

Treasury Activities, The Bulgarian Experience

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**Investment Management for
Deposit Insurance Agencies**



February 20-22, 2013
MUMBAI, INDIA



निक्षेप बीमा और प्रत्यय गारंटी निगम

DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION

(भारतीय रिज़र्व बैंक की संपूर्ण स्वामित्ववाली सहयोगी Wholly owned subsidiary of the Reserve Bank of India)



**BULGARIAN DEPOSIT
INSURANCE FUND**

CONTENTS

- Bulgarian Banking System
- Legal Framework
- The Investment Process
- IPS Objectives and Constraints, Eligible Instruments
- Risk Management, Reporting and Monitoring
- Policy Implications and Future Challenges

BULGARIAN BANKING SYSTEM

- 31 banks, of which 26 covered by the DGS. Almost all of the banks are subsidiaries or branches of foreign banks
- Currency board arrangement
 - Since 1997
 - BGN is pegged to EUR
 - Foreign reserves cover monetary base, as well as government deposits (fiscal reserve) and some other deposits (incl. BDIF deposits) with the central bank
 - No lender of last resort

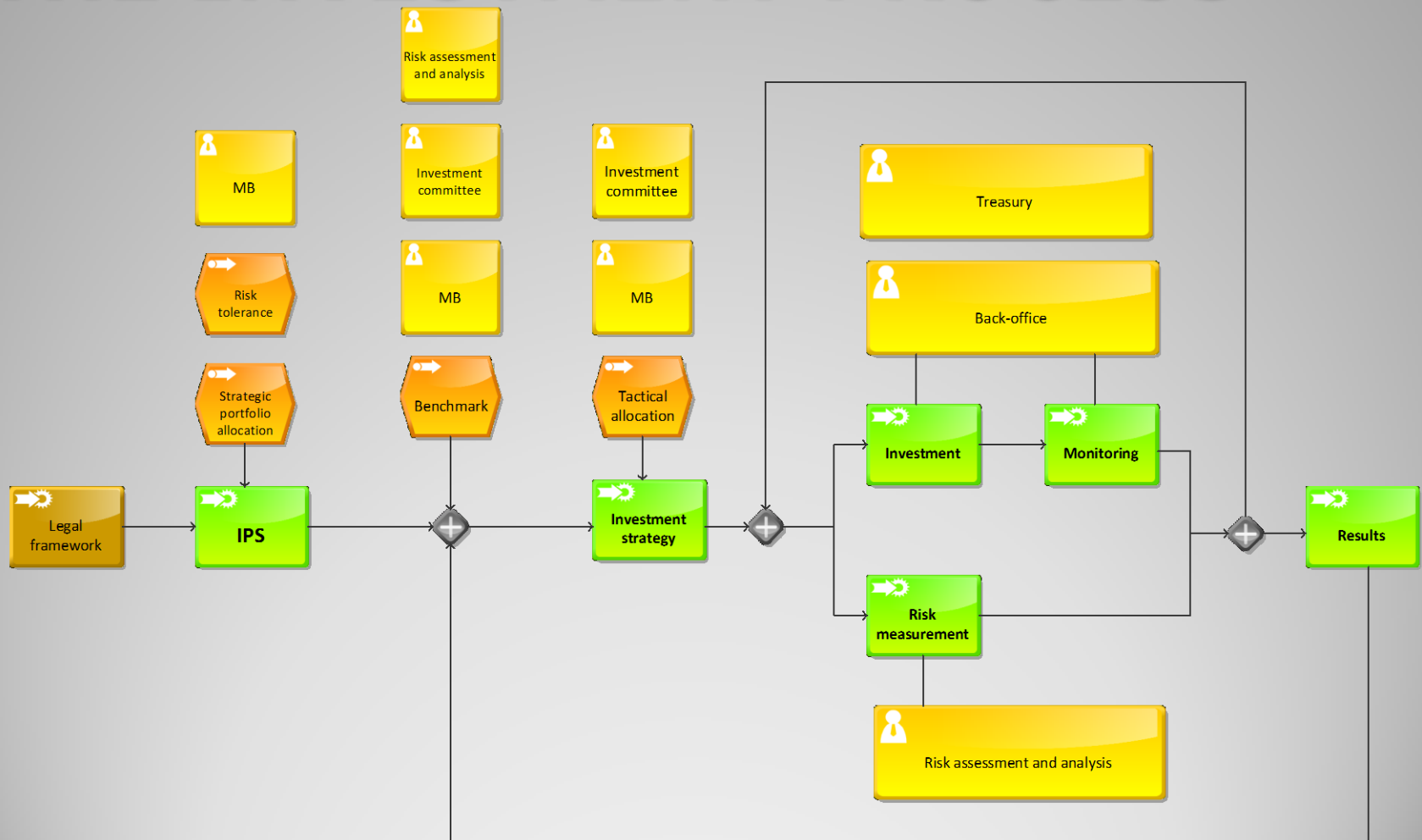
LEGAL FRAMEWORK

- Law on Bank Deposit Guarantee
- Internal Regulatory Framework
 - Investment Policy Statement (IPS)
 - Procedures for Investment Activity (PIA)
 - Investment Strategy (IS)
 - Procedures for Risk Management in the Investment Activities (PRMIA)
- Other, e.g. relevant ordinances of MoF and BNB

LEGAL FRAMEWORK (cont.)

- **Law on Bank Deposit Guarantee:** general principles for investment of BDIF funds and the universe of eligible instruments
- **Investment Policy Statement:** detailed investment objectives and constraints
- **Procedures for Investment Activity:** the responsibilities of different departments and staff members

THE INVESTMENT PROCESS



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ELIGIBLE INSTRUMENTS

- Securities issued or guaranteed by the government
- Short-term deposits (inc. repos) with banks
- Deposits with the Bulgarian National Bank

ELIGIBLE INSTRUMENTS (cont.)

- Assets under management as of Dec 31st, 2012 : BGN 1.58bln. (\approx EUR 808 mln.)
- Portfolio breakdown as of Dec 31st, 2012 :
 - By instrument: 47% bonds, 53% deposits with the BNB
 - By original maturity: 66% - up to 1 year, 28% - over 1 and up to 5 years, 6% - over 5 years
 - By currency: 61% BGN, 37% EUR, 2% USD

