

Part Two

STRUCTURE AND ORGANIZATION OF THE OPERATION OF BULGARIAN NATIONAL BANK (BNB)

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Introduction

Implementation of a new stabilization macroeconomic program coordinated with the International Monetary Fund (IMF) commenced in April 1997 in Bulgaria, in result of which a Currency Board was established in the country on July 1, 1997. The legal framework for the establishment of the Currency Board were the Bulgarian National Bank Act and the Banks Act adopted in April through May, 1997.

The main objective of Bulgarian National Bank (BNB) is to maintain the stability of the national currency and to assist with the creation and operation of efficient payment mechanisms. BNB is the only institution in the country, which has the power to issue bank notes and coins, as well as to regulate and monitor the activities of the commercial banks in order to maintain the stability of the bank system.

The structure of the central bank was essentially amended by the new Bulgarian National Bank Act to create an appropriate basis for the operation of BNB both as a central bank and as a Currency Board. The process of passing resolutions both by the management of BNB and within its departments was actually influenced very much by different state authorities standing outside the system of BNB until the moment when the Currency Board was established in Bulgaria notwithstanding the independence of BNB proclaimed and guaranteed by the provisions of the Bulgarian National Bank Act, effective until May, 1997. According to its new structure BNB has three departments: Issue Department, Banking Department and Bank Supervision Department and each of them is given great independence both in respect of its operation as a whole and in respect of the process of passing resolutions.

The purpose of this report is to analyse the structure and the inner operation rules of the central bank and to provide recommendations for the necessary changes in the organization of BNB operation in order to improve the principles of its organization and its inner rules, as far as such changes are required by the changes in the situation under which it is working. This part includes an analysis of the structure and the inner operation rules of BNB, providing for the powers and obligations of its managing bodies, these of its departments and personnel, the procedure for passing resolutions and the information exchange within the bank and with bodies standing outside it.

I. Organizational Structure of BNB

Under the centralized economy the bank system was wholly state owned. There was only one state owned bank, which was the BNB with a very well developed network of branches. BNB was acting more as a controlling agent than as a central or commercial bank.

The legal framework for the operation of BNB as a typical central bank was enacted in 1991. It was the Bulgarian National Bank Act. The creation of a modern bank system in Bulgaria, as well as in all ex-socialist economies, related to a number of institutional and legal changes, including fundamental changes in the organization and responsibilities of the central bank.

The major task of the central bank is to maintain the stability of the national currency and to assist with the creation and operation of efficient payment mechanisms. The regulation and monitoring of the commercial banks' activities in the country are also within the powers of BNB. The purpose of its regulatory and supervisory functions is to maintain the stability of the bank system, which is very important for the normal operation of economy. BNB is the only institution in the country having the exclusive power to issue money.

BNB was and is still organized as a state institution, conducting activities typical for the state governing, and being such institution it issues administrative acts both of regulatory and of non-regulatory nature. BNB like almost all of the modern central banks has dual legal status - it is both a state organ and a civil legal entity. The bodies of BNB exercise governmental powers always when they issue governing administrative acts, addressed to persons outside the system of BNB (for example to banks and non-banking financial institutions). On the other hand BNB is entitled to execute agreements (not for profit) when implementing its major tasks and functions.

Since April 1, 1997 the organizational structure of BNB consisted of Plenary Board, Managing Board, Governor, 3 Deputy Governors and 12 departments. The scheme of Bank's organization was two-tier system, consisting of departments and divisions with specific functions. These departments were Issue Department, Bank Supervision Department, BG Lev Operations Department, Currency Operations Department, International Cooperation Department, Legal Department, Economic and Monetary Analysis Department, Public Relations Department, Governmental Loans Department, Accounting Department, Information Technologies Department, Safety Department, as well as Special Activities Service, Personnel Management Service, and the services subordinated to the Chief Secretary, as follows: Common Office, Capital Construction, Maintenance and Servicing, and Automobile Transport. The Chief

Economist, the Chief Cashier, the Chief In-house Legal Counselor and other counselors operated independently. The Chief Auditor and the Inner Control Service were subordinated directly to the Managing Board.

In the course of the process of preparation and establishment of the Currency Board it became clear that the current structure and the organization of BNB operation was not adequate to the new requirements. Simultaneously with the enactment of the new Bulgarian National Bank Act a process of restructuring of the central bank commenced, as its new purpose was to exercise the functions both of a central bank and of a Currency Board.

The main issues and challenges, which BNB faced with in the process of its restructuring may be defined as follows:

- bureaucratic management process;
- unreasonably large number of the Bank personnel. The Parkinson's rule, defining the principle of increase of a state organization personnel, saying that "A clerk strives to increase the number of its subordinates but not of its competitors; and what is more the clerks always make each other busy." to a certain extent explains the process of increasing of BNB personnel during the last years, from 1989 to 1997 (from 300 employees in 1989 to 1 300 employees in 1997) and the reasons for the increase.
 - improper levels of power, created in the bank;
 - misuse of the collective responsibility figure and avoiding the responsibility of taking decisions solely. Avoiding the passing of resolutions and the personal responsibility is very popular at the middle level of the management structure;
 - not well enough defined competence and responsibilities of the particular divisions and of the different employees. It is a fact that the more unclear is the technology of doing any activity, the more difficult is to find whether the clerk is doing its job well or not;
 - fragmentation of important functions among different divisions of the bank;
 - overlapping of functions and duplicating the efforts of the different bank divisions. This sometimes results in paradox differences in the results from one and the same activity, performed by two different divisions because of lack of clearness who is responsible for its performance;
- inadequate rules for information exchange and insufficient use of the available information due to a great extent to the exclusively expanded definition of bank and official secret in resulting in the impression of extreme secrecy of the BNB operation. Taking in consideration the new conditions, that BNB is working under, providing of enough transparency

and predictable acts of BNB, in relation with the safety and stability of the currency board mechanism operation, is obligatory required.

One of the challenges BNB faces with in the course of the optimal restructuring of its thorough activities is the best solution of the issue relating to the bank management and especially to the rights and obligations of the central bank managing bodies. Generally it is considered that the management structure of the central bank is to a great extent dependent on the fact whether the government or the legislature are able to influence BNB operation and what is the extent of such influence.

As far as the implementation of the functions and tasks of the central bank and the maximum guarantee to the successful and efficient operation of the currency board are concerned a clear definition of the responsibilities for passing management decisions is required. It is very important when considering the future ability of BNB to respond adequately to different situations, requiring intervention on the part of BNB.

The central bank restructuring commenced right after the enactment of the new Bulgarian National Bank Act on June 5, 1997. Pursuant to the legal requirements three main departments were established - Issue Department, acting in fact as a Currency Board, Banking Department and Bank Supervision Department, which performs the functions typical for a central bank: a lender of last resort for the commercial banks; and regulation and monitoring of the bank system. All of these three departments comprises different divisions and sections. The two-tier organizational scheme, which existed until the present moment, consisting of departments and divisions, was transformed into a three-tier system consisting of departments, directorates and divisions. The structure of the central bank at the present moment creates an impression of additional fragmentation of the competence of the particular bodies of the bank. We have to mention that the Bulgarian National Bank Act provides for only three main departments, and the power to create additional departments is given to the Managing Board. This is an important power which has to be used in the future with regards to the further optimization of the central bank structure and the increase of the efficiency of its operation.

