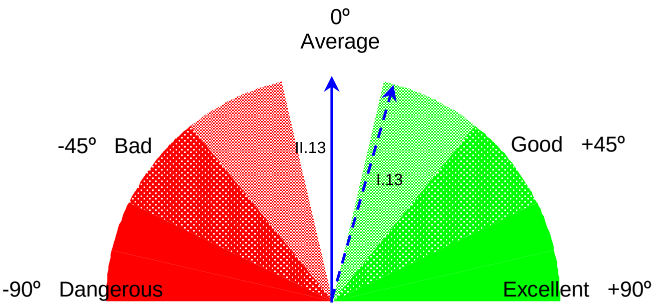
Issue 12, Express Special Edition – The Government Resigns February 2013

expat compass

20 Feb 2013, 11:00 a.m.

EXPAT CURRENCY BOARD WATCH



OUTLOOK: NEGATIVE

We are not worried about the currency board and see no immediate danger of devaluation. However, due to the latest political events, we are increasingly worried about the lack of government and hence about the budget in a difficult election year.

BREAKING NEWS

- Today, 20 Feb 2013, Boyko Borisov's government has resigned
- Technically, despite Simenon Dyankov's resignation from Monday, he will continue being Finance Minister till the end of the government's term
- The success of the BNG800m T-bill auction scheduled for this week is uncertain as of this hour

ARTICLES

EDITORIAL COMMENT

This is an 'express special issue' of Expat Compass

- We were just preparing a 'normal' regular issue when the political landscape in Bulgaria changed significantly within a few days
- The mass protests were initially directed at the high electricity bills in December, but are now turning into general protests against the government
- The finance minister Dyankov was forced to resign on Monday, which was followed by the fall of the whole cabinet
- It is too early to say what government will follow and when

In January, the financial outlook was positive

- Before the latest events, we were planning to improve the reading of the Compass from +5˚ to +15˚, as well as improve the Outlook from Stable to Positive. The main reasons were:
  – The 2012 budget was better-than-expected, with a deficit of BGN350.2m, -0.45% of GDP. This is the 3rd lowest deficit in the EU (see p. 7)
  – The old Eurobonds were repaid successfully in January, as expected
  – The new Eurobonds were trading at a yield as low as 1.75% – in line with the rally in global bond markets. Bulgaria was likely to get a credit rating upgrade in 2013, in our view

February is becoming an inflexion point

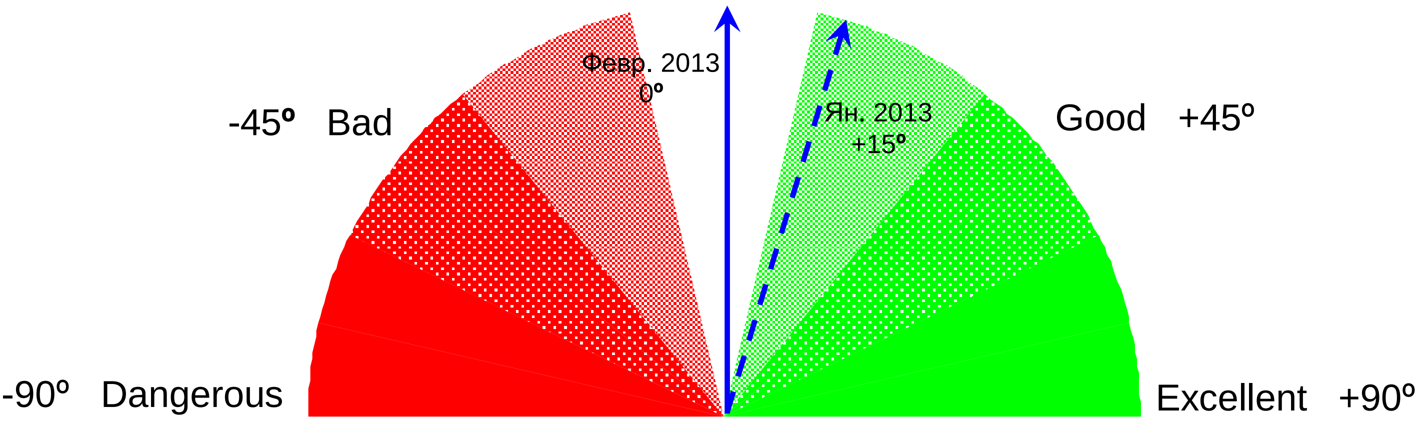
- The fiscal reserves – which were not in the focus of investors recently – have fallen below BGN4bn to around BGN3.5bn.
- The urgent and unexpected payment to agricultural producers might deplete the fiscal reserves by another c. BGN840m – at the expense of, say, the Silver Fund. Dangerous.
- The success and the consequences of the new urgent local debt issue for c. BGN800m is still uncertain.

