Issue 8 December 2011

expat compass

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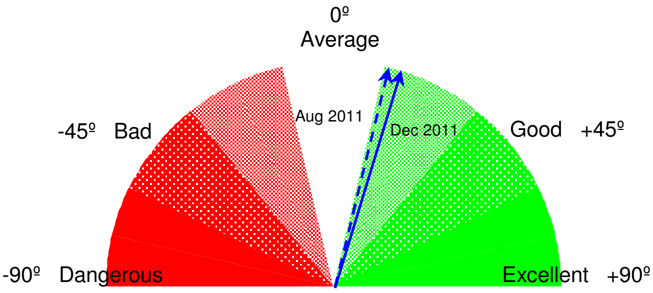
EXPAT CURRENCY BOARD WATCH



OUTLOOK: STABLE/POSITIVE

We are optimistic about the currency board and see no immediate danger of devaluation (see page 2).

GUEST COMMENTS:

ARTICLES:

POSITIVES: THE BUDGET, BULGARTABAC, PENSIONS

We are moving the needle of the compass in a **positive direction** again, for the following reasons:

1) The **budget** has only seen a small deficit year-to-date. We are lowering our year-end forecast from -2.5% to -1.9% deficit
2) The 2012 budget has been passed with a low deficit of -1.3%
3) The retirement age has started to rise, although slowly – see pages 15-16
4) Bulgartabac, the tobacco and cigarette producer, has finally been sold after 5 attempts for 2 decades
5) The ruling party performed well in the Oct-Nov elections
6) The current account is not among the economic problems in 2011
7) The banking system has reported good profits for Q3 2011

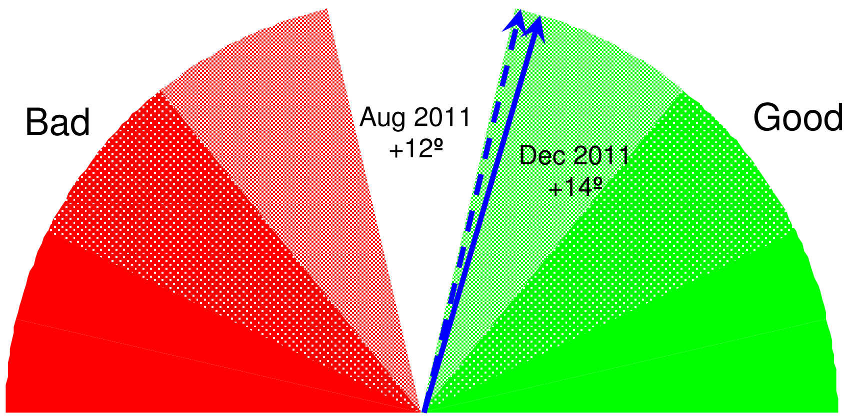
HOWEVER, OUR GENERAL CRITICISM REMAINS

1) No decision has been made yet whether the **Belene** nuclear power plant will be built or not. We do not expect any decision at all
2) No other **privatization or concession** deals
3) **Low net FDI** year-to-date. Some large foreign investors are trying to sell their assets in Bulgaria
4) **No important reforms**
5) Nothing interesting in the **capital markets**

ISSUES TO WATCH

1) The level of NPLs (non-performing loans) in the banking system
2) The slightly rising trade deficit in the autumn of 2011
3) The downgrade of the credit rating outlook from Positive to Stable by Fitch

OUTLOOK: STABLE/POSITIVE



In the last year, the main issue of concern for the business community in Bulgaria and globally has been the debt crisis, including in Greece and in Western Europe. Bulgaria has not been directly hit by these tremors. While high economic growth cannot be expected in Bulgaria soon, here is our positive conclusion:

We are optimistic about the currency board and see no immediate danger of devaluation.

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

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
August 2011	+12º	+2º	Small budget and trade deficits
December 2011	+14º	+2º	Conservative 2012 budget, some pension measures

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.

