DEVELOPING SECONDARY MORTGAGE MARKETS IN SOUTHEAST EUROPE

ASSESSMENT OF THE MORTGAGE MARKET IN BULGARIA

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Prepared by

Sally Merrill
Carol Rabenhorst
The Urban Institute
Paul Sacks
MNS Advisors

THE URBAN INSTITUTE
2100 M Street, NW
Washington, DC 20037
(202) 833-7200
www.urban.org

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EXECUTIVE SUMMARY

Bulgaria has now emerged from the severe economic and banking crisis of the mid-1990s, and stands poised to reap the benefits of resumption in economic growth and a continued fall in inflation. Bulgaria has nearly completed the privatization and rationalization of its banking sector and continues to put in place a legal infrastructure that will be highly supportive of mortgage lending. Demand is still relatively weak, and thus the mortgage portfolio is very small, about $100 million, but it should continue to grow if positive trends in income growth and monetary stability continue.

Although funding of mortgage loans is still largely achieved through deposits, Bulgaria has passed a mortgage bond law, which is the first in the region. The law is flexible, especially in that it does not require establishment of separate mortgage banks. Five banks have already issued mortgage bonds, which have been quickly purchased by the pension funds. These banks are Bulgarian American Credit Bank (BABC, two issuances), Express Bank, Post Bank, Economic and Investment Bank, and First Investment Bank. United Bulgarian Bank (UBB) is also planning to issue a mortgage bond.

Pension reform is largely completed and the demand by the pension funds for alternatives to investing in Government securities, in combination with a capital market profile favorable to development of the mortgage bond market, will help assure the success of this risk management strategy in the future. In addition, Bulgaria is now working on further institutional and legal initiatives—a credit bureau and law supporting development of SPVs (Special Purpose Vehicles), which will assist in the creation of MBS (mortgage-backed securities).

A livelier mortgage market should emerge as the past dominance in mortgage lending of the State Savings Bank (DSK) decreases and a more competitive lending environment continues to grow, together with continued recovery in the economic environment.

Some barriers to mortgage market development remain. While Bulgaria has generally adopted an adequate legal framework to support the mortgage market, there has been little legal reform of the loan recovery process, a factor that increases risk in the primary market. Foreclosure procedures under the Civil Procedure Code and the Execution Law require a court procedure and are described as “fiercely pro-debtor.” Inadequate judicial resources further delay the process, especially in Sofia and other large cities. Also, interest rate spreads may remain high, reflecting foreclosure and other risks facing the banks as well as inefficiencies in bank operations and information systems. In summary, however, Bulgaria has made major strides in overcoming its structural and economic crises and adopting an overall systemic reform that will provide important support to efficient and effective consumer and mortgage lending in the future.

1.0 OVERVIEW OF THE PRIMARY MORTGAGE MARKET

1.1 Overview of Banking System and Economic Environment

Bulgaria has achieved considerable success in its efforts to provide a stable and dynamic macro-economic and monetary environment, having now emerged from the major economic crisis suffered in the mid-1990s. Real GDP per capita had plummeted and inflation had reached 578.6 percent by 1997. The recovery is well underway, however. According to the Bulgarian National Bank (BNB), real GDP reached pre-crisis levels in 2002. Inflation has been largely tamed, standing at about 9.0 percent in 2002 and expected to fall to 5.5 percent in 2003. Under Bulgaria's Currency Board, the Bulgarian level (BGN) is fixed to the Euro.

The economic crisis also engulfed the banking system, and in 1996 and 1997, the sector experienced a severe collapse. Eighteen banks were closed, amounting to about one-third of the banking sector. Poor behavioral practices by the banks, including inadequate internal controls, insider lending, and inadequate risk management, led to large numbers of bad loans.[1] There were institutional weaknesses including inadequate capitalization, and poorly developed regulation and supervision, including insufficient enforcement of prudential standards.

The banking system is now on its way to recovery. Although privatization occurred more slowly than planned, the sector is finally nearly fully privatized, with much of the controlling interest in Bulgaria's commercial banks sold to strategic investors. The new owners include major Italian, Greek, French and American institutions, and about 80 percent of the banking system is now foreign-owned. The principal exception is the State Savings Bank (DSK), privatization of which has experienced major delays and barriers. DSK is now scheduled to be privatized in June 2003.