A new negative reading of the Compass

1. We are sharply moving the needle of the Compass to the left (in a negative direction) by -15˚. The new reading is 0˚. The outlook is changing from Positive in January to Negative in February.
2. The factors to watch are:
   – What government will Bulgaria have?
   – Will the next cabinets be willing to spend more? Will the fiscal reserves rise permanently above BGN4bn or not?
   – Will tax collection deteriorate due to the political uncertainty?

EXPAT CURRENCY BOARD WATCH

OUTLOOK: NEGATIVE



Now that Bulgaria has a government crisis, the long-term stability of the currency is likely to become the main issue of concern for the business community in the country. We will closely watch all the developments. For the time being, we believe that there are no reasons to think that the country will change course. The country's ability to borrow is very high, the forex reserves are large, and there is a lot of room for maneuvering. We keep our positive assessment of the stability of the currency board, with a negative outlook.

We are not worried about the currency board and see no immediate danger of devaluation. However, we are worried about the latest political events in Bulgaria and the lack of government.

In the future months and years, we will continue constantly monitoring the development of the relevant economic indicators in order to assess the health of the currency board and to potentially predict any negative events, should they ever occur.

It is becoming more difficult to draw all the arrows and the dates in the picture. That is why we are also providing a table with all the historical data. The measure is angular degrees (º). The reading of the Compass can change between +90º (horizontal to the right, Excellent) and -90º (horizontal to the left, Dangerous). 0º is a neutral (vertical upwards, Average) reading.

Date	Reading of the Compass (Angular Degrees)	Change	Comment
2005	+64º		Currency board very stable
2008	+44º	-20º	Deterioration due to current account concerns
Jan 2010	+20º	-24º	Deterioration due to budget and recession concerns
Mar 2010	+9º	-11º	Deterioration due to budget and reforms concerns
Jun 2010	0º	-9º	Deterioration due to budget and reforms concerns
Oct 2010	+4º	+4º	Improvement due to exports growth
Feb 2011	+8º	+4º	Improvement in many economic indicators
May 2011	+10º	+2º	Smaller concerns about the budget
Aug 2011	+12º	+2º	Small budget and trade deficits
Dec 2011	+14º	+2º	Conservative 2012 budget, some pension measures
Feb 2012	+20º	+6º	Troubles in the Eurozone; good 2012 budget
May 2012	-5º	-25º	Fiscal reserves falling sharply. Intentions to spend the Silver Fund
Nov 2012	+5º	+10º	Successful Eurobond; good budget; Silver Fund forgotten
Jan 2013	+15º	+10º	Almost balanced 2012 budget
Feb 2013	0º	-15º	Government resigns; fiscal reserves depleted; pre-election populism

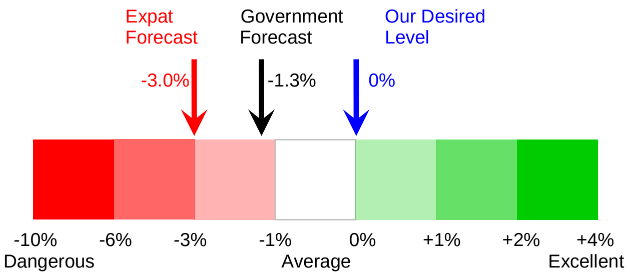
How to assess the stability of the currency board and to predict any danger of devaluation? We suggest the following check-list of 16 questions and provide our answers:

ISSUE	OLD	NEW	COMMENTS
I. Political issues			
1. Does the government support the currency board?	+++	+	Which government?
2. Does the Central Bank support the currency board?	+++	+++	Yes, absolutely
3. Do the European institutions (EC, ECB) support Bulgaria in joining the ERM II and the Eurozone?	--	--	Not much
II. Budget and debt			
4. Budget balance	+	-	Deficit risks for 2013
5. Budget spending	+	-/+	Spending risks in 2013
6. Government debt	++	+	Very low, rising
7. Foreign liabilities of the private sector	--	--	High, falling
8. Fiscal reserves	-/+	--	Falling dangerously
III. Economic cycle related issues			
9. GDP growth	-	-	Just above zero
10. Inflation	+	+	Moderate
11. Unemployment	--	--	Average, rising
12. Strength of the banking system	+	+	Average
IV. External balances			
13. Current account deficit, trade deficit	-	-	Back to negative
14. Foreign direct investment	-	-	Low-to-average
15. Revenues from international tourism	++	++	Moderate
16. Foreign exchange reserves	++	++	High

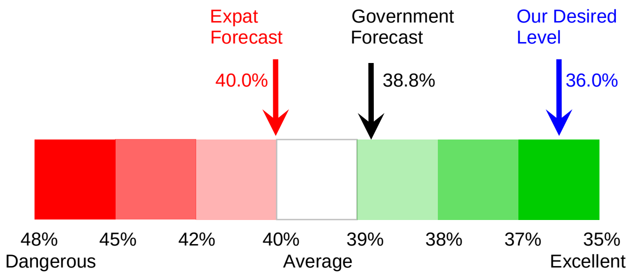
Legend: Good Bad

INDICATORS, 2013

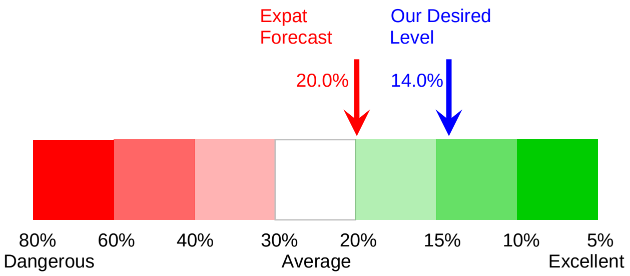
I) Budget Surplus/Deficit, % GDP, 2013



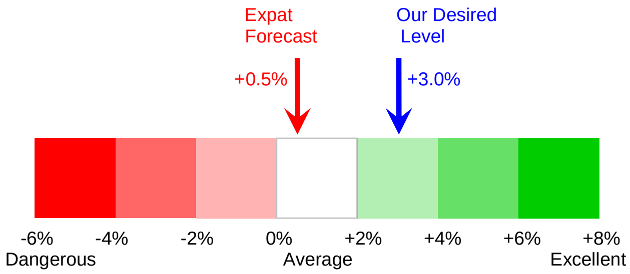
II) Budget Spending, % GDP, 2013



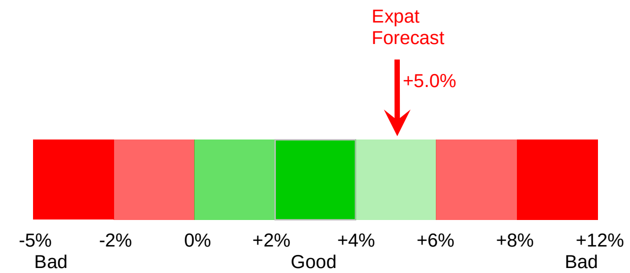
III) Government Debt, % GDP, 2013, Year-End