In compliance with the new constrains, imposed by the Currency Board the some of the leading departments in the Bank together with the Plenary Board (which had mostly common functions and defined the main outlines of monetary and credit policy of BNB) were abandoned. These were the BG Lev Operations Department and the Currency Operations Department, which became useless in result of the fixing the currency exchange rate of the Bulgarian lev against the German mark and the cancellation of the ability of BNB to carry out active monetary policy

through intervention on the free monetary market and on the currency market, as well as through free refinancing of the commercial banks. The other departments (for example Information Technologies Department, International Cooperation Department, Public Relations Department, and Safety Department) were transformed into services. The former Economic and Monetary Analysis Department was transformed into two divisions within the Banking Department, which currently are the Statistics and Operative Analyses Division and Strategic Research and Prognoses Division, which should bring about more narrow specialization of the analysis, performed by the bank and respectively should increase its practical and prognostic value. New units have been created within the different departments with regards to the new functions of the respective departments. The number of the divisions subordinated to the Chief Secretary increased substantially. It resulted from subordinating of divisions which were formerly under the direction of the three Deputy Governors or existed as independent units under the direct administration of the Governor, to the administration of the Chief Secretary. The former Government Loans Department was transformed into Fiscal Services Department, consisting of two divisions: Depository of Governmental and Government Guaranteed Debts and State Budget Cash Flows Management and Prognoses.

The organization and the functions of the particular departments of the Bank will be discussed in details herein below.

Taking in consideration the reality we can not consider the development of BNB completed in the aspect of its organization with the restructuring of the Bank and to expect that it will operate unchanged in the future. We have to mention the fact that the new structure of the Bank at the present moment is subject to official secret and the access to it is limited even for the Bank's personnel. A great part of the BNB personnel is not aware of the Bank's structure and of the structure of the different departments. The motives for such secrecy are not very clear but obviously the reason is that the process of restructuring has not been completed yet.

II. Managing Bodies of BNB

Pursuant to the new Bulgarian National Bank Act the managing bodies of the Bank are the Managing Board, the Governor and the three Deputy Governors, who are in charge of the three main departments of BNB - Issue Department, Banking Department, and Bank Supervision Department. The managing bodies of BNB pursuant to the preceding law were the Managing Board, the Plenary Board, and the Governor. Should the structure of the bank before the establishment of the Currency Board be compared to its present structure the new thing is the managing powers of the three Deputy Governors and the dropping out of the Plenary Board.

This means that the Governor and the three Deputy Governors are members of the Managing Board but alongside they are independent officials having their own powers differing from those of the Managing Board. For example the Governor of BNB is entitled to revoke the license of a commercial bank for conducting bank activities on the grounds of a proposal submitted by the Deputy Governor in charge of the Bank Supervision Department, as the decision of the Governor may not be appealed. The delegation of governing powers and of powers to pass resolutions solely to the Governor and to the Deputy Governors requires assuming of personal responsibility for the passed resolutions on their part. This makes the process of passing resolutions more flexible and gives better opportunities to the Bank to react in case such reaction is necessary. Such opportunity did not exist under the former structure of the bank where the principle of collective management was widely used and this resulted in concentration of the management decisions within the competence of the Managing Board. It is difficult to claim personal liability for a wrong decision having adverse impact on the Bank's operation and on the bank system as a whole in a system of collective management. This is evidenced by the fact that notwithstanding all reproaches to the preceding management of the central bank with regards to the crisis in the bank system during 1996-1997 no personal liability was claimed in respect of any of the members of the Managing Board, who participated in passing of the respective resolutions.

1. Managing Board

1.1. Structure of the Managing Board

The Managing Board is the supreme collective managing body of the Bank. It consists of seven members: the Governor, the three Deputy Governors and three other members, which are not in charge of operation activities in the central bank. For comparison the Managing Board before consisted of nine members: the Governor, three Deputy Governors and five chiefs of departments in the Bank. Generally it is considered that the constraints on some of the functions of the central bank, which acts as a Currency Board, decrease the number of the necessary managing personnel. The possible favorable effect from the decrease of the members of the BNB Managing Board is **concentration of responsibility in less number of Board members** and ensuring of more flexible process of passing resolutions.

The number of the members of the managing body differs among the different central banks and depends on the specific objectives and tasks to be achieved by the Bank, as well as on its organizational structure as a whole. For example the Board of Directors of the English central bank consists of 19 members while in the USA the Board of Directors of the Federal

Reserve System consists of 7 members. The Board of Directors of the central bank of Brazil consists of the Governor of the Bank and six directors, who are in charge of administration, supervision, international relations, financial system regulation, economic policy and monetary policy respectively. The number of the Board of Directors of the central banks, operating under currency board-like systems differs in the different banks. In Argentina for example the main managing body of the central bank is the Board of Directors, consisting of 10 members - Chairman, Vice President and eight directors. In Lithuania the Board of Directors of the central bank consists of 14 members - Chairman, three Deputy Chairmen and ten members.

A typical characteristic of the Managing Board of BNB as a supreme collective managing body (pursuant to the previous and under the current legal framework) is that the Board is formed by two state institutions - the National Assembly and the President, which makes this body to a certain extent stable (even in theory) from the point of view of the opportunity for foreign political influence. The National Assembly appoints the Governor of the central bank and elects the Deputy Governors proposed by him/her. The other three members of the Managing Board are appointed by the President.

1.2. Restrictions

Pursuant to the provisions of the Bulgarian National Bank Act the Governor and the Deputy Governors may not perform any other activities against payment and the members appointed by the President may not work effectively in BNB, in any bank or in the governmental system. These restrictions are provided for in order to avoid any influence from outside the Bank on the operation of the Managing Board and to protect the process of passing resolutions from affecting by any particular interests. In most of the countries the law prohibits to the members of the Board of Directors of the central bank **to occupy any positions in banks and other credit institutions for a particular period of time after the termination of their participation in the management of the central bank**. The restrictions are much more severe in respect of the members of the Board of Directors of the Federal Reserve System, which may not hold any shares and stakes in other commercial banks and credit institutions. These restrictions are usually imposed in order to avoid the “temptation” to use specific inner information, which more of the participants in the management of the central bank have access to.

There are no restrictions as of the present moment regarding the members of the Managing Board of BNB depriving them of the ability to start working in a commercial bank right after they leave the position they occupy in the central bank. The only restriction provided for by the Rules on the Activities of the Managing Board of BNB is the obligation of the

members of the Board to not share to third parties and to not use for the purpose of taking personal advantage the information and facts, they have access to, during the term of their office and after its expiration. However it is not clear to what period of time after the expiration of the term of office this restriction shall apply, what are the mechanisms which guarantee that an ex member of the Managing Board of BNB will not take advantage of the information he/she has worked with, how such *mala fide* advantage may be evidenced, and what are the sanctions in case of a acknowledged infringement of the aforementioned restrictions. Taking in consideration that the members of the Managing Board have access to an extremely wide range of information, which may be subject to serious interest on the part of third parties, as well as the fact that they participate in the discussions and solving of almost all important issues, relating to the activities of the central bank and concerning directly or indirectly persons outside the system of BNB it is advisable to think about developing of better and reliable protections clauses, which may be included in the Rules on the Activities of the Managing Board of BNB or in any other regulation on the BNB activities.