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?	++	++	Yes
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, moderate
5. Budget spending	++	+++	One the lowest in the EU
6. Government debt	+++	+++	Very low
7. Foreign liabilities of the private sector	--	--	High, falling
8. Fiscal reserves	+	-	Must not go lower
III. Economic cycle related issues			
9. GDP growth	-	-	Close to zero
10. Inflation	++	++	Moderate, rising
11. Unemployment	--	--	Rising
12. Strength of the banking system	+	+	Average
IV. External balances			
13. Current account deficit, trade deficit	+	+	Improving fast
14. Foreign direct investment	---	--	Above zero
15. Revenues from international tourism	++	++	Moderate, rising in 2011
16. Foreign exchange reserves	++	++	High

Legend: Good Bad

1) We are satisfied with the **low level of budget spending** (#5 in the list) as % of GDP. The public sector is by definition less efficient. Thus, we would not favour 'tax-and-spend' policies. Bulgaria is very likely to have the lowest % of government spending in the EU for 2011 and 2012.

2) While there has been no major change in the level of the **fiscal reserves,** no efforts are being made to increase them. The 2012 budget allows the government to borrow significantly more. Thus, we are lowering our assessment (#8).

3) The **economy and business sentiment** are weak. We are reducing our 2011 GDP growth forecast again from +2.5% to +1.5%. 2012 growth might be even weaker. We would be happy to see at least +1%.

4) The **budget** has been in a good shape, and in line with our expectations. For Jan-Aug 2011 the deficit was BGN -731 mln, -1% GDP. Our 2011 budget deficit forecast: -1.9%, improved from the previous -2.5%. Now that the Oct-Nov elections are finished, the risks of excessive year-end spending are not so high.

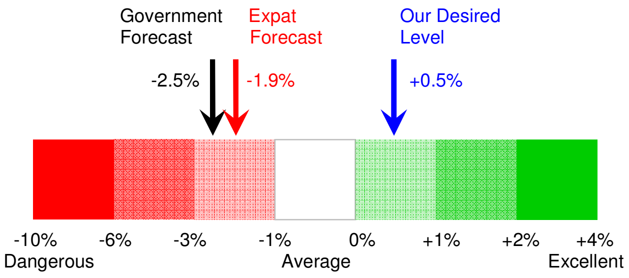
5) The **current account** has seen a surplus during some of the months in 2011 – for the first time for over a decade. This is both due to the rising exports and to the low domestic demand. This is excellent news from the point of view of the currency board.

6) However, as we wrote in the 7th Expat Compass, this is coupled with net capital outflows due to the **repayment of foreign liabilities** by the private sector – a logical and good trend by itself, but not positive for the forex reserves.

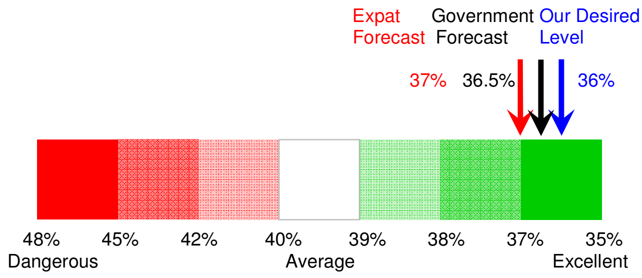
7) **FDI** is now above zero. Expecting the usual upward revisions of past FDI data, the final number for 2011 might reach EUR 1 bn – above our previous expectations.