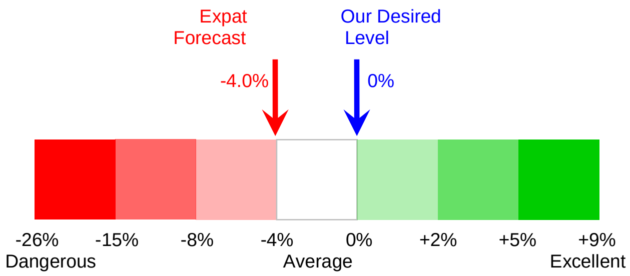
IV) Real GDP Growth, %, 2013



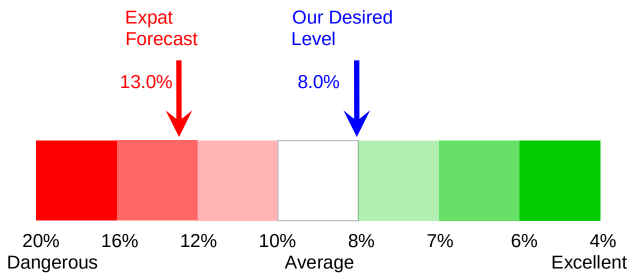
V) Inflation, %, 2013, Year-End



VI) Current Account Deficit, % GDP, 2013



VII) Unemployment, %, 2013, Year-End*



** The changed methodology results in lower reported unemployment numbers*

FINANCE MINISTER DYANKOV* SURPRISINGLY RESIGNED ON MONDAY. THE GOVERNMENT HAS ALSO SURPRISINGLY RESIGNED TODAY

On 18 February 2013, Simeon Dyankov, Deputy Prime Minister and Minister of Finance resigned – obviously forced by the Prime Minister. While some people might have expected this to happen due to the minister's low popularity ratings, we have to admit the move has taken us by surprise.

Today, 20 Feb 2013, the government has also resigned.

The move is a technical precedent

Since 1990, Dyankov has been the first finance minister not to serve the government's whole term. Even in 1996-97 when Bulgaria suffered a deep financial/currency/ hyperinflation crisis, the finance minister was not changed (well, the whole government was). In contrast, not a single minister of economy served a whole term in that position. Regardless of whether the governments survived for 2 years (1992-94, 1994-96) or 4 years (1997 onwards), each cabinet has had 2 or even 3 economic ministers.

Now, this situation has technically changed. The Finance Minister is likely to stay in the government until there is a new cabinet.

The BGN840m payments to agricultural producers and the new urgent local bond issue

In the last few days, the following things happened:

- The Minister of Agriculture had apparently promised that the agricultural producers would receive their BGN840m (1% of GDP) of subsidies by 31 Jan 2013.
- Such payments are normally made by the government first, and then reimbursed by the European Commission within 45 days or so. Under normal circumstances, such an amount should not be a huge problem for the government.
- However, the fiscal reserves have been dangerously depleted to BGN3.5-4bn (we think this was the level before the agricultural payments). The minimum level stipulated in the 2013 budget law is BGN4.5bn (enforced at year-end, not at any moment during the year). Securing an additional amount of BGN840m is obviously not easy, or rather impossible.
- The finance minister suggested that the payment should be postponed till March-April when tax revenues are usually higher and the budget might even be in a surplus.
- However, after meeting with some agricultural producers, the Prime Minister demanded an immediate payment at any cost. The finance minister must have had the opposite opinion.
- An urgent local debt issue of c. BGN800m has been organized. The local banks are pressed to participate. At a very low interest rate, of course. It is unclear whether the issue will be successful and at what terms.
- Dyankov has resigned on Monday.
- So has the government.

Our comments

- The style of this government has been to yield to almost all pressures from different sectors and interest groups.
- Promises to the agricultural producers should have been kept – or not made, if they would not be kept.
- In an election year, avoiding protests is obviously a bigger priority than fiscal stability. A negative sign. Déjà vu.
- In substance, paying BGN840m to the agricultural sector is not a huge problem – as the expenses should be reimbursed by the European Commission very soon. The effect on the annual budget is neutral. Then, why is all this such a big deal? This little episode definitely does not justify the resignation of a finance minister.
- The removal of a conservative finance minister who says no to a payment is a negative signal to strategic investors and to the financial markets.
- The removal of a finance minister a few months before the elections is not a good sign in general. The following events proved the hypothesis that a government is likely to fall if the finance minister is changed.
- Issuing a large amount of local debt maturing in August 2013 (shortly after the parliamentary elections) is not a sign of good taste. On the one hand, the EC is likely to reimburse this amount in April. On the other hand, in an election period, it is not certain that the money from Brussels will be used to repay this debt instead of being spent on something else. The refinancing of this debt instrument in August might be the next minister's first task – unless the fiscal reserves are comfortably topped-up, which is now less likely.
- Most of the BGN800m will come from local banks. This would squeeze out a lot of liquidity from the banking sector. Not good for the economy. In the economics textbooks, this is called the 'crowding-out effect.'
- The real problem is the low level of fiscal reserves. How come the reserves are so low – again? The year must have started with underperforming tax collection.