A new positive solution in the legal framework for the activities of BNB Managing Board is the restriction to the members of the Board not to participate in discussions on certain matters and in voting on certain resolutions in case they or the members of their families are interested in such matters and resolutions. Such protection clauses are world-wide practice and are provided for in almost all constituent acts, regulating the activities of the particular central banks. For example in Lithuania the participation of the members of the Bank Board of Directors in voting on certain resolutions concerning their commercial interests and the interests of their families is restricted. Such commercial interests exist always when the Board members of the Bank are shareholders and/or members of the managing bodies of credit institutions or in any other type of company, as well as always when they are owners or co-owners of a commercial company.

1.3. Term of Office of the Managing Board

The term of office of the members of the Managing Board of BNB is six years while in the former Managing Board the team principle existed to a certain extent, that is the term of office of the Managing Board depended on the term of office of the Governor. However the new Bulgarian National Bank Act introduced the rotation principle for the Board members. This principle was initially applied by appointment of the current Board members for different periods of time. The Governor of the Bank and the Deputy Governor in charge of the Issue Department (acting as a Currency Board) were appointed for a period of 6 years. The Deputy

Governor in charge of the Bank Supervision Department was appointed for a period of four years, and the Deputy Governor in charge of the Banking Department was appointed for a period of two years. The initial term of office of the other three members of the Board is one, three, and five years respectively, as the term of office of each of them is specified by the act of their appointment. The rotation principle for the members of the Board of Directors of the central banks is also used world-wide and to a certain extent is a kind of protection mechanism against the coincidence of the term of office of the managing body of the Bank with certain political cycles. Moreover the periodic replacement of the managing officers of the central bank puts the emphasis on the significance and the image of the Board of Directors more than on the persons who are its members. For example one third of the members of the Board of Directors of the central bank in Lithuania is replaced every three years. The term of office of the Board of Directors of the Federal Reserve System is fourteen years, and the term of office of its member is so arranged that each second year one member of the Board is replaced. In this way the President who appoints the Federal Reserve Board members and whose term of office is eight years at most may appoint no more than four of the seven members. It is considered that this scheme ensures that no one President shall be in a position to exercise improper control over such an important determinant of the economic policy of the country as the central bank.

A new item within the organization principles of BNB is expanding of the reasons for pre-term termination of the term of office of the Board members. The preceding Bulgarian National Bank Act ensured practical irremovability for the members of the Board as the law provided for pre-term termination of their term of office only in the explicitly defined cases, as follows: conviction for malicious indictable offence and inability to exercise their functions for more than one year. Both reasons were not dependent on the will of the particular person and the body which had appointed him/ her was not entitled to dismiss such person at its own discretion. Hypothetically a person was allowed to leave its position pre-term in the case of resigning from office but it was not a reason explicitly provided for in the law. The respectively long term of office of the members of the Managing Board together with their practical irremovability created the grounds for passing resolutions without assuming the liability for them. The provisions of the new BNB Act expand the reasons for pre-term termination of the term of office of BNB Board members. These reasons may be classified in two major groups:

1. Reasons for pre-term termination of the term of office of a member of the Managing Board which are not subject to the discretion of the body which has appointed him/her. These reasons are as follows:

- resigning from office;
- actual inability of the particular person to fulfill his/ her obligations for more than six months. The legally provided period of time is decreased compared to the one year term, pursuant to the provisions of the preceding law;
- a member of the Managing Board is proclaimed bankrupt as a sole trader or as an unlimited partner in a commercial company/ partnership;
- a member has been a member of managing or supervisory body of a company dissolved because of bankruptcy.

2. Reasons for pre-term termination depending on the actions of the particular person or termination subject to personal judgment. Such reasons are as follows:

- it is acknowledged that a member performs other activities against payment in case he/ she is a Governor or Deputy Governor of the Bank or that a member performs other activities in BNB or works in another bank and/or in the governmental authorities, should such person be a member appointed by the President;
- a member of the Managing Board does not attend three or more meetings of the Managing Board without any serious reason (however the mechanism of evaluation the particular reason is not clear);
- serious infringement of its official obligations;
- an act or omission of a member of the Managing Board which is not in compliance with the tasks assigned to the central bank;

These comprehensively enumerated reasons actually abolish the principle of irremovability applied to the members of BNB Managing Board from 1991 until the middle of 1997. In this way prerequisites for assuming personal responsibility by each particular member of the Managing Board for his/ her acts and deeds are created. In order to stimulate the process of assuming personal responsibility the cases in which the above listed reasons for pre-term termination of the term of office of a member of the Managing Board may be applied should be explicitly provided for to avoid any opportunity of unreasonable personal judgment (mostly political) in evaluating the seriousness of any breach of the official obligations of a Board member.

1.4. Competence of the Managing Board

The Managing Board of BNB is an body authorized to apply mechanisms influencing to a great extent not only the financial branch in the country but the whole economy as well. Until the enactment of the new BNB Act and the establishment of the Currency Board such powers as discussion and resolving on the national monetary and credit policy, issue and revocation of licenses for performing bank activities, regulation of bank activities, etc., important for the whole economy, were within the competence of the Managing Board of BNB. In fact the Managing Board was the collective body which was the only one body entitled to pass final resolutions on almost all important matters concerning the operation of the Bank. Taking in consideration the new conditions imposed by the application of the Currency Board mechanisms, the restrictions set on the free monetary policy, and on the manipulation of the money supply respectively by the central bank, the powers of BNB Managing Board have been also constrained. On the other hand some of the powers of the Board, such as the issue and revocation of licenses for conducting bank activities for example, have been transferred to the other managing bodies of the Bank - the Governor and the three Deputy Governors. The power of the Managing Board to specify the type of securities which may be used as a security interest and the terms and conditions under which they may be pledged, was canceled because of the new conditions.

At present the competence of the Managing Board of BNB pursuant the Bulgarian National Bank Act and to the Rules on BNB activities comprises two major groups of powers:

1. The first group includes powers which to a certain extent influence the situation of the financial sector and the economy of the country. The Managing Board has the following powers in this respect:

- to discuss and resolve on the monetary and credit policy implementation;
- to fix the percentage of the minimum required reserves to be held by the banks and to approve the conditions and requirements for their fulfillment;
- to specify the terms and conditions of BNB activities as a lender of last resort in respect of the commercial banks;
- to enact regulations on the bank activities;
- to resolve on the issue of money (specifying the nominal value, contents, form and design of the bank notes and coins, which are issued by BNB) and to withdraw money from circulation;

- to determine the methodology of calculation of the central bank interest rate for a particular period of time;
- to specify BNB terms and conditions of deposits made by the government, the municipalities, the commercial banks and the international financial institutions;
- to organize and manage the settlement system in the country;
- to prepare the balance of payments of the country;
- to organized the cash implementation of the state budget;
- to resolve on BNB activities as an agent of governmental debts and government guaranteed debts, as well as on providing of loans to the government against purchase of special rights of bonds issue;
- to specify BNB terms and conditions for safe keeping of precious metals, securities, and other valuables.