INDICATORS, 2011

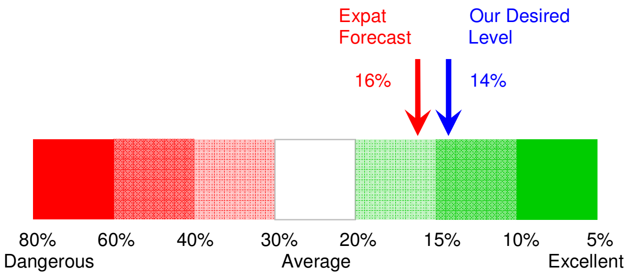
I) Budget Surplus/Deficit, % GDP, 2011



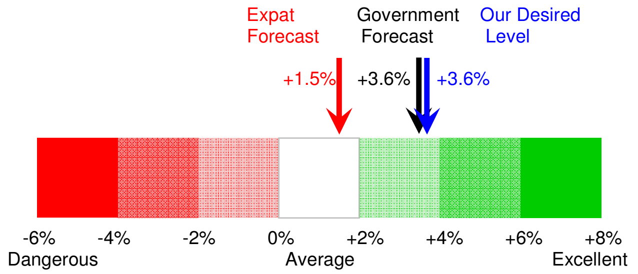
II) Budget Spending, % GDP, 2011



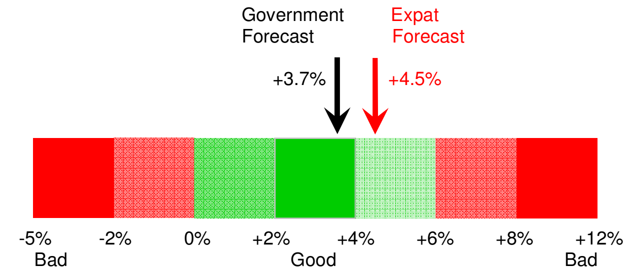
III) Government Debt, % GDP, 2011, Year-End



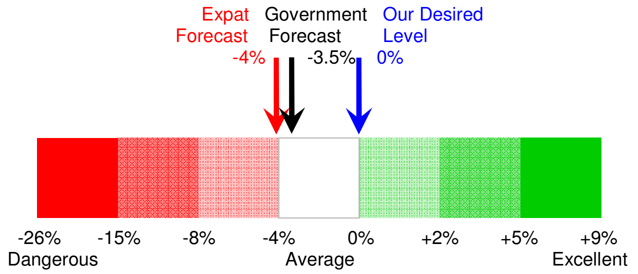
IV) Real GDP Growth, %, 2011



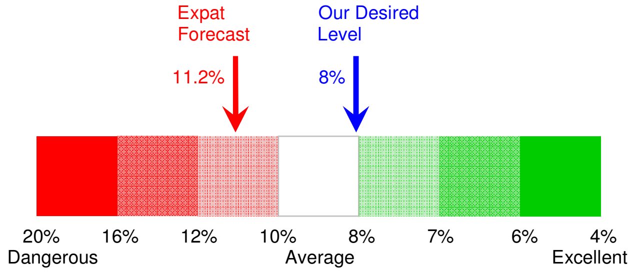
V) Inflation, %, 2011, Year-End



VI) Current Account Deficit, % GDP, 2011



VII) Unemployment, %, 2011, Year-End



expatcapital

SHORT GEOGRAPHICAL ANALYSIS OF THE BULGARIAN EXPORTS AND IMPORTS

EXPORTS

Over the last several years, the issue whether rising exports are a preferred source of economic growth has been widely discussed in Bulgaria, as well as on the pages of *Expat Compass.* Once again, we would like to draw our conclusions:

- In any time period, exports are the healthiest source of economic growth
- They bring foreign currency into the country; improve the trade balance and the current account
- Exports provide growth opportunities for the most competitive companies in the country
- Export-oriented companies create jobs, pay taxes (not VAT). While the direct exports revenues benefit a small number of companies, the indirect effects disperse to the rest of the economy. Thus, exports also expand domestic demand

It is true that there can hardly be sustainable growth without growing domestic demand. However, the fact that households do not consume and domestic-oriented firms do not invest, is not the fault of exporters. Without the successful exporters, growth and average incomes would be even lower.