While privatization is relatively recent, its effects are becoming increasingly noticeable. New banking products—car loans, credit cards, leases, mortgages, etc., —are now available. Moreover, banks have begun to move away from portfolio strategies geared to harvesting the gap between cheap deposits and yields on government bonds. Loans are now a growing, but are not yet the dominant element on bank balance sheets. According to one recent report"…the stock of credits to non-financial entities picked up by 34.2 percent in 2002" (Bulgaria Today, Intellinews, 1-02-03).

Recent reforms are gradually improving confidence in the banking sector, and banking assets are slowly increasing again as a share of GDP. Improved prudential regulations, stricter supervisory policies, higher solvency requirements, and bank consolidation and foreign investment are among the positive factors. However, some observers have concluded that Bulgarian banks are currently too risk averse. The capital adequacy ratio is quite high at 20 percent as compared with the required level of 12 percent. And although the banks are liquid, they are generally not adopting an aggressive lending posture.

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[1] See "Banking Sector: Bulgaria", Assenka Yonkova, Institute for Market Economics, 2000

1.2 Overview of Consumer and Mortgage Lending in Bulgaria

Based on a study carried out by the Institute for Market Economics (IME) in June 2002, the 10 largest banks doing consumer lending are listed below. Their share of overall consumer lending, which includes mortgage lending, is noted; banks active in the emerging mortgage market are marked with an asterisk.

- State Savings Bank* (DSK): 69%
- SGExpress Bank*: 8%
- UBB* (NBG Group): 6%
- Post Bank* (AIG): 6 %
- Bulbank* (UniCredito): 2%
- Bulgarian American Credit Bank*: 2%
- Biochim (Bank Austria): 2%
- First Investment Bank*: 1%
- ProCredit Bank (EBRD Initiative): 1%

Historically, all mortgage lending was undertaken by DSK. While DSK is still very predominant, it is losing share to over a half dozen competitors. The overall mortgage portfolio was roughly $100 million in the fall of 2002, of which over one-half is held by the DSK (refer to Table 1). Other banks lending for housing include UBB, Post, Bulbank, BACB, First Investment Bank, Express Bank, and Raiffeisen. Data on mortgage loans made by these banks, which is collected by the Bulgarian National Bank (BNB), is also shown in Table 1.

Mortgage lending effectively resumed in 1999 and has grown at an accelerating pace ever since. After a healthy increase of 27.4 percent during 2001, the banks' portfolios grew by 54.3 percent through November 2002. In a relative sense—as a proportion of GDP for example—the total mortgage portfolio is still extremely small, however.

Table 1
Private Sector and DSK Housing Loans Outstanding

Mortgage Loans by Year	December 1999	December 2000	December 2001	November 2002
Mortgage Loans (BGN: 000s)	BGN 80,802	BGN 97,641	BGN 131,360	BGN 179,926
Exchange Rate (BGN for $1.0)	1.947	2.102	2.219	1.970
Mortgage Loans ($000s)	$41,500	$46,451	$59,198	$91,332
Percent Change	N/A	11.9%	27.4%	54.3%

Source: National Bank of Bulgarian and the Institute for Market Economics

Funding of mortgage loans is based largely on deposits, which tend to be very short-term. As further discussed in Section 3.0, although mortgage bonds are being issued, they have been of very modest size. One interesting aspect of the mortgage bond issuances is that they are not yet competitive with funding from deposits. The cost of funds, although varying from bank to bank, is reportedly quite low (around 3 percent) and bond funding is less cost effective. On the other hand, the deposits are very short-term, and the bond issuances may be viewed as test cases for improved risk management strategies via longer-term funding in the future. (As noted below, however, the mortgage bonds themselves have been relatively short-term – 3 years.) Banks are quite liquid and interest rates remain relatively high, in part a function of tight fiscal policy. This, in essence, crowds out private debt. Also, as noted, banks remain somewhat risk averse, and spreads are still felt to be high. Future issuances will, of course, depend on bank liquidity, the need for long-term resources, and the strength in demand brought about by improved affordability.

Nevertheless, all trends are moving in a positive direction. With the entry of new banks into mortgage lending, the past dominance of the DSK is diminishing and the mortgage lending system is increasingly competitive. This should be beneficial to both the rate structure and loan product development in the future.