2. The Managing Board has also specific inner organizational powers in respect of the central bank management. The Board of Director's competence in this aspect is as follows:

- to outline the major aspects of its activities;
- to enact regulations on BNB activities, including the inner rules on the bank operation. The interpretation of the regulations and decrees enacted by BNB is also within the competence of the Managing Board. The following inner regulations are provided for to be drafted and enacted by the Board:

- Regulations on Managing Board' Activities (enacted October 9, 1997);
- Regulations on the Structure, Specific Functions, and Responsibilities of the Departments and Divisions in BNB, the Relations between them, and the Competence of the Managing Officers. In fact these Regulations should lay the grounds for the efficient operation of the central bank, for maximum utilization of its potential abilities of exerting influence and of its human resources, as well as to assist with overcoming of the above listed problems, which the institution faces with in the course of its restructuring. The regulation should define very strictly the levels of power and the relations between the particular units in the Bank, the responsibilities of the structural units and of the particular employees of the Bank. Under the current organization of BNB operation a management system providing for clear distribution of responsibilities to take management decisions among the persons in charge of the particular units of the Bank (especially at the middle level of management) has to be established in the Bank.

Practice shows that avoiding of concrete management decisions and not assuming the responsibility for them is most often observed at such middle levels of management. A scheme of promotion the Bank employees' efficiency should be worked out by strictly defining the objectives and tasks of the unit they work into and of the position they occupy;

- Regulation on the Implementation of BNB Act;
 - Regulation on the Form and Contents of the Consolidated Balance Sheet of BNB and the Specific Balance Sheets of Issue Department and Banking Department;
 - other inner rules.
- to resolve on amendments to the Central Bank structure, on establishment of new departments and divisions, on introducing and abolishment of certain activities;
 - to specify the salary of BNB employees;
 - to specify the rules for signing of documents originating from BNB and for BNB documentation circulation, as well as the rules for the access to the special BNB archive and the contents of the documents belonging to it;
 - to open and close branches and representative offices of the Bank;
 - to determine the interest rates, fees and commission rates, collected by BNB;
 - to specify the mechanism of treatment the bad debts of BNB as losses;
 - to resolve on the establishment of special purpose funds;
 - to approve the annual report of the Bank, the periodic reports of the three major departments, the annual budget of the Bank, and its Balance sheet;
 - to appoint and dismiss the Chief Auditor of BNB, to elect the International Auditor of the Bank;
 - to specify the rules for acquisition of real estates by the Bank and for execution of lease agreements;
 - to resolve on the participation of BNB in international organizations and in the events organized by them, as well as on the participation in companies and on the execution of agreements whose value exceeds BGL 100 million;

We have to mention that the list of the powers of the Managing Board provided for in the law and in the regulation on its implementations is not exhaustive, which means that the Board may also resolve on any other matters subject to the Board judgement as far as they relate to the management and the activities of the Bank. The Managing Board may seize some of the

powers of the Governors and of the three Deputy Governors and to resolve on matters which are generally within their competence. It is obvious that the powers of the Managing Board are very wide. Regarding some of them it is much more appropriate to transfer part of these powers to the other managing bodies of the Bank - the Governor and the Deputy Governors taking in consideration the necessity of more flexible management process and avoidance of the slow and bureaucratic procedures for passing resolutions by the Managing Board (providing for submission of a written report and proposal for each particular resolution, reasoning of the proposal, convocation of a meeting, voting, ext.). In this way the central bank would be in a position to react fast and adequately, whenever such reaction is required. However the BNB Act does not provide explicitly for the right of the Managing Board to delegate some of its powers to other bodies of the Bank. This is an example for the inherited inertia of collective responsibility typical for the organization of the central bank operation before the establishment of the Currency Board.

For example the delegation of some of the functions, relating to the management of the Bank, to a Committee consisting of part of the Bank's Directors is provided for in respect of the Central bank of England. Such functions for example are those relating to the control over financial management of the bank and the inner financial control. In Argentina the managing powers and the inner organization powers of the Board of Directors are clearly defined and separated from the powers relating to ensuring the implementation of the functions and objectives of the Bank. The General Manager has the power to resolve on matters which generally are within the competence of the Board of Directors under extraordinary circumstances and in case of emergencies. The overall management of the central bank of Argentina is within the competence of the so called Deputy Managers, who are in charge of ensuring the proper implementation of the rules, regulations and decrees enacted by the Board of Directors and its Chairman. They have the power to issue inner rules on the operation of the bank when necessary. This makes the process of management of the central bank to a certain extent flexible and the acts of its units - adequate.

1.5. Procedure for Passing Resolutions by the Managing Board

The Managing Board of BNB is a collective body with regards to its members and the procedure for passing of its resolutions. The procedure provided for passing of its resolutions makes the Managing Board a comparatively operative body, which is able to pass resolutions to a certain extent fast when necessary. The Managing Board may hold a meeting should more than a half of its members attend it. This means that a meeting may be held with four of the seven

members of the Board attending. A resolutions may be passed by majority of the attending members but with no less than four affirmative votes. That is should four members attend the meeting (which is the minimum quorum required) resolutions may be passed unanimously. Such restriction did not existed in respect of the procedure for passing resolutions by the Managing Board before the establishment of the Currency Board when a meeting of the Board could be held should five of the nine members attend and a resolution could be passed by three affirmative votes of the five members attending.

At present the Managing Board may pass also non-attending resolutions as far as such resolution is well reasoned by the proposing member and all the members sign the Minutes for the resolution. This makes the procedure for passing resolutions much more operative.

Each member of the Managing Board is entitled to submit particular matters to the Managing Board for discussion at its meetings as far as he/ she may reason economically his/ her project and point out the source of funds from the BNB budget for the project financing. The discussions are not *in camera* compulsory, that is employees of the Bank, which are not members of the Managing Board may take part in such discussions.

The members of the Managing Board and any officers specified by an Order of the Governor may receive copies of the Minutes of the Managing Board' resolutions.

The employee in charge of the implementation of a particular resolution of the Managing Board is informed about the resolution and about the term for its implementation by the Secretary - record keeper, who is in charge of controlling such implementation and reporting it to the Governor or to the respective Deputy Governor.