The total size of exports

Looking at the overall amount of exports since 1995, a few phenomena can be observed:

- During the domestic crisis in 1997, exports were high. Bulgarian producers were looking for external markets, and the trade surplus reached an all-time high
- The lowest point of exports in absolute numbers and as % of GDP was in 1999, when industrial production also reached its all-time low
- Exports grew steadily between 1999 and 2008, and increased over 4 times in absolute terms
- Exports fell sharply year-on-year by 23% in 2009 due to the global crisis but increased to new record levels in 2010 and 2011

The role of the EU

The EU has obviously been Bulgaria's main trading partner. However, the share of the EU-15 in Bulgarian exports reached a maximum of 56% in 2002-03. Since then, it has fallen to below 50% – as was the case before 1997. The recent problems of Greece are a part of the reason.

However, the main reason for the falling share of the EU-15 is the sharply rising share of the new EU members. Their weight as an exports market for Bulgarian goods was steady at around 5% till 2000, but rose impressively year after year to surpass 15% in 2010.

In absolute numbers, exports to the new EU members grew over 12 times from 1999 to 2010. This trend is likely to continue, and can be explained by:

- the geographical proximity of these markets (Romania, Hungary, etc.)
- the higher growth of Eastern Europe compared to Western Europe
- the fact that the former COMECON partners destroyed their economic ties after 1990, but are now rediscovering each other again

Other regions

The role of the Americas has unfortunately fallen. Exports to Russia are rising, although from a very low base. The share of the Balkans (ex Romania and Greece which are EU members) has been stable at above 15% mostly due to Turkey. Asia's share has risen a lot since 2002.

Are these trends good?

Our view is relatively neutral in this respect. We believe that the high overall growth of exports is more important than their geography. While a high and rising share of the EU would mean a larger degree of EU integration, revenues from other markets are equally important. Some diversification of markets is better than too much concentration. The current crisis in the Eurozone should press companies to look for new markets.

The breakdown of exports into 4 groups

Table 1 (page 6) shows the breakdown of exports into 4 large groups (consumer goods, raw materials, investment goods, and energy resources). While revenues from any of the 4 groups are equally important, we could argue that exports of investment goods are more prestigious and provide higher value added than raw materials.

After reaching a low point in 2000, the share of investment goods in Bulgarian exports has been rising steadily from 11.4% to 17.1%. Although this corresponds to a 4.5-time increase in absolute terms, the number is still low. A number over 25% would be a better achievement for the Bulgarian economy, but is unlikely in the medium term. The share of energy has risen, while consumer goods have fallen. Raw materials still account for almost half of all exports – not impressive.

IMPORTS

The total size of imports

The total size of Bulgarian imports reported a sufficient and steady growth from 1995 to 2008. The nominal increase of 6 times reflects the vigorous growth of the nominal GDP, investments, and the living standards of the population. The imports of consumer goods rose over 10 times for the same period, of investment goods – 9 times, of energy and raw materials – 4 to 5 times.

In 2009, imports decreased by 1/3 on average, due to the economic crisis. The slowdown in domestic investment resulted in a 39% fall in the imports of investment goods, while consumer goods imports decreased by 1/5. Foreign trade started growing again in 2010 and 2011, with imports rising more slowly than exports – positive for the trade balance.

The role of the EU

The EU is the major importer into Bulgaria. More than half of all imports come from the EU-25 countries. The EU-15 have lost some of their share from c. 50 per cent in 2002 to below 40 per cent in 2010, while the new 10 EU members have gained 6-7 percentage points for the same period.

The role of Asia

Asia has also played a major role in the increase of Bulgarian imports. According to the statistics, raw materials imported from Asia have reported two significant rises in 2001 and in 2007-2008. In addition, between 2001 and 2008, consumer goods imported from Asia increased 8 times. Having in mind that Asia has become a major producer of consumer goods, its share is expected to rise further.

Energy imports from Russia

The main difference between the geography of the Bulgarian exports and imports are the imports of energy products from Russia, mostly oil and natural gas. They increased c. 6 times between 1998 (when Bulgaria was in an economic slowdown, and oil was cheap) and 2008 (when Bulgaria was booming, and oil prices reached record levels). Obviously, both trends reversed sharply in 2009.