1.3 Mortgage Loan Products

Banks provide mortgage loans for new housing, existing housing, and rehabilitation. Mortgage loans are primarily denominated in BGN. Terms, which were previously 5 to 10 years, have recently been extended to up to 20 years. The loans are variable rate, with rates updated at the bank's convenience. LTVs (loan-to-value ratio) generally range from 70 to 80 percent (although see the discussion in Section 1.4 below: effective LTVs may be lower).

Mortgage interest rates for loans in BGN have fallen from 17 to 18 percent in 2000 to 12 to 14 percent by the third quarter of 2002. (As a point of comparison, ten-year Government bonds yielded about 8.0 to 8.5 percent at that time.)

As a specific example, DSK's interest rate on its variable rate BGN loans stood at 13.75 percent in the fall of 2002, down from 16 percent in April 2002. Spreads are quite high, as DSK notes that its average cost of funds is 1 percent for demand deposits and 3 to 4 percent for time deposits. The maximum loan term is 15 years and maximum LTV is 80 percent, although loans are more typically at an LTV of 70 percent. Interestingly, loan terms vary according to construction type and building materials, the rationale being that these factors have a major impact on the expected life of the building. Thus, for example, loan terms for panel construction are less liberal than for brick.

Raiffeisen, in contrast, bases its loan terms on a classification scheme for clients, using income level, quality of collateral and credit history among other factors. The bank has targeted upscale borrowers. Interest rates (as of fall 2002) varied from 8.8 to 12.95 percent, and terms from 3 to 7 years; LTV was a maximum of 70 percent.

Post Bank's interest rates depend on the loan term and the currency. Loans in BGN, for example, were at 12.75 percent for 10 years, 13.75 percent for 15 years, and 14.75 percent for a 20-year loan; interest rates for comparable loans in Euro were somewhat lower.

1.4 Underwriting Criteria and Credit Risk

Overall, mortgage loans are performing fairly well and overdue loans represent only 0.3 percent. There is a rather large range, from 1 to 5 percent, across lenders in reported estimates of the number of loans in default (that is, over 90 days overdue). There is little experience with the foreclosure process, however. As discussed in Section 2.1, foreclosure is not a commonly used remedy: it is time consuming and expensive and the outcome is uncertain.

Banks are generally quite conservative in underwriting mortgage loans, sometimes requiring other security such as accounts maintained by the borrower in the bank. In addition, the LTV ratios may be lower than they appear, as banks routinely decrease the appraised value of the property before considering loan size. As discussed below, the appraised value is discounted about 20 percent before the LTV is determined, to compensate for the uncertainty of the lender's ability to recover collateral in event of default. Third-party guarantees were once typically required, but in recent years the use of this security has declined.

1.5 Other Mortgage Market Issues

Credit Bureau—Bulgaria is now working on an institutional initiative that is of key importance to an effective mortgage market—a credit bureau. A thorough analysis has been made of the issues surrounding credit bureau development and a team has visited credit bureaus in other countries, including Turkey and Poland.[2] A feasibility study has been prepared recommending a private credit bureau that would serve not only banks but also utility companies and leasing companies. It is also hoped that the SME sector would be included. One key problem concerns reporting of "positive" customer credit information; a legal constraint stems from bank secrecy requirements, and thus collection of positive credit information would require a change in the Banking Act and Personal Data Collection Act. A number of the major Bulgarian banks have stated their willingness to become shareholders, and the remaining banks would be expected to pay a fee for services. However, given the dominance of DSK in consumer and mortgage lending, its participation is crucial, and the bank is waiting until after its privatization to commit to the credit bureau.

Currently, the National Bank of Bulgaria maintains a central credit registry; however, this covers only loans over EU 5,000, and it is felt that banks do not fully comply with reporting requirements.

Appraisal—The Mortgage Bond Law provides a number of options for appraisal methodologies for mortgages underlying bonds–comparable sales, revenue generation, and material value (replacement cost). Independent appraisers are active and are certified by the Privatization Agency. Some banks, however, have not been fully satisfied with the available valuers nor with the valuation methodologies as applied to residential real estate lending. Thus, many banks have their own appraisers, although they sometimes rely on the independent appraisers, who are often affiliated with real estate agencies. The bank selects the valuer and pays for the appraisal.