2. Governor

The Governor of BNB organizes, manages, and controls the Bank activities, except those which are explicitly delegated to the Deputy Governors, and represents the Bank in the country and abroad. From a legal point of view the Governor of BNB is the most apparent evidence for the dual legal status of BNB being both an administrative body and an body of a legal entity. The reason is that on one hand the Governor has **exclusive powers in the capacity of a governmental body** (he/ she issues governing regulations addressed to persons standing outside BNB) and on the other hand he/she is a representative of the Bank in the country and abroad, **expresses the will of BNB as a legal entity** and is authorized to execute agreements on behalf of the central bank. A typical power of the Governor in the capacity of an administrative body is the power to issue and revoke licenses for conducting bank activities on the grounds of a proposal submitted by the Deputy Governor in charge of the Bank Supervision Department, as

well as to refuse the issue of a license on the grounds of reasons, which are strictly provided for. The right of the Governor to take decisions solely and to issue individual administrative acts means that he/ she personally assumes the liability for such decisions and on the other hand may be more flexible in the process of taking such decisions, avoiding the slow procedure for passing collective resolutions.

The Governor of BNB in the capacity of an body organizing and managing the BNB activities has the following powers:

- to convene the meetings of the Managing Board, and to appoint the date, time and place of holding such meetings;
- to specify the agenda for the meetings of the Managing Board;
- to preside the meetings of the Managing Board;
- to specify the persons who are entitled to receive copies of the Minutes of the Managing Board' meetings and to give permissions for receiving copies and extracts from the Minutes;
- to consider and order the announcement of the resolutions passed by the Managing Board;
- to submit to the Managing Board the annual budget of the Bank and the Report on the Implementation of the Budget for the Previous Year, the annual Balance Sheet and the annual Report on BNB Activities, which is presented before the National Assembly;
- to appoint the employees of the Bank. In relation with this power it is reasonable the Governor to have the power to impose discipline punishments in the case of a breach of official obligations or to provide incentives to the employees who have shown excellency in their work;
- to coordinate the work of the Deputy Governors and of the divisions and sections they manage (Fiscal Services Department, the Chief Secretary, and the divisions and sectors he/ she is in charge of respectively, the Office of the Managing Board, the Chief In-house Legal Counsellor, and Protocol and Press Centre Section);
- to determine the structure and the staff of the offices which assist him/ her and the Deputy Governors in its activities. These offices are under the direct administration of the Governor and of the respective Deputy Governor;
- to determine the structure and the staff of the Office of the Managing Board, which assists the Managing Board in conducting its activities;

- to administer and control the organization of the activities relating to the execution of and operation with documents in BNB;

- other powers which are not assigned to the Managing Board and to the Deputy Governors by the law or other regulation;

It deserves to be mentioned that in comparison with the situation before the establishment of the Currency Board the Governor does not have any more a casting vote in the case of equality of the votes of the Managing Board' members.

It is possible the Governor to authorize other officers in BNB with the right to exercise part of his/ her powers. Moreover the Governor may establish certain consulting committees to assist him/ her with the implementation of his/ her functions.

3. Deputy Governors

The three Deputy Governors, in charge of the Issue Department, Banking Department, and Bank Supervision Department respectively, are managing bodies of the Bank and in this capacity they have particular powers regarding the organization and management of the operation of the three departments. At the same time they are **personally responsible** for the results from the operation of the departments they manage. In addition to the inner organization powers the Deputy Governors have also the capacity of governing bodies because they may undertake activities which directly concern persons standing outside the central bank. This is valid mostly for the Deputy Governor in charge of the Bank Supervision Department, who has the power to apply certain affecting measures and to impose sanction on the commercial banks and on the non-banking financial institutions.

We have to mention that except the competence provided for in the law, the Deputy Governors may perform activities for which they are authorized by a decree or a regulation, issued by the Managing Board of the Bank. Probably this should be made by virtue of the Regulation on the Structure, Specific Functions, and Responsibilities of the Departments and Divisions of BNB, the Relations between them and the Competence of the Managing Officers.

III. Organization and Functions of the Departments and Divisions in BNB

1. Issue Department

The Issue Department consists of the former Issue Department and Currency Operations Department in the part related to the management of the currency reserves.

Actually the Issue Department acts as a currency board notwithstanding the fact that it is not formally independent from the central bank. In this capacity the department is authorized with the following competence:

1. to maintain full currency coverage of the money basis, which means the power to issue money, which are entirely convertible in a foreign “reserve” currency at a fixed exchange rate;

2. to provide full coverage of this money by maintenance of 100% currency reserves;

3. for the purpose of providing full currency coverage of the money basis the Department as a whole and especially the divisions incorporated in it have to manage the international currency assets of the Bank most properly (including to acquire, invest and sell such assets);

4. to buy and sell without any limitations German marks for BG Levs at fixed rates: “buy” rate 995 BGL/DEM and “sell” rate 1000 BGL/DEM. The margin between “buy” and “sell” rates comprises the fees, commission rates and other costs charged by the bank, which are borne by the client exchanging the currency;

5. Besides the above listed powers the Issue Department has the power to perform the necessary activities in relation with putting money into circulation and withdrawing money from circulation. With regards to this power the Department performs the following:

- the printing of new bank notes and the minting of coins;
- the safe keeping of money, which are not put into circulation and of those, which are withdrawn from circulation, but are not destroyed yet;
- control over the process of withdrawing money from circulation and their exchange or payment at their nominal value respectively;
- research on the needs for bank notes and coins in circulation;
- monitoring of the exchange of bank notes and coins within the money circulation and regulation of their lot structure.

6. The Inter bank payment system and the servicing of the budget accounts are also within the competence of the department.

The main functions of the Issue Department specify its organizational structure. There are an Issue and Cash Division and three services - Investment and Market Operations Service, Control and Accounting Service, and Liquidity Service within the department.

1.1. Issue and Cash Directorate

The Issue and Cash Directorate incorporates the Chief Cashier, six sections with particular sectors within them, the Printing Facility and the Treasury, as well as the branches of BNB in Bourgas, Varna, Pleven, Plovdiv, Rousse, Haskovo, Vratza, and Blagoevgrad (the last two branches still do not operate). The structure of the directorate reflects the typical issue activities of the central bank, as well as the activities relating to exchange of BG Levs for German marks. The latter are implemented by Cash Operations Division, including Leva Cash Operations Section, and Forex Cash Operations Section and Gold Operations Sections.

The issue activities: the printing of bank notes and the minting of coins, putting them into circulation and withdrawing of money from circulation are assigned to the following sections: Central Cashier Division, Banknote and coin production control Division, Currency Issue Operations Division, Development and counterfeit Division, and Cash Technology and development Division. The Central Cashier Division comprises the Custody Section, the Banknote destruction Section, and Transport Section.

Banknote and coin production control Division consists of a Banknote production Section and Coin production Section respectively.

The Currency Issue Operations Division has two main functions - prognosis and administration of the current money circulation and cash control, which are performed by the respective sectors in charge of performing these functions. The sections New payment instruments and Banknote Authenticity are incorporated in the Development and counterfeit Division. On the other hand the New Technology Section and Maintenance Section are within the Cashier Technology and Development Division.

1.2. Treasury

The major task of the Investment and Market Operations Division as well as of Control and Compliance Division and Liquidity Division is to maintain 100% currency coverage of the money reserve and to manage the international assets of the Bank, including foreign currency in cash and foreign currency deposited in bank accounts, monetary gold, foreign securities listed and traded on the stock exchange, and account receivables from interests accrued, as well as to service the budget accounts, the current accounts of the commercial banks and other accounts, included in the Issue Department liabilities.