** In this document, we spell the name as Dyankov – according to the official transliteration rules. In other sources, the name is spelled as Djankov or Diankov*

Dyankov is a reformer in a somewhat populist government

The finance minister is liked or disliked for a number of reasons. Overall, Dyankov is one of the few reformists in this cabinet. His ‘ideology’ broadly coincides with that of the recent generation of technocrats in the previous governments: pro-market, pro-privatization, low direct taxes and social security contributions, low government spending, low budget deficit.

Dyankov tried to push reforms in other sectors

In 2009, the ‘early’ Dyankov had the positive ambition to reform just about all sectors in the social and economic sphere. However, in order to fulfill a maximalist agenda, one either has to be a strong prime minister, or to have the support of a strong prime minister. Not always the case. Here are some of the examples:

- Deep restructuring of the Bulgarian Academy of Sciences. No success, just a rude stand-off between him and the academic community.
- Reducing the headcount in the Ministry of Interior. Partial success.
- Reducing the number of civil servants in the state administration. Probably partial success – we have not seen definite numbers. The other ministers have not gladly reduced their staff. Déjà vu, again.
- Closing down of many loss-making municipal hospitals. No success. The Prime Minister withdrew his support for these steps.
- Supporting ideas to reform the pension system. Not much success. The Prime Minister withdrew his support for this reform.

Too bad the reforms were not pushed through. The next government might be even less reformist.

DYANKOV'S FOUR BIG SUCCESS STORIES

1. The budget did not blow up – in contrast with many other countries

Please read also our criticism about the budget policy below – as the numbers can be interpreted in two opposite ways.

Although Bulgaria was badly hit by the crisis in 2009, the success on the budget front has been quite good – if not compared to Bulgaria's strong achievements in 1998-2008, then at least in comparison with dozens of other countries lately. The budget deficit in 2011 was -2%, falling to just -0.45% in 2012 – the third lowest in the EU.

As a result, Bulgaria still has the second lowest debt/GDP ratio in the EU – around 18%. The country is in a great financial shape compared to just about everyone else in Europe. True, this is the achievement of the previous 3 governments which ran fiscal surpluses.

In our November 2012 issue of Expat Compass (#11), we wrote the following:

> *The **budget** has had a **surplus** in Jan-Sept 2012 of BGN248m (+0.3% of the annual GDP). Excellent. Based on economic considerations alone, the year might even finish with a surplus. However, at year-end, governments typically spend large amounts which are difficult to estimate. Thus, we are lowering our 2012 budget deficit forecast from -2% to -1.2%. A surprise on the positive side (i.e., a lower deficit, of course) is possible.*

In November, we were expecting the deficit to reach -1.2% due to the typical year-end spending of a government preparing for elections. However, we were positively surprised by the decision not to pay a Christmas bonus to pensioners. Dyankov justified this with the fact that the last 2012 payments from the European Commission (which had budget troubles of its own) came on the very last working day of the year. While this might be technically true, we value positively the finance minister's efforts to reduce the deficit by avoiding all additional spending items.

2. Budget spending has been low

In most of the previous issues of Expat Compass, we have expressed our support for the policy of low government spending – possibly the lowest in the EU as % of GDP (see issue 11, p. 9 of Expat Compass). We approve of the following policies:

- Public sector wages have been more or less frozen since 2009, with some exceptions. They have also not been reduced
- More importantly – pensions have been frozen since 2009. They will rise by an average of c. 9.3% from April 2013. They have also not been reduced
- More money has been poured into infrastructure

We have critically argued in the past that the low levels of spending might not have been a result of deliberate policies, but the consequence of lower-than-expected tax collection. Either way, we favour lower spending – hence we consider this a success story.