STATISTICS

Table 1. Imports and exports by regions, in EUR mln and as % of the total exports/imports

REGION	EXPORTS			IMPORTS		
	2000	2009	2010	2000	2009	2010
EU 15	2,684	5,923	7,107	3,119	6,749	7,239
	51.1%	*50.6%*	*45.7%*	*44.0%*	*40.0%*	*37.6%*
EU – new member states	267	1,664	2,355	631	2,248	2,601
	5.1%	*14.2%*	*15.1%*	*8.9%*	*13.3%*	*13.5%*
Europe – others (incl. Russia	277	634	1,183	2,031	3,211	4,001
	5.3%	*5.4%*	*7.6%*	*28.7%*	*19.0%*	*20.8%*
Balkan countries	1,110	1,684	2,423	291	1,314	1,600
	21.1%	*14.4%*	*15.6%*	*4.1%*	*7.8%*	*8.3%*
America	296	265	325	432	982	1,031
	5.6%	*2.3%*	*2.1%*	*6.1%*	*5.8%*	*5.4%*
Asia	334	910	1,342	356	2,207	2,577
	6.3%	*7.8%*	*8.6%*	*5.0%*	*13.1%*	*13.4%*
Other countries	286	619	826	225	165	195
	5.4%	*5.3%*	*5.3%*	*3.2%*	*1.0%*	*1.0%*
TOTAL	**5,253**	**11,699**	**15,561**	**7,085**	**16,875**	**19,245**
	100.0%	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***
Consumer goods	1,564	3,290	3,951	864	3,494	3,845
Raw materials	2,322	4,993	6,824	2,557	5,771	6,867
Investment goods	600	1,898	2,667	1,729	4,206	4,202
Energy resources	767	1,513	2,114	1,935	3,356	4,274
Others	0	5	6	0	38	57

Source: BNB

FISCAL DISCIPLINE LEADS TO ECONOMIC GROWTH

PETAR PESHEV

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Bull Trend Brokerage was established in 1997. It is one of the first licensed investment intermediaries in Bulgaria. Since 1998, the company is a member of the Bulgarian Stock Exchange – Sofia, and the Central Depository.

The low public indebtedness predetermines a higher rate of economic growth

Having a small government debt should not be the only goal in itself, but countries with low debt progress faster than those whose budget spending traditionally exceeds revenues. When governments act in scarcity conditions imposed by severe budget constraints, this stimulates their inventiveness. Businesses and households have a wider scope of action to develop their enterpreneurial spirit.

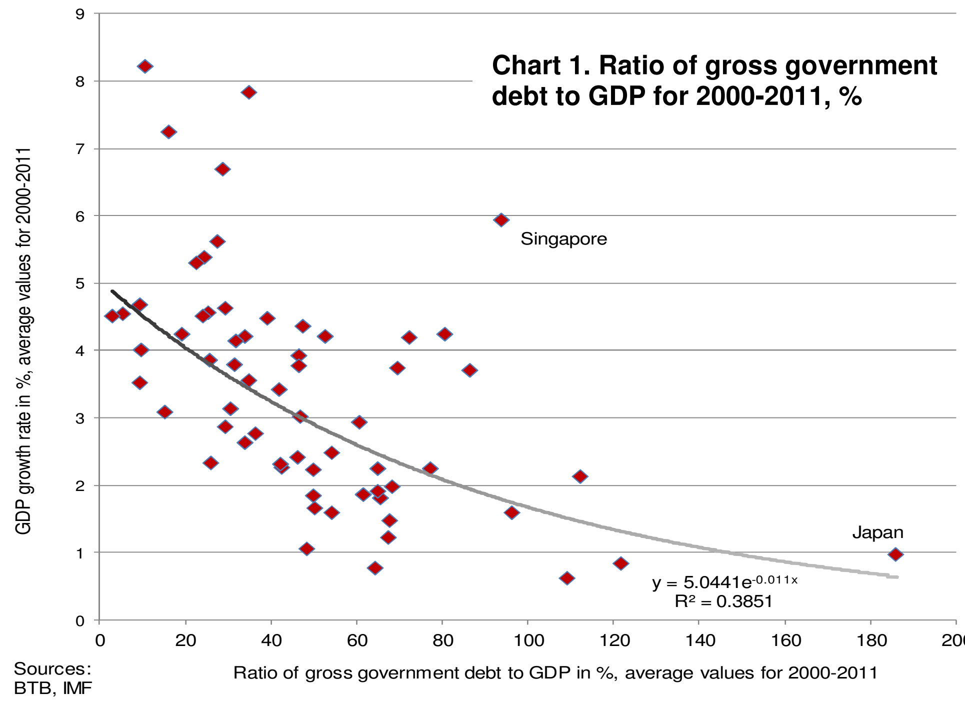
When governments issue debt and use the proceeds to finance higher pensions, salaries, and other social payments, then the scenarios from Greece, Portugal, Spain, and Italy happen – cutting public spending, and high unemployment levels, especially among the young people. This leads to a wave of protests, increased crime, and political uncertainty.