The overall valuation process as applied to the underwriting function remains flawed, however, especially in determining value based on the "market comparables" methodology. First, banks still do not

[2] The Institute or Market Economics and the Bulgarian American Credit Bank have both been very active in the research process and policy dialogue supporting formation of a credit bureau.

appear to trust the appraisal process, because appraised values are slashed by as much as 20 percent when determining the mortgage loan amounts. (BACB notes that it used to slash the independent appraisals, but has now developed an improved in-house valuation capacity.) Second, properties are registered at less than appraised value; this makes utilization of the comparables approach very difficult.

Taxes—Because of the two percent transfer tax, many sales are reported at lower than actual value. This makes it difficult to conduct appraisals strictly by the comparable-sales method. As the market has matured, this factor is usually taken into account. Because of loan recovery difficulties, however, mortgages are still given on substantially less than real market value, as noted.

Real Estate Industry—The real estate industry is well established in Bulgaria, particularly in Sofia and other major cities, and the resort areas on the coast. There is a National Real Property Association that issues standards for the industry, but they are not mandatory. Many realtors also provide appraisal services. In the last year, there were approximately 100,000 sales of real estate in Bulgaria. Estimates of sales with mortgages range from 2,500 to 15,000. Realtors generally charge a commission of 5 percent of the sales price, which is usually split by the buyer and the seller.

Realtors typically have sophisticated databases of properties and sales prices, and web sites listing properties on the market. While there is no formal multiple listing services, five of the largest realtors in Sofia, all of which handle sales and appraisals, share information on a voluntary basis. This program is called “Info-Pool.” The primary form of advertising is though the newspaper, not via web sites.

2.0 LEGAL ISSUES IN THE MORTGAGE MARKET

2.1 Foreclosure

The most serious constraint to the expansion of mortgages lending, and to further development of mortgage bonds and/or MBS is the difficult and lengthy foreclosure system. There have been only a few foreclosures, but the banks have had enough experience to testify that the system is difficult and very time consuming. Implementation is the major drawback: there are too few judges and they are said to be not sufficiently knowledgeable about the process. The debtor can appeal the process at many stages, and as a result, foreclosure takes one to two years. Foreclosure is said to work better in smaller locales than in the large urban areas, due to a severe shortage of judges in the latter.

A court judgment is required, and the “executive judge” (judge with authority to oversee execution procedures) supervises each step, including appraisal of the property, public sale or auction, and eviction. The debtor has many opportunities to challenge the procedure or appeal the decisions of the court.

Costs include court and legal fees, the costs of auctioning the property, and the diminution in value of the property as a result of delays and uncertainty in the foreclosure and eviction process.

Auction process—Auction procedures must be supervised by the court; no private sales are permitted through the foreclosure process. The time periods provided in the law are similar to those of other countries, with the minimum time to foreclosure about 6 months, but because of the debtor’s right to challenge the procedures, completion of a foreclosure can be expected to take much longer than the minimum time.

2.2 Mortgage Bond Law

As noted, Bulgaria adopted a Mortgage Bond Law in 2000.[3] Several banks have issued bonds under the new law, and more issuances are planned. The law does not establish specialized mortgage banks or provide government guarantees or subsidies, so the primary mortgage market has been allowed to develop according to market-driven factors. Any banks licensed by the Bulgarian National Bank can issue bonds collateralized by the bank's mortgage debt or other assets in accordance with regulations set by BNB. The collateral value is discounted from the mortgage appraisal value to minimize risk from temporary imbalances in cash flow or liquidity. The bank maintains a confidential register for collateral for bond issues, which may not be otherwise burdened.

Separation of mortgage collateral from other assets—The current Mortgage Bond Law in Bulgaria requires segregation of assets that are committed to guarantee the bonds in the event of insolvency of the lender. There can be no off -balance sheet issues. Legislation on a special purpose vehicle is under consideration, however, which would enable this type of issuance.

Bondholder's priority rights in the event of bankruptcy of issuer—Under the Mortgage Bond Law, proceeds from liquidation go first to bond holders.

Reporting and disclosure requirements—Special transparency and disclosure requirements for publicly offered mortgage bonds are regulated by State Securities Commission under the Public Offering of Securities Act. Non-public offerings are legally possible but impractical because insurance companies and pension funds—the primary investors in mortgage bonds—can invest only in the regulated public market. There is no special trustee for mortgage bonds, but rather the Bulgarian National Bank looks at a bank overall.

Reportedly, there have been substantial improvements in transparency and disclosure in the general banking sector in the last several years. However, the BNB credit registry does not provide public information on borrowers, nor does BNB regularly disclose bank-rating information.