3. Direct taxes and social security contributions have been kept low

Bulgaria can be proud of having the lowest direct taxes in Europe and some of the lowest in the world:

Table 1. Direct Taxes in Bulgaria

Flat personal income tax rate	10%
Tax on corporate profits	10%
Dividend withholding tax	5% (0% for legal entities)
Tax on capital gains from stocks/bonds/mutual funds	0%
Profit tax for REITs (Real Estate Investment Trusts)	0%

We highly value the fact that the present government has not increased the tax rates from the current low levels. There is no guarantee the same policy will continue in the future, though. Watch the next parliamentary elections this year.

One small exception which partially tars Dyankov's policies in the tax area is the introduction of a 10% withholding tax on income from bank deposits from 2013 – for the first time in Bulgaria. We disapproved.

Social security contributions were decreased by 2 percentage points in 2010 (compared to Dyankov's preelection promises of -5%), but were increased by 1.8% afterwards. The cumulative change is marginal, but at least the level of contributions has not risen.

4. Successful Eurobond issue in 2012. Credit rating

As we discussed in the November copy of Expat Compass, the EUR950m Eurobond issue in 2012 was successful. The initial yield was 4.436%. More recently, the yield has fallen to 1.75-1.97% – in line with the bullish global bond markets. Not a bad achievement for a country which collapsed financially just 16 years ago. Compare this to the debt troubles of Greece, Italy, Spain, etc.

Bulgaria's debt is trading within the same yield range with countries such as Poland which has an A rating.

Bulgaria has been one of the few countries in Europe whose credit rating has not deteriorated since 2009. Until last week, we thought that new upgrades to the 'A' credit rating territory would be justified. Whether this will be the case will depend on the policies of the future government.

DYANKOV'S SEVERAL WRONG MOVES

While our overall assessment of Simeon Dyankov's work is positive, in the previous issues of Expat Compass we have consistently criticized some of the Finance Ministry's moves. Here are the seven most important examples.

1. Five years of budget deficits – the habit has become an addiction

In the 'positives' section above, Dyankov's number 1 success story is the low budget deficit. However, we also consider it his number 1 failure, too.

Allow us a more popular illustration: *"My daughter only smokes a few cigarettes per day".* If she smoked 3 packs a day and has reduced the amount to 6 cigarettes – good. But if she was a non-smoker and has now become a permanent smoker – not good. Whether the cigarettes are 6 or 26 is a secondary question and a question of time, as millions of happy/unhappy smokers would agree.

Dyankov has been the first finance minister since the financial crisis in 1996-97 to allow budget deficits in all 5 years of his term (counting 2009 as well as 2013). Dyankov has also been the first finance minister since 1996 to amend the budget. Twice – in late 2009 and in early 2010. Signs of weakness. Running a deficit in a recession year might sometimes be inevitable. However, planning for deficits during all years has changed the paradigm. Bulgaria had broadly balanced budgets in 1998-2003 (+/-1%) and achieved record surpluses in 2004-2008 – cumulative 15% of GDP. As a result, the country:

- reduced its debt/GDP ratio from over 105% in 1997 to 13.7% in 2008
- improved sharply its credit ratings from deep Junk to Investment Grade
- accumulated large foreign exchange reserves and fiscal reserves

Since 2009, a permanent policy shift has occurred:

- the debt/GDP ratio has risen to 18%
- the fiscal reserves have fallen by 60%

The country might now face a lasting period of chronic budget deficits. A reminder of the mess of the early 1990s.

2. Partial nationalization of the private pension funds

The process of privatization has dominated the last 23 years in CEE. In Bulgaria, only 2 nationalizations have happened, as far as we remember – a part of the professional private pension funds, as well as the stock exchange (see point 6). Both were not the idea of leftist governments but of minister Dyankov.

The private pension funds (Pillars 2 and 3) were created after 1999 and have accumulated some BGN6bn since. À-la-Viktor-Orbán (the Hungarian prime minister who nationalized most of the private pension funds worth c. EUR10bn), the government envied the pile of cash the pension funds had accumulated, and tried to take it away in order to finance its current spending. A terrible idea, in our view. The broad public opinion found the move scandalous, and a compromise was forged – only c. 3% of the money was taken away and moved to the state budget. We strongly disapproved. Later, the move was declared unconstitutional by the Constitutional Court. However, a bad precedent was created.

