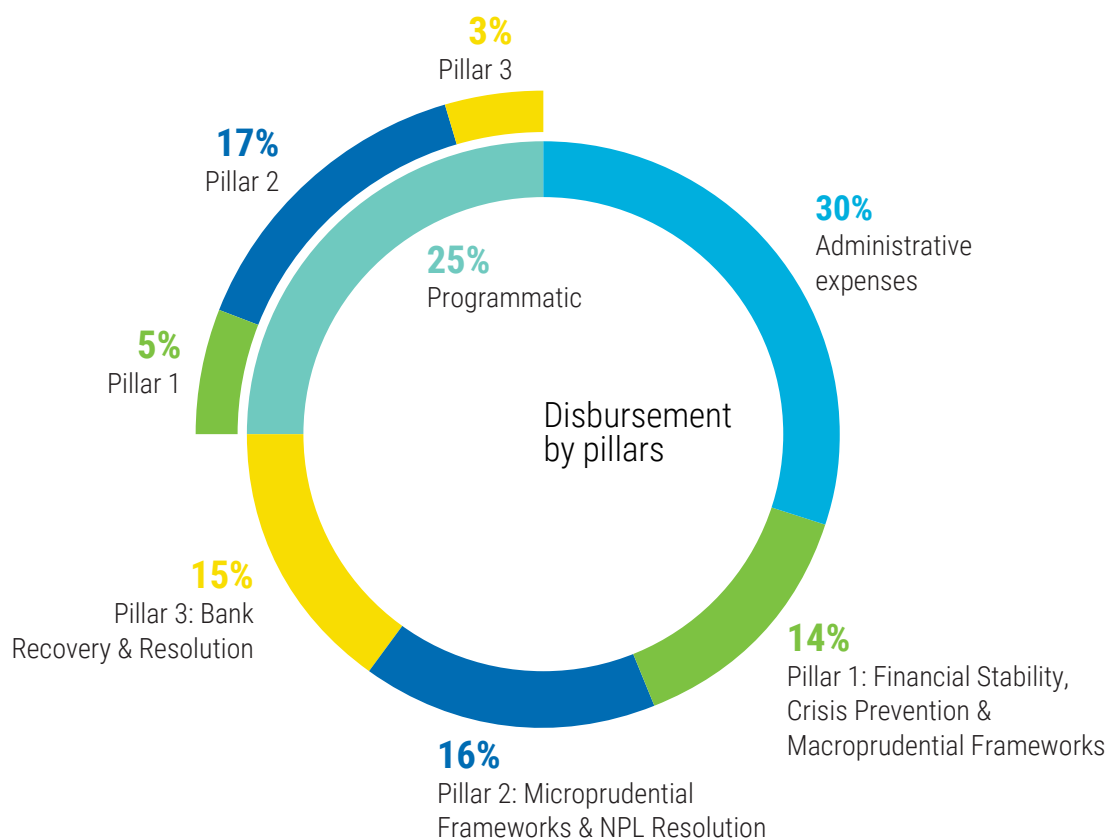
⁴ Incl. FinSAC Coordinator, one program assistant, six TTLs and related unit TTLs supporting FinSAC program

⁵ Incl. Short Term consultants and consultant firms

⁶ Incl. travel expenses of staff and consultants

Disbursement by pillars (for the period of 1 January 2022 – 31 December 2022)

Administrative expenses ⁷	€ 705,479.98	30%
Pillar 1: Financial Stability, Crisis Prevention & Macroprudential Frameworks	€ 335,420.61	14%
Pillar 2: Microprudential Frameworks & NPL Resolution	€ 389,198.39	16%
Pillar 3: Bank Recovery & Resolution	€ 353,252.05	15%
Programmatic ⁸	€ 589,793.41	25%
Pillar 1		5%
Pillar 2		17%
Pillar 3		3%
Total	€ 2,373,144.44	100% ⁹