2.3 Basic Enabling Laws

Title and ownership rights in real property—Ownership and other property rights, covered in the Constitution and the Property Law, are adequately complete and clear for operation of the mortgage market. Foreign persons (legal and natural) may own property in Bulgaria with the consent of the Ministry of Finance. Bulgaria has historically had a very high percentage of homeownership. Even before privatization in the post-socialist period, over 90 percent of the population owned their homes. Today, the number is 97 percent.

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[3] Among others, the Bulgarian American Enterprise Fund, the Bulgarian American Credit Bank, and IME were active in developing and promoting the Mortgage Banking Law.

Law on use of real estate as collateral for loan—The Property Law expressly permits the owner of property to use it as collateral for a loan. The property register maintained by the district courts is the official repository of mortgage liens on real property. Notaries maintain records of mortgage contracts they have prepared but these are not maintained in any central database; only the property registers have records of all mortgages or other liens on property (such as tax liens).

Property Registration Law—The district courts maintain a legal registry of ownership and other interests in real estate. Registration of title or mortgages in Bulgaria is reported to be very speedy–as little as 24 hours from submission of documentation to completion of registration. Title to property does not transfer until registration is complete. In practice, the registration paperwork is generally handled by notaries, but a lender, owner or any interested party can submit the documentation.

The legal registry and cadaster are not yet unified; however, there is a World Bank project underway to improve the data entry and retrieval system and to integrate the legal and mapping records. One major problem with the current registration system is that properties are listed by owner rather than by parcel number. Co-owners are not listed together, so all owners must be known and checked before a lender can determine with certainty that there is no lien against the property they jointly own.

Law on Execution—Execution is conducted under the Civil Procedure Code and the Law on Obligations and Contracts Law, in accordance with the foreclosure procedures discussed above. Secured creditors are paid after the costs of the foreclosure procedures. If there is more than one secured creditor, they are paid in the same order that their rights were registered.

2.4 Fees and Expenses

Costs of transaction—Notary fees are regulated by law and are based on a percentage of the value of the transaction, with the percentage increasing with the size of the transaction, up to a maximum of 3,000 leva (about $1,500). Notaries' fees average 0.8 percent of the value of the transaction.

Transfer and registration fees—Transfer and registration fees equal 2 percent of the value of the transaction.

Tax Treatment of Transaction Fees, Mortgage Interest—There are no tax benefits resulting from transaction fees or interest paid on mortgage loans.

3.0 SECONDARY MORTGAGE MARKET AND FUNDING ISSUES

3.1 Bank Funding Strategies

Better market conditions and growing competition in the primary mortgage market have led to improved terms for borrowers and a renaissance in mortgage lending. As portfolios grow, however, this will ultimately lead, however, to a worsening maturity mismatch between bank funding and mortgage lending.

Funding of mortgages is still achieved largely through deposits. There is some external funding through parent institutions and syndicated credits. Privatization has meant that Bulgaria's banks may now be less dependent upon their deposit base to fund bank activities, and are subject to additional oversight of their risk management strategies. Nonetheless, deposits account for the bulk of bank funds; furthermore the deposits are of very short duration.

Unlike some of the other transition nations, however, Bulgaria has shown real interest in maturity matching. To Bulgaria's credit, it has passed a mortgage bond law, which provides for on-balance sheet transactions. The law, which is the first in the Southeast Europe region, is modeled after the German Pfand brief' model, but is more flexible, especially in that it does not require establishment of separate mortgage banks. The law provides only for on-balance sheet transactions.

Five banks have already issued mortgage bonds, which have been quickly purchased by the pension funds. These banks are BABC (two issuances, EU 8 million), Express Bank, Post Bank, Economic and Investment Bank, and First Investment Bank. UBB is also planning to issue a mortgage bond. Thus, these early mortgage bonds have begun to correct the duration gap problem. All of the mortgage bonds to date have been on balance sheet, of very modest size, and sold locally. Small issue size has been one of the barriers inhibiting accessing less expensive offshore funds through a foreign bond issue. This said, the first offshore transaction is now in preparation. If successful, it should create greater funding flexibility.