3. An attempt to squander the Silver Fund

In early 2012, as the fiscal reserves diminished again, minister Dyankov decided to put his hand on the c. BGN1.8bn accumulated in the Silver Fund (see issue 10, p. 16 of Expat Compass). His idea was to change the corresponding legislation so that up to 70% of the Silver Fund (which is a large part of the fiscal reserves) can be invested in Bulgarian government debt. We strongly opposed this intention as we considered it *spending,* not *investment.*

Fortunately, the idea was abandoned after the fiscal reserves were topped up by the new Eurobond issue, and the government's financing needs were not so acute. As we now can see, this alleviation has been only temporary.

4. Failure to join the Eurozone. Or OECD

At the beginning of the mandate, Dyankov announced that joining the Eurozone was the government's biggest foreign policy priority. We agreed. However, although it was (and still is) one of the very few countries meeting the Maastricht criteria, Bulgaria soon realized it was not welcome in the "Big Boys' Club". The reasons are primarily political, not economic.

A membership in the OECD is still governments away.

5. Introduction of a 10% tax on income from bank deposits

In order to secure budget revenues for the planned April 2013 pension increase by 9.3%, Dyankov surprisingly introduced a 10% withholding tax on income from bank deposits. Bulgaria was one of the countries without such a tax – in line with the country's general low tax policies. We disapproved (see issue 11, p. 17 and 23 of Expat Compass).

6. Nationalization of the stock exchange

As we discussed in previous issues, we are disappointed that the Ministry of Finance acquired a majority stake in the Bulgarian Stock Exchange – Sofia through a unilateral capital increase. Allegedly, the idea was to create a majority stake which would then be easily sold to a strategic investor in a privatization deal. We expressed our fears that such a deal would not happen, and the stock exchange would remain state-owned for an indefinite period of time. So far, we have not been proven wrong.

7. Relocation of the state administration out of the capital

A less significant idea was to relocate some parts of the state administration outside of the capital Sofia to other cities. Our reaction was also negative (see issue 10, p. 18 of Expat Compass). We would not call this a reform. Our prediction is that the next cabinet will bring the 40 people of the Tourism Department from Plovdiv back to Sofia. Or not – whatever.

A FEW THOUGHTS ABOUT ELECTRICITY DISTRIBUTION

In this express issue of Expat Compass, we will not be able to analyze in depth the policies in the energy sector. However, much of the current political turbulence in Bulgaria is due to mass protests nominally directed against the high electricity bills in December, but ultimately due to the generally low income level of the population. Dozens of thousands of people around the country have taken to the streets. The protests evolved in a broader anti-government direction, which forced the Prime Minister to sacrifice his finance minister.

We would divide our brief comments into four parts:

Nationalization should be a taboo

We absolutely disagree with some demands that the EDCs be renationalized. We see that as the worst solution. An anti-solution, actually. The government and the Prime Minister have also ruled out nationalization. Here are some of our arguments:

- Nationalization looks quite unconstitutional
- It would mean that the government should pay an enormous amount of money (say, a billion) to the foreign investors, which it does not have
- The international outcry would be strongly negative

We actually think that no future government would nationalize the EDCs either irrespective of the populist pre-election rhetoric of some political players.

The EDCs are no saints and should be tightly controlled by the regulator

While we do not agree with some of the populist comments, some of the allegations seem to be true:

- The EDCs have successfully circumvented public procurement regulations
- Many of their expenses have been reportedly made with related parties
- Some of the 'investments' might have been overstated
- Invoicing and retail price calculations have been less-than-perfect and transparent

A HIDDEN DEFICIT?

NIKOLAY NIKOLOV, ASSOCIATED PARTNER AT EXPAT CAPITAL

We believe the underlying causes for the existing misbalances in the electricity market lie to a large extent withing the National Electric Company (NEC). Several successive governments have not taken action towards privatization of the state-owned generation and high voltage distribution assets. All governments in the past decade have used this as an instrument for keeping the end-user electricity prices the lowest in the EU. This comes at a cost, however.

The current financial situation of NEC suggests the company has severe cash-flow problems and has difficulties servicing even usual commercial payments. A substantial debt repayment is due in May-June 2013 which the government was hoping to refinance by issuing a NEC corporate bond in the amount of EUR300m. Given the recent developments, this is unlikely or will come at a substantially higher cost. If we add to this the undisclosed liabilities under the Belene NPP breached contracts and the ongoing loss making of the company, we will not be surprised, if the overall debt level at NEC can exceed EUR1bn. Without trying to get into much bigger details, we believe this deficit will eventually be paid by the taxpayer either through a state-guaranteed bond issue or via a direct capital increase.