After a certain level of economic development (in emerging and industrialized economies with GDP per capita over USD 5,000), the rate of real GDP growth is inversely related to public debt. The higher the public debt, the lower the growth. This is partly due to the high costs of the debt service (interest + principal).

The basic economic law of diminishing marginal efficiency (or increasing marginal costs) is fully manifested at the national level. The more governments accumulated over the years budget deficits financed by debt issues, the lower the economic progress is. I.e., the effect turns negative at one point – when the accumulated debt becomes unsustainably high and threatens the system. The state administration has the ability of self-reproduction and self-expansion by conquering a larger share of the economy at the expense of the private sector. Politicians tend to promise generous benefits which "buy" electoral votes for them. But they never reduce government spending and implement reforms on their own, unless the economic circumstances and the financial markets force them. The countries from the periphery of Europe are recent examples of this – Greece, Spain, Ireland, Portugal, and Italy.

The chart below shows the relation between economic growth and the ratio of the gross government debt to GDP. Average values of the two indicators for selected countries for the period of 2000-2011 are used.

Chart 1. Ratio of gross government debt to GDP for 2000-2011, %



Sources: BTB, IMF

The relationship displayed is valid for countries with medium and high degree of economic development – the so-called emerging and industrialized economies. The poorest countries have high indebtedness because of the loans from international institutions, as well as a low GDP, accompanied with high rates of economic growth due to the low base from which they start. Most of the countries from Africa and South America, as well as the poor Asian countries, are excluded from this list.

The determination coefficient (R^2) shows that 38.5% of the economic growth data can be explained by the debt/GDP ratio. Of course, a more detailed econometric analysis is needed to determine the statistical importance of this regression and to show whether the addition of new variables would increase the explanatory value. However, with a naked eye, one could see that the rates of economic growth and public debt are moving in opposite directions.

The exception of Singapore

Why does a developed country such as Singapore have both a high economic growth rate and a high debt/GDP ratio?

Traditionally, government spending in Singapore is low relative to GDP, the country has often recorded surpluses. The high level of debt is due to the fact that about 60% of the GDP there is formed by companies with state majority ownership or such with a significant state share, and the debt of these companies is included in the statistics of the gross government debt. Singapore remains one of the most innovative economies where the state property is managed efficiently and does not suffocate the private initiative.

The successful anti-corruption policy, the low crime, the efficient judicial system, the high fines and harsh penalties provide the economic agents with clear and fair rules and procedures. Singapore is often at the top of the global charts as one of the best places for doing business.

What happened with the Japanese economic miracle?

Japan is quite the opposite. Between 2000-2011, the governments of the Land of the Rising Sun increased the gross debt from 142 to 230% of GDP. In the same period, the real product increased by 1% on average annually. This means that more and more trillions of yen pumped into the economy as government purchases and other economic incentives have led to increasingly less economic growth.

This happens every time when an economy surpasses its potential, and the governments try to keep the unsustainable level of wealth through all sorts of incentives (fiscal + monetary). The fiscal incentives lead to a mountain of debt which several subsequent generations would not be able to repay.