The activities assigned to Investment and Market Operations Division are performed by a Chief Trader and four traders, two assistants and a programmer, united in Trading Section, and by two experts united in a Market Research Section. The four experts in the Market and Credit

Control Section and in the Compliance and Reporting Section respectively belong to the staff of the Control and Compliance Division.

The structure of Liquidity Division comprises Cash Flows Section, Settlement and Transfers Section, Liabilities and Payments Section, and Corresponding Banking Section.

2. Banking Department

The Banking Department is an integrity of the former BG Levs Operations Department and of the former International Cooperation Department, Economic and Monetary Research Department, and Accounting Department. Its major task is to perform the functions of a lender of last resort in case of a system risk threatening the stability of the bank system. The activities of the department are as follows:

1. to extend loans in BG levs to reliable banks having temporal liquidity problems for a period not exceeding three months should there be a system risk in the bank system and the loan be fully secured by gold, foreign currency and other easy-to-sell assets. It is important to take in consideration the fact that the amount of a loan extended by the Department may not exceed the amount of the bank's deposit in the Issue Department;

2. to analyze the condition of the commercial banks;

3. to organize and apply the requirements for minimum reserves, which the banks have to maintain in BNB.

4. to monitor the status of the of the legal tender system and of the financial markets as an indicator of the liquidity of the bank system.

5. to maintain the contacts of BNB with IMF and with other international financial institutions, including to service IMF loans and those extended by the international financial institutions;

6. to perform operations relating to the cash implementation of the state budget.

7. to prepare the balance of payments of the country.

8. to prepare analyses and money statistics.

9. to manage the account receivables of the Bank from the government and from the commercial banks.

The functions of the Department determine its organizational structure. Banking Department consists of five equal directorates, subordinated to the Deputy Governor.

International Cooperation Directorate

is authorized to conduct activities relating to the maintenance of the Bank's contacts with IMF and with the international financial institutions. In this aspect the Directorate should monitor and control the cash flows from and to foreign countries, including those relating to agreements with international financial institutions. The directorate has two sections - International Financing and Financial Projects Division and Integration and Cooperation Division.

Relations with Commercial Banks Directorate

is in fact dealing with analyzing the condition of the bank system and of the financial markets, performs the functions of a lender of last resort, which are within the competence of the Department, controls the compliance with the minimum obligatory reserves requirements. For this purpose the following sections are formed on functional terms in the Directorate: Account Receivables from Commercial Banks, Minimum Required Reserves and Financial Markets Division, Analysis of the Banks' Condition Division, and Methodology of Accounting Division.

Chief Accounting Directorate

consists of BG Levs, Currency, Issue and Cash Operations, and Government Securities Division and Operations in Relation with the Cash Implementation of the State Budget and Inner Accounts of BNB Division.

The structure of the Department comprises two research directorates, which were united into the Economic and Monetary Research Department according to the former structure of the Bank. Taking in consideration the names of the divisions and the sections incorporated in them their separation would bring about specialization of the analyses, which are made by these directorates.

Statistics and Operative Analyses Directorate

consists of the following divisions: Monetary Statistics and Analyses Division and Balance of Payments and Foreign Debt Division. The latter performs the operations relating to the preparation of the balance of payments of the country.

Strategic Research and Forecasts Directorate

comprises two sections - Research and Forecasts Division and Scientific Information and Library Division.

3. Bank Supervision Department

The main function of Bank Supervision Department is to regulate and control the activities of the commercial banks in the country for the purpose of maintaining the stability of

the bank system and protection of depositors' interests. In relation with this the efforts of the Department are directed towards supervising the compliance with the law provisions on one hand and on the other with the regulations providing for the requirements for conducting bank activities enacted by the central bank. This supervision over the quality of the thorough regime of conducting commercial bank activities is a typical function for a governing body.

The world banking practice recognizes different forms of bank supervision:

1. The bank supervision is entirely within the competence of the central bank and represents a separate unit of its structure.

2. The bank supervision is within the competence of a special institution outside the structure of the central bank. For example in Germany the bank supervision is performed by the Federal Reserve Service - an independent institution, which is not within the system of Bundesbank. On May 6, 1997 in England a new legal framework for the activities of Bank of England was enacted, pursuant to which the bank supervision was transferred from the central bank to a so called Securities and Investments Board. This is considered an important step toward establishment of an independent supervisory body, which exercises control over all participants on the financial markets.

3. The supervision is assigned to an body within the governmental authorities, which most often is the Ministry of Finance (such is the practice in Austria for example).

Notwithstanding the great number of discussions on the position of the bank supervision in Bulgaria the bank supervision is still organized as an unit within the system of BNB. In fact the supervisory bodies in other countries having a central bank, which acts in compliance with the Currency Board principles, do also have the same status. In Argentina the supervision over the bank system is performed by a decentralized agency, subordinated to the central bank and under the direct administration of the Manager of the Bank. In Lithuania the supervisory functions are also assigned to a special unit of the Central Bank.

Generally the bank supervision activities are divided into three stages:

- drafting of regulations on the commercial banks' activities;
- considering and giving reasoned proposals for issue or revocation of licenses for conducting of bank activities;
- regulating and supervising the activities of financial institutions, licensed to conduct bank activities in respect of their compliance with the requirements of the regulations on bank activities.

From a legal point of view the bank supervision is a special administrative control having the typical for such control phases as follows:

Control and Acknowledgment Phase,

whose main purpose is to collect true and satisfactory information for the objects subject to supervision. The bank supervision bodies are entitled to require from the banks all kind of accounting and other documents, which they consider necessary for performing of its activities, as well as information about their bank activities. The supervision may be direct or indirect within this phase. The direct supervision is carried out by means of inspections on site made by the bank supervision officers. The indirect supervision is carried out by means of monitoring the financial institutions' activities and their compliance with the supervisory regulations and analyzing of the data submitted by them to the central bank. The main purpose of such monitoring is to collect enough information about the financial condition of the commercial banks and their model of behavior

The officers in the Bank Supervision Department are entitled to make inspections on site in order to collect the necessary information for the real condition of the bank subject to inspection. The bank supervision bodies have the following powers when they carry out such inspections:

- to have free access to the offices of the persons, conducting bank activities;
- to require documents and to collect information related to the assigned task;
- to appoint experts;
- to make counter-inspections in other banks and non-banking institutions;
- to require from the court to attach the property of the persons, who are acknowledged to have caused damages;
- to attend the meetings of the managing and supervisory bodies of the bank subject to inspection.

