

CAPITAL MARKETS SUMMARY

Since October 1997, the Bulgarian Stock Exchange has operated under a license by the Securities and Exchange Commission, pursuant to the 1995 Law on Securities, Stock Exchanges and Investment Companies. The 1999 Law on Public Offering of Securities which repealed the 1995 Law on Securities, Stock Exchanges and Investment Companies currently regulates issuance of securities, securities transactions, stock exchanges, and investment intermediaries.

Bulgarian capital markets are minuscule and other mechanisms for long-term finance (banks, insurance companies, and pension funds) are weak or underdeveloped. The government seeks to encourage voluntary pension funds as part of larger reform of Bulgaria's social safety net. These funds will help develop the country's capital markets, although their portfolios will initially be limited to investments with minimal risk to principal (such as government securities and demand deposits).

The government does finance government expenditures by accessing capital markets. On a weekly basis the Ministry of Finance holds an auction of Treasury bills. The bills are typically short-term (3-month, 6-month and 1-year maturities). Commercial banks are the primary purchasers of these instruments. Foreign banks can participate in the treasury market only through a Bulgarian bank or the branch of a foreign bank which is duly licensed in Bulgaria. The foreign bank transfers the money which is then converted into levs to make the purchase. The foreign bank must open a lev account (referred to as a "custody account") for transactions. This lev account cannot be used as a standard deposit bank account. A foreign currency account can be opened but it is not obligatory.

The Foreign Investment Law defines securities, including treasury bills, with maturities over 6 months as investments. The purchase must be registered with the Ministry of Finance. Investment income from treasury bills is subject to a 15 percent tax. Repatriation of profits is possible after presenting documentation that the taxes have been paid.