One quite interesting aspect of the mortgage bond issuances is that they are not yet competitive with funding from deposits. Raiffeisen Bank notes, as a consequence, that bond issuance appears to be a "boutique" competition, and that it will not consider mortgage bonds until they are cost-competitive. The bonds are also relatively short-term–3 years–compared to loan terms ranging from 10 to 15 or more years. Key lenders have indicated that they expect the term of the mortgage bonds to increase to 5 years in the near future; this is well in line with an average real life of 5 to 7 years for mortgage loans. In sum then, more complex bank risk management strategies are now emerging.

SPV Law—A law supporting a special purpose vehicle (SPV) is now under development. The intention is to support development of off-balance sheet securitization, and the issuance of mortgage-backed securities (MBS). This movement in intended to provide a structure for off-balance sheet transactions, thus paving the way for greater flexibility in risk management.

3.2 Capital Market Profile

Bulgaria has put in place all the basic laws and institutions for the development of its capital market. This includes a modern and efficient stock exchange and depository as well as a Securities

Commission. In addition, improved new legislation concerning trusts and special purpose vehicles is under consideration.

Bulgaria's capital market profile and monetary management are now very favorable for development of a mortgage bond market. Bulgaria's Currency Board, together with favorable monetary and fiscal policies, has produced currency stability and brought interest and inflation rates down to more reasonable levels. As a result, Bulgaria continues to provide a domestic market that is favorable to the development of mortgage securities. Overall debt management has been sound. The ratio of external debt to GDP continues to decline. The domestic debt market is small but orderly. The Ministry of Finance has developed a sound and predictable issuance program, coupled with an extension of maturities. The Government is currently able to issue local currency bonds with up to 10-year maturities into the domestic market at reasonable prices.

As in most countries in the region, the preponderant debt market products are government securities. Given the relatively low prevailing interest rates, the pricing on Government Bonds has been both moderate and predictable. This has permitted private issuers to raise funds at less than the cost of bank loans. As a result there is a growing list of private (and non-sovereign) issuers, including public utilities, small and medium sized companies, municipalities and bank issuance of mortgage bonds.

3.3 Potential Investors: Pension Funds and Insurance Companies

Bulgarian pension reform is largely completed. Pension reform is covered by the Mandatory Social Insurance Code of 1999. The Government has passed "Pillar Two" and "Pillar Three" legislation. Liquidity in the system is growing rapidly in the licensed pension funds, and is anticipated to exceed $ US 1 billion by year-end 2005. The demand for quality long-term debt other than government paper is extremely high among Bulgaria's pension funds. Nonetheless, there are restrictions on the amount that any fund can invest in different asset categories, including: securities of a single issuer, amount invested abroad, and percentage of assets in government securities. The Law on Securities, Stock Exchange and Investment Companies addresses the regulation of securities and investment activities. These rules are now subject to review, with likely outcome that the amount of pension funds that can be invested abroad will be expanded. Pension funds and insurance companies have purchased the bulk of the five mortgage bonds issued to-date.

Bulgaria also has private insurance companies. The insurance sector, which is in the early stages of market-based development, is regulated under the Insurance Business Act.

3.4 Central Bank Regulatory Policy

Under the Currency Board, the Central Bank retains fewer monetary functions. Bank supervision is one of its key tasks, however. Under the Law on Banks and the Law on the Bulgarian National Bank of 1997, the BNB has a strong mandate to supervise and regulate banks. BNB issues prudential regulations in the areas of capital, liquidity, loan classification and provisioning, credit concentration, disclosure, auditing, risk exposures and connected lending and investments, all of which are generally in line with international standards. A risk weighted capital adequacy ratio of 12 percent is required; as noted, Bulgarian banks generally remain well above this limit with high capital and liquidity ratios.

At present, National Bank officials indicated they were not immediately concerned about the adequacy of risk management capabilities of banks under its supervision. Hence increased regulatory action to enforce a closer matching of maturities seems unlikely. In addition, pension fund regulators and the Securities Commission each have separate jurisdiction and oversight. Thus banks, pension funds, and mutual funds are subject to separate regulatory oversight. Some discussion has been held of unifying these functions, but no action has yet been taken. The pension fund regulator has imposed an asset allocation system applicable to a mature market on the current emerging capital market. (See above).

3.5 European and Regional Issues in Funding and Standardization

Coming out of the Copenhagen Summit, the earliest possible date for Bulgarian accession to EU is 2007. Nonetheless, Bulgaria is well advanced in the process of harmonizing legal and administrative “Chapters”. However, National Bank sources do not envision significant changes in bank supervisory practices, especially as regards risk management.