Can the EDCs' licenses be revoked? We do not expect this to really happen

At the height of the political turmoil in the last few days, first the minister of economy and energy mentioned the possibility of taking away the license of ČEZ (a company from the Czech Republic – operating in Sofia and Western Bulgaria). On Tuesday, the Supreme Administrative Prosecutor's Office asked for this officially, quoting a number of well-known previous abuses of the company. At a special preconference on Tuesday, the Prime Minister said that 'by the end of the day, the license of ČEZ will be taken away.'

The situation is obviously changing by the day. At this moment, our view is:

- We consider this talk to be purely political – not professional. The only goal is to appease the protesters *today* by saying what they would like to hear.
- Whatever the three EDCs might have done, their behaviour hardly qualifies for a capital punishment.

- We are entering an unchartered territory. Many questions arise:
  - What about the rule of law? How do you revoke the license of an electricity distribution company within one day without due process?
  - Why ČEZ and not the others? What separates ČEZ from the rest? The protests are national.
  - What do Prague and Brussels think about this?
  - Will ČEZ, the largest publicly listed company in Central Europe, not appeal in local court or in international arbitration? How many months/years will the case go for?
  - Who will win in court? We would rather put our money on ČEZ winning.
  - If the government loses an arbitration case, how much will Bulgaria have to pay for the damages the company has incurred? A billion?
  - What are the implications for private sector business and investment in the country in general, especially in regulated sectors?

As an illustration, during the similar protests against the high petrol prices and against the monopolies in the oil sector a couple of years ago, the government revoked the license of Lukoil's large oil refinery in Burgas (the excise warehousing license). Lukoil appealed in court and won. Thus, no damage was done to anyone, but the government 'demonstrated' some activity.

To summarize, we do NOT actually think ČEZ will lose its license. This was our view even *before* the government's resignation.

The government has resigned…

On Tuesday, 19 Feb, the Prime Minister suggested that ČEZ's license should be taken away within a day in a desperate attempt to save the government. After the resignation, we think ČEZ will be quickly forgotten, and everyone's attention will be directed towards the parliamentary elections.

The real solution is competition and liberalization

Bulgaria is lagging behind in the liberalization of the local energy market. Consumers face only one regional EDC-monopoly from which they can buy electricity. As long as this is the case:

- governments will be chronically blamed for the energy prices (although the Bulgarian electricity prices are the lowest in the EU)
- EDCs will be tempted to continue abusing consumers' interests
- there will be a constant upward pressure on prices

In contrast, the telecoms sector was liberalized a long time ago. As a result:

- the prices of telecom services are no longer the government's problem
- competition has dramatically reduced the prices and improved the quality of services
- for example, today Bulgaria is ranking #1 in the world in terms of the fastest and the cheapest internet for the population (Romania and Korea and #2 and #3)

THE MORAL FROM IT ALL

NICOLA YANKOV, MANAGING PARTNER AT EXPAT CAPITAL

The recent developments in Bulgaria have outlined the real and present danger of political unpredictability, which is otherwise known as political risk. The disregard for contractual commitments and standing legal norms on the part of the government, which rather easily jumps to arbitrary action to the tune of street crowds or major local interest groups, is alarming and a sign of institutional and political immaturity. Industry regulators, supposedly independent by law, rush to oblige the will of the political strongmen. Unfortunately, the latest local events have fallen in line with a well-established leftist trend in CEE, running from Hungary, through Slovakia, Romania and now Bulgaria. The effective sacking of the most conservative and pro-austerity member of the government is a clear sign that the political establishment in Bulgaria is spiraling towards a populist election campaign full of unpleasant surprises for the private sector.

We foresee a difficult year ahead in terms of fiscal balances and private sector investment. There is no time for a major shift in economic policies before the elections, but the sour mood from the latest events is bound to linger on for quite some time, dampening business prospects, which will ultimately result in lower-than-expected economic growth.

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