Countries such as Greece, Ireland, and Portugal virtually collapsed and turned to the European institutions, the IMF, and the World Bank for financial help of billions of euro. The fate of Italy and Spain is similar, and we will hear about debt problems more often in future.

Who are the economic tigers?

South Korea, Hong Kong, Taiwan, Slovenia, Slovakia, Bulgaria, Lithuania, Latvia, Estonia, Kazakhstan, Russia, Botswana, Chile and many others achieved phenomenal economic growth over the period. Their economies have been growing by 4-8% on average annually in real terms, while keeping a low level of debt.

Conclusions for Bulgaria

After the financial crisis in the mid-90s, the Bulgarian governments undertook responsibly the task to comply with a strict fiscal diet. Precisely because of the fiscal stability and the solid macroeconomic parameters, Bulgaria has often been in the forefront among the other CEE countries in attracting foreign investment as % of GDP, although most of this FDI has been invested in the property and financial sectors, which contributed to the formation of imbalances.

The low public debt and the relatively low government expenditures as % of GDP compared to the old EU member states helped the country achieve very rapid economic growth in 2000-2011. The Bulgarian politicians should not forget this interdependence, but this does not mean the low debt must be a primordial goal. There is nothing bad with state ownership in the economy, especially in sectors with a natural monopoly or oligopolistic structure. In Bulgaria, however, the state is associated with inefficiency and mismanagement. To break this trend, more and more real managers should manage state-owned companies. Over the last decade, public-private partnerships have been gaining ground in developed countries. Australia, Singapore, and Canada, for example, show that state and private sector can cooperate successfully.

It is worth to increase public indebtedness only in order to support the development of innovations, the production of goods and services with high added value, or the implementation of economic strategies of import substitution or export promotion that will ultimately lead to greater prosperity of the nation.

ZUGZWANG* IN THE WORLD ECONOMY

PETAR GANEV

The article is published in the bulletin of the Institute for Market Economics, August 2011

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Something is wrong. It is not necessary to have solid knowledge of economics to find one's way in the environment. The power in Europe is getting more and more concentrated, while the countries are competing with each other who will declare bankruptcy first – read: who will be rescued. The US played all the cards without any success – read: a downgraded rating and a destroyed stock market. The world markets are in a zugzwang position again, and on top of all this still the same political class is standing, saying 'we are not the guilty ones, yet we will fix you up'.

The wrong thing in this case is the complete disruption between the reality and the politicians' and bureaucrats' fantasies. None of them have changed – the main players on the US and the European scene from September 2008 are still the same. Today, they are still as confident as they used to be at the time. Yet, to be confident is part of their job description. There is no way Ben Bernanke will show up and says 'I don't know what is happening, probably we are going to sink'. And then the politicians complain that the markets are disobedient – read: disobedient to their fantasies.

What is happening in the last few months is becoming more disappointing. The level of adequacy of the politicians-bureaucrats fell to the critical minimum. The US entered into a technical dispute against Standard & Poor's and denied the reality. Obama said, in his opinion the country's status is AAA, and he does not accept such evaluations from credit agencies. His strongest argument was that Warren Buffet also thought so. Buffett's name was shot in the first 30 seconds of the President's speech. However, the NBC's frames were clear – Obama was speaking in his typical fastidious style, while in the little square next to him the Dow(n) Jones index was falling, coloured in red.

The situation is even more embarrassing in Europe. The so-called speculators are constantly discussed – 'the speculators attacked this and that country', 'we will get rid of the speculators', and so on. As if the only problem in Europe is the existence of some secret brotherhood, called 'speculators' which is wondering whose economy to destroy. This is a familiar story – the speculators have always been a preferred excuse in such cases. When Lehmann Brothers went bankrupt in September 2008, until the very last moment, Dick Fuld, Chairman and CEO, was whining about the 'speculators' and wanted protection from the Government. You want to play and win in the market, but when you totally mess up and the market starts chasing you, you start looking for protection and do not like the game anymore. It is the same with the governments – they promise, the markets finance them (on the taxpayers' shoulders), and everything is great. However, when the markets pull out and even bet against them, then they are called bad speculators, who should be sent to prison.