RISK MANAGEMENT

- Investment risks are managed within broader risk management framework: Risk Assessment and Analysis Dept.
- Set of limits specified in the IPS
 - On portfolio modified duration
 - On FX exposure
 - On the tenure of repos and deposits
 - On BDIF exposure to counterparties
- Haircut on Repo Collateral
- BDIF custodians – only primary dealers

REPORTING AND MONITORING

- Continuous monitoring and regular reporting of various measures and evaluation of portfolio performance
 - Weekly report – for the Chairperson
 - Monthly report – for all MB members
 - Information for general public disseminated monthly on BDIF website
 - Annual report – available on BDIF website and as a hard copy/CD
- Portfolio benchmark

POLICY IMPLICATIONS

- Broader view on DGS investment activities
- BDIF is integral part of the financial safety net. Cooperation with BNB and MoF
- Balance between BDIF independence and policy implications of its activities

POLICY IMPLICATIONS (cont.)

- BDIF investment activities affect the balance sheet of the Currency Board

CB Balance Sheet (BNB Issue department)	
1. Foreign reserves (FX, gold, securities)	1. Currency in circulation
	2. Liabilities to banks
	3. Liabilities to government (Fiscal reserve)
	3. Liabilities to other depositors (incl. BDIF deposits)
	4. Banking Department deposit

POLICY IMPLICATIONS (cont.)

- Large bond portfolio and limited instruments – effects on market in government securities, especially if BDIF will sell securities to raise liquidity
- Money market implications - as part of a larger package of measures BDIF ceased money market activities in 2004 in order to limit banks' liquidity and credit expansion
- BDIF may act as a lender of last resort if a solvent bank has temporary liquidity problems

FUTURE CHALLENGES

- Increase in total assets under management (in 2013 AUM will exceed 2% of GDP)
- Limited number of eligible instruments
- Changing market environment
- Portfolio structure may become less than optimal
- Need for a change in IPS
- Expand the universe of eligible instruments to include first-class foreign government bonds and top-rated supranational bonds
- EU framework and new DGS responsibilities



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Thank you for your attention

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