⁷ 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

⁸ percentage break by countries is on a next page

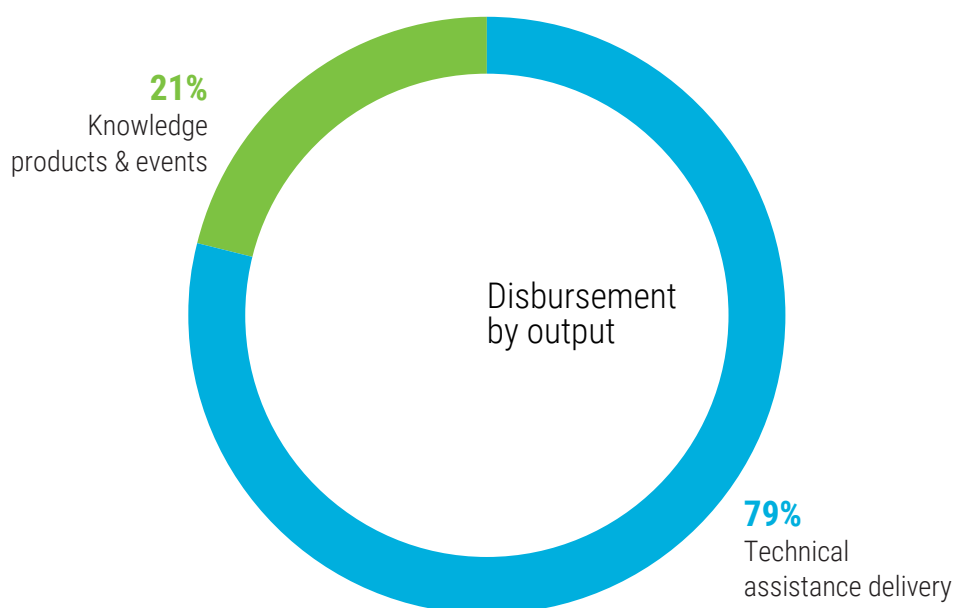
⁹ In this graphic percentages have been rounded to the nearest whole number

Programmatic

Disbursement by pillars for programmatic projects (for the period of January 1, 2021 – December 31, 2021)	Pillar 1	Pillar 2	Pillar 3
Albania: TA on Green Finance, Bank Resolution, FINREP reporting, and Credit Cycle Assessment	13%	10%	3%
BiH: TA on Green Finance and NPL operational plans		24%	
Kosovo: TA on Green Finance, Bank Resolution, & Bank Supervision		2%	1%
May annual conference 2022*	2%	20%	1%
North Macedonia: FinSAC TA on Green Finance, Bank Resolution, and Supervisory challenge model	4%	13%	7%

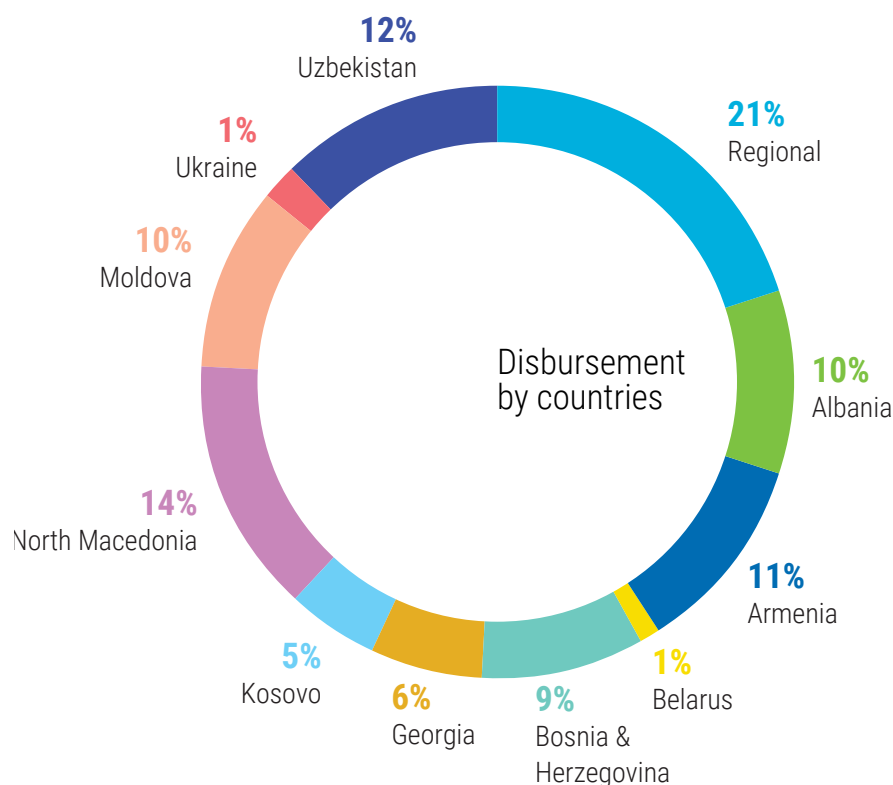
* FinSAC annual conference on Supervisory Challenges and Green Transition in Post-Pandemic Environment, May 17-18, 2022