Supervisory Measures Phase

during which certain measures are undertaken in respect of the persons subject to the inspection on the grounds of the information collected during the previous phase. These measures may be of unfavorable nature (for example imposing of sanctions) as well as of favorable nature (for example issuing of a certain permission). Pursuant to the law **the measures of influence and the sanctions are applied solely and independently by the Deputy Governor, in charge of**

the Bank Supervision Department. Regarding the Supervisory Measures Phase the Deputy Governor has the following powers:

- to propose the issue or revocation of licenses for conducting bank activities;
- to convene the General meeting of the Shareholders of a particular commercial bank or to appoint meetings of its supervisory or managing board and to propose undertaking of particular measures;
- to impose more severe supervisory requirements on the commercial banks;
- to order restrictions on the operations of a particular commercial bank or to amend the terms and conditions of its operations (for example to impose changes to the interest rates on the bank operations, to change its due date schedule, ext.);
- to order to the commercial banks to eliminate the infringements and to undertake of rehabilitation measures;
- to impose administrative punishments and pecuniary sanctions on officers and employees of commercial banks in the case of infringement of any supervisory requirements or of the provisions of the Banks Act and of the BNB Act;
- to impose additional requirements in respect of particular commercial bank relating to the bank activities, for which it is licensed;
- to prohibit the payment of dividends to the shareholders of particular bank or any another form of profit distribution;
- to require in written form from particular commercial bank to increase its registered capital;
- to appoint a bank counselor;
- to appoint auditor of the bank;
- to appoint conservators of the bank;
- to dismiss managing officers of the bank;
- to issue acts for acknowledged infringements of the Banks Act and BNB regulations, for announcing untrue information or circumstances relating to the bank, injuring the reputation and the trust in the bank;
- to give written permissions to local or foreign persons and their affiliates to acquire directly or indirectly more than 5% of the voting shares of a particular commercial bank;
- to issue certificates of qualification and professional experience to the person who manage and represent particular bank;

Among the favorable measures applied by the Bank Supervision Department are the following written permissions issued by BNB:

- permission for opening of branches abroad by a particular commercial bank;
- permission for a change in the registered name stated in the license of a particular bank;
- permission for reorganization by acquisition, merger or separation;
- permission for conducting bank transactions outside the scope of the license;
- permission for increase of the registered capital of particular bank by in-kind contributions;
- permissions for redemption of shares issued by particular bank;
- permission for increase of the registered capital of particular bank;
- permission for direct or indirect acquisition of shares by particular bank in a company, which is not a bank (except in the cases when the bank acquires shares as payment for an extended loan).

The Deputy Governor in charge of the Bank Supervision Department is obliged to give binding instructions to the banks for the form and way of preparation of the reports, required pursuant to the provisions regulating the bank activities (for example reports on opened currency positions, on liquidity, on classification of risk expositions and reserves, ext.)

Regarding its structure the Bank Supervision Department consists of four equal directorates and a Supervisory Administration Section, which is directly subordinated to the Deputy Governor. Each of the divisions has strictly defined functions:

Supervisory Policy Directorate

Generally the Directorate performs the following activities:

- provides the overall legal servicing of the Department and gives legal form to the decisions for imposing supervisory measures and sanctions;
- drafts regulations, instructions and ordinances;
- issues methodological instructions for the application of the regulations and the other legal acts;
- works out bank reports;
- works out opinions and proposals for amendments to the Accounting and Auditing Standards;

- issues instructions about the consolidated reports on the activities of the conservators, assignees in bankruptcy and liquidators;
- analyses the bank system;
- receives and examines applications for licenses for conducting bank activities;
- represents the department in its contacts with other institutions;

Special Supervision Directorate

performs the following activities:

- examines the structure of the capital of the commercial banks;
- deals with the procedure of licensing and supervising of the financial houses;
- controls the transactions with commercial banks' shares, the relations between the large shareholders, the commercial banks' financial investments in other banks and their investments in property;
- examines transactions which give reason to be considered a hidden form of "money laundering", and controls the illegally obtained money circulation;

Distance Supervision Directorate

The directorate performs activities typical for the indirect supervision mentioned above. In relation with this the directorate performs the following activities:

- controls the compliance with the requirements of the regulations and of the other legal acts, enacted by BNB. This control is performed by means of researching and analyzing the data, which is weekly and monthly submitted by the commercial banks;
- analyses the reports of the commercial banks' auditors;
- makes financial analyses of each particular commercial bank;
- evaluates the business plans, represented by the applicants for bank license;
- may cause inspections on site in a particular commercial bank in respect of a particular issue;

Inspections Directorate

The employees of the directorate exercise in fact direct supervision on the activities of the commercial banks by means of inspections on site in respect of particular issues. The functions of the directorate are as follows:

- to make inspections on site in the commercial banks;

- to submit reports for the results from the inspections;
- to propose sanctions in the case of acknowledged infringements and measures for their elimination;
- to propose the imposing of special measures of intensive control over the activity of the banks, which have problems;
- to develop inner rules on the inspections on site in the commercial banks;
- to maintain a data base for the inspected banks;

The Supervisory Administration Section

is actually a typical legal and administrative unit. It is dealing with consulting the specialists in the four directorates on legal issues, as well as with department's relations with the court instances. Besides this the section keeps the registers of the department.

4. Fiscal Services Department

The Fiscal Services Department is not a main department of the central bank. It is a successor of the former Governmental Loans Department, in which the Governmental Bonds Division and the Governmental Debt Division were incorporated. The Department is in charge of this part of the relations between BNB and the government, in which BNB acts as an agent of the governmental debts and of the debts secured by the government. The main activities of the Department are as follows:

- monitoring and analyzing of the national and foreign governmental debt;
- servicing of the governmental debt;
- organizing the initial auctions of the governmental bonds;
- keeping the register of the governmental bonds;
- regulating the trading with governmental bonds on the stock exchange;
- cash servicing of the budget;
- management and prognoses of the cash flows to the budget.

In fact the Fiscal Services Department organizes the activities in relation with the sale of governmental bonds on behalf and for the account of the government by organizing and holding governmental bonds' auctions. The department keeps the register of the governmental bonds. It acts as an agent in respect of the payment of governmental bonds and of the interest accrued on them and in respect of their buying back.

The Fiscal Services Department has two equal Directorates - Depository of Governmental Debts and Government Guaranteed Debts Directorate and State Budget Cash Flows Management and Prognoses Directorate. Both directorates consist of two divisions. The functions of the Depository of Governmental Debts and Government Guaranteed Debts Directorate are distributed among the sections Monitoring and Servicing of the Governmental Debt Division and Stock Exchange Trading of Governmental Bonds Division. The State Budget Cash Flows Management and Prognoses Directorate incorporates in its structure the following divisions: Bank Servicing of the State Budget Division and Cash Sales of Governmental Bonds Division.

5. Chief Secretary

The new structure of BNB provides for an increased number of administrative units, directly subordinated to the Chief Secretary of the Bank. At the present moments he/she manages the business activities and part of the administrative activities of the Bank, including:

- all printing activities of BNB and the existing printing facilities;
- documentation register office;
- software and information technologies providing;
- the business activities of the Bank, including capital construction, maintenance and servicing of the Bank and of the motor vehicles of the Bank;
- social activities;
- others

The unit administrated by the Chief Secretary incorporates the Information Technologies Division, Safety Division and seven services - Social Activities, Common Office, Publications and Printing Facility; Special Activities, Capital Construction, Maintenance and Servicing, and Motor Vehicles.