Leaving aside the rating agencies and 'speculators', the United Kingdom's excuses for the weak recovery are really interesting. In Q2 2011, the local economy performed weaker than expected, and the reasons for that were… the tsunami in Japan, the bank holiday in April, the Royal wedding and… the hot weather! No, these are not just someone's comments, but the official statement of the Statistics on the Island. There was a wedding and it was hot, could this be a reason why the economy is slow!? Just to remind you that the bad results for the last quarter of 2010 were caused by… the cold weather. It is easy to sum up that the slow recovery in the United Kingdom is due to the climate conditions – it is either cold or hot.

The actions of the European bureaucrats deserve attention, and these actions will influence our country the most. If the idea of the EU in the beginning was that people should be able to move, work, and invest freely throughout Europe, today the idea goes in an entirely different direction – not the liberties are of such importance, but the centralized decision-making by a group of people, chosen bureaucratically rather than democratically. The problems in Europe now are a good reason for further movement in that direction. We have a common currency; now we are working on a common fiscal policy and almost a common finance minister of the Union. There has already been a proposal for common taxes: a European VAT and European tax on financial transactions. Something called a European IMF is a fact, and it is rescuing governments and banks all around the continent. Amid all that, Spain decided to close its labour market for Romanian employees. Enough with the liberties, now it is time for the bureaucratic machine to work for itself.

In the end, the question remains what will happen from now on, and why the markets are fluctuating chaotically. The reason is simple – the lack of adequate market signals. The economic agents make their decisions based on the information they have and on the market signals.

That does not mean a politician should stand up and say that from now on everything will be fine. This is not a market signal, but a useless air movement in order to be shown on TV. The market signals come together with the prices, summing up the information by all the actors – the ones who demand and the ones who supply.

The same with money – the signals are hidden behind the interest rates there. When interest rates are low, this is a sign that savings might be increasing, i.e. preferences are directed to future rather than present consumption. The market seems to be saying that now is the time for long-term investments.

However, this is a fake signal because there are no larger savings, and the interest rate is just artificially kept at low levels with the help of the central banks and the money printing authorities. It is tricky and leads to the so-called boom – massive investments in unnecessary projects (Mises calls it 'malinvestments').

This is how we reached September 2008 when investments turned out to be a bubble, and the world economy collapsed. Everybody was surprised how the market players had done such nonsense, and the old story about greed ('animal spirits' by Keynes) came to the fore. However, this is not an explanation. People did not suddenly become greedier, simply the 'market' signals misled everyone. This is the only adequate explanation of how everyone was wrong at the same time. It is just because everyone was following the wrong signals of the artificially low interest rates.

All this still holds true today. The economic agents already know that the market signals are false. They know that interest rates are a political instrument and do not bring any information about the market preferences whether to invest or not. So everybody is in zugzwang. It is just like playing chess with closed eyes, without knowing the position on the board. You should be crazy to play anything.

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[1] Zugzwang – a chess term; an unfavourable situation for the player whose turn it is; every move is in practice worsening the position; the player had better do nothing until the situation changes (which is not possible in a chess game)

BULGARIA, THE CRISIS AND THE REFORMS

GEORGI ANGELOV

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A debt crisis, budget crisis, euro crisis, banking crisis, financial crisis – these are only some of the descriptions of the current problems of the European economy. Six EU members reached official rescue agreements with the IMF, while the ECB assists indirectly two other countries – i.e., almost one third of the EU countries already have problems with the access to markets. The budget deficits and the debts of most countries are above the permitted limits. The banks in almost half of the EU countries need additional capital in the amount of c. 115 billion euro in order to reach a capital adequacy of 9%. Various scenarios for the euro are under discussion, including a split or breakdown.

Where does Bulgaria stand?