Disbursement by output (for the period of 1 January 2022 – 31 December 2022)		
Technical assistance delivery	€ 1,321,393.75	79%
Knowledge products & events	€ 346,270.71	21%
Total (excl admin expenses)	€ 1,667,664.46	100%



Disbursement by countries (for the period of 1 January 2022 – 31 December 2022)

Regional	€ 346,270.71	21%
Albania	€ 160,376.18	10%
Armenia	€ 181,877.65	11%
Belarus*	€ 15,254.45	1%
Bosnia & Herzegovina	€ 155,291.52	9%
Georgia	€ 102,082.11	6%
Kosovo	€ 80,024.87	5%
North Macedonia	€ 244,504.51	14%
Moldova	€ 159,972.44	10%
Ukraine	€ 26,030.67	1%
Uzbekistan	€ 195,979.35	12%
Total (excl admin expenses) €	1,667,664.46	100%



* Belarus TA (Strengthening Banking Sector Supervision and Financial Stability Monitoring) was launched in January 2022 at the request of the National Bank of Belarus but stopped following the Russian invasion of Ukraine.

Disbursement by country groups (for the period of 1 January 2022 – 31 December 2022)

Regional	€ 346,270.71	21%
EU Candidates & Potential Candidate countries (Albania, Bosnia & Herzegovina, Georgia, Kosovo, Moldova, North Macedonia, Ukraine)	€ 928,282.30	55%
EU Neighboring countries (Armenia, Belarus)	€ 197,132.10	12%
Central Asia (Uzbekistan)	€ 195,979.35	12%
Total (excl admin expenses)	€ 1,667,664.46	100%

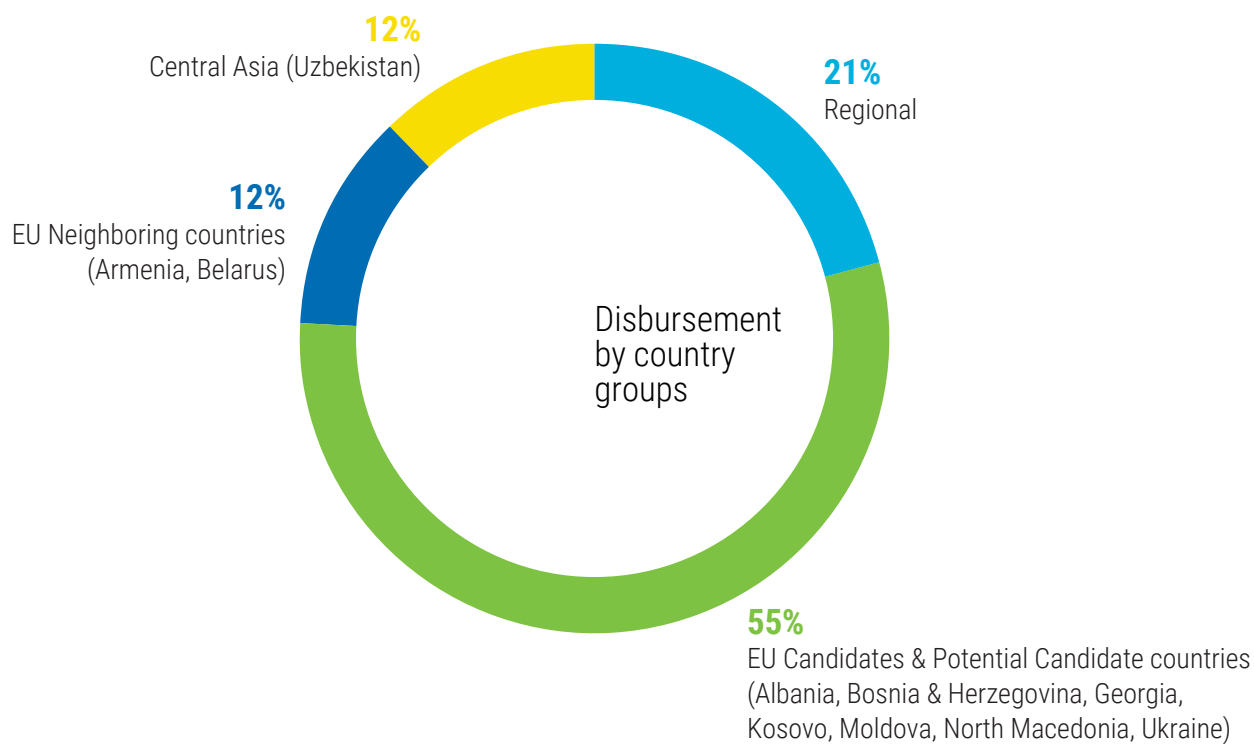


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