6. Units Subordinated Directly to the Governor

Four separate independent units of the Bank are directly subordinated to the Governor of BNB. These are the Secretary Office of the Managing Board, the Legal Service and the Chief In-house Legal Counsellor, the Personnel Management Service and Protocol and Press Centre Service.

The main function of the Secretary Office of the Managing Board is to assist the Board with performing of its activities. Its structure and staff is specified by the Governor of the Bank.

7. Chief Auditor

The Chief Auditor of BNB is directly subordinated to the Managing Board. He/she is appointed by the Managing Board subject to the approval of the Chairman of the Committee of Public Accounts. Its main task is to perform the inside control over the financial activities of BNB. For this purpose the Chief Auditor:

- makes inspections on the activities of BNB pursuant to a request by the Managing Board;
- estimates the quality of the inside control mechanisms and makes inspections on their proper operation, reliability and on the comprehensiveness of information;
- examines the compliance of BNB operations with the laws and the other legal regulations, as well as with the other acts of the Bank's managing bodies;
- inspects the efficiency of utilization of the Bank's funds;
- makes recommendations, prepares reports and other documents, which submits for discussion and approval to the Managing Board;
- coordinates its activities with the Auditor of BNB.

8. BNB Employees

The employees of BNB are appointed by an order of the Governor of BNB. Prior to the restructuring of BNB the personnel was employed by the Deputy Governors of the particular Departments. The personnel selection under the current operation rules may be performed by the Deputy Governors, but the Employment Contracts have to be executed obligatory by the Governor. The salaries of BNB personnel are specified by the Managing Board. There is a legal requirement in respect of the amount of these salaries, which may not be less than the amount of the average salaries of employees performing similar functions in other banks in the country.

The employees have to sign a Written Statement when they take their positions undertaking to abide by the law, to perform the functions assigned to them, and to keep the bank and commercial secret. Usual practice of the other central banks is to require from their employees to work only in the bank and not to conduct any other additional activities. In some of the cases the employees are allowed to work additionally, but in case they have an explicit permission by the managing organ of the central bank (such is the situation in Lithuania for example).

The successful operation of BNB as a Currency Board, its ability to exercise its functions and to achieve the desired results, depend to a great extent on its ability to organize and manage efficiently its personnel. The organizational restructuring of the Bank may be implemented in different ways, but one of the most important things is to specify such basic terms as the number of the personnel, the necessary qualification, which is required, and what is very significant - the liability that each employee of BNB assumes for the achievement of certain results.

The steps that have to be undertaken at the present stage of restructuring of BNB may be recapitulated as follows:

- to create an efficient managing structure and to specify the functions of the managing bodies, the responsibilities of the managers and of each particular employee of the Bank. From our point of view the subordination structure is not very well defined within the new organizational structure of BNB;

- working out of classification of the positions in the Bank as well as of detailed characteristics of each position. Such detailed characteristics should include: description of the position; right and obligations of the employee, who occupies the position; his/her responsibilities; relations with the other employees, ext. The responsibilities of each employee should be specified with maximum preciseness. The precise definition of the functions and tasks of the Departments, divisions and sections of BNB is also very important. This step will bring about overcoming of the existing fragmentation of important functions among different units of the Bank;

- defining of the results, expected from the operation of each particular unit of the Bank and of each particular employee, working in such unit;

- defining of the necessary qualification, required from the employees depending on the type of their work;

IV. Information Flows. Bank and Official Secret

The establishment of a proper mechanism of adequate information circulation among the structural units in the Bank, as well as outside of BNB is a very important issue, arising in the course of the reorganization of the central bank. At the present moment there is not enough clearness on the matter concerning the rights of the Bank's employees to receive and announce information. This is the reason for the inefficient use of the available information.

One of the reasons for the existing situation is the current legal regime of bank and official secret in BNB. Pursuant to the BNB Act the Bank's employees are obliged to keep the following circumstances secret:

- negotiations (relations preceding the execution of an agreement);
- executed agreements;
- amounts of deposits and operations of clients;
- data, submitted to the Bank;
- all circumstances relating to the Bank operation and to the operations of its clients,

which are subject to official and commercial secret.

The negotiations, the executed agreements, the amounts of the deposits and operations from a legal point of view are subject to the so called "commercial secret". The "data, submitted to the bank and all other circumstances relating to the Bank operation and to the operations of its clients, which are subject to official secret" are defined as official secret. An exception is allowed in relation with the data published in the publications of the Bank and the data announced by its Press Centre.

The provision of article 52 of the Banks Act regulating the bank secret imposes on the central bank's employees the obligation not to announce the facts and circumstances, concerning the existing amounts and the operations on the accounts and deposits of the clients of any Bank (probably a Bank subject to the BNB employees' powers), of which they have become aware in the course of performing their official and professional obligations.

The practice of protecting certain facts and circumstances relating to the central bank activities or concerning commercial banks is world-wide recognized. In Argentina for example the information, to which the supervisory bodies have access in the course of performing its activities, is subject to such protection. In Lithuania the issue concerning the range of the facts subject to such protection is regulated by means of a list of facts, relating to the bank activities which are considered secret and which have to be kept secret by the bank's employees, by its manager and by the board members. The list is worked out and approved by the managing body. Such regulation seems reasonable on practical terms and may be applied in respect of the secret facts in BNB. Such mechanism may be developed similarly to the existing since 1995 List of the Documents, BNB works with, the Period of their Safe Keeping, the Secrecy Level, and the Access to them. For example according to this List the loan files, the personnel files, the deposit files, the banks' files, particular information originating from department, division, and section managers, permissions for investments abroad and for receiving loans abroad, the license

register, particular resolutions of the Managing Board, information for precious metals deposits, for coins sold, for the assets and liabilities of the Bank in foreign currency, for deposits, deposit and currency accounts and the current status of the accounts, ext. are considered secret information. The working out of similar List of the circumstances subject to official secret would be useful for the purpose of acknowledgment the breach of secrecy and respectively for the imposing of particular sanctions.

The practice established in England may also be useful, where the restrictions on the use of information does not apply only to:

- information which is accessible to the public from other sources, except the central bank;
- information which is in the form of aggregated data, from which information concerning any particular person or bank may not be extracted.

Instead of Conclusion

The process of BNB restructuring is still going on notwithstanding its accelerated stage. The responsibilities of the managing officers of the Bank, especially on the level of managers of divisions and sections, are not defined yet in organizational aspect. Eventual further fractionating of the Bank's structural units should be reasoned.

Instead of conclusion we would like to emphasise on the issues, which are not overcome yet in the BNB operation and for which solution should be worked in the future. Such issues are:

- the inherited bureaucratise within the management process;
- the improper structuring of the levels of power in the Bank;
- misuse of the collective responsibility and avoidance of taking decisions solely;
- lack of proper regulation of the competence and of the responsibilities of the particular units and employees;
- fragmentation of important functions among different units of the bank and overlapping of other functions;
- extremely wide definition of bank and official secret;
- necessity of optimisation of the Bank personnel number in order to achieve maximum efficiency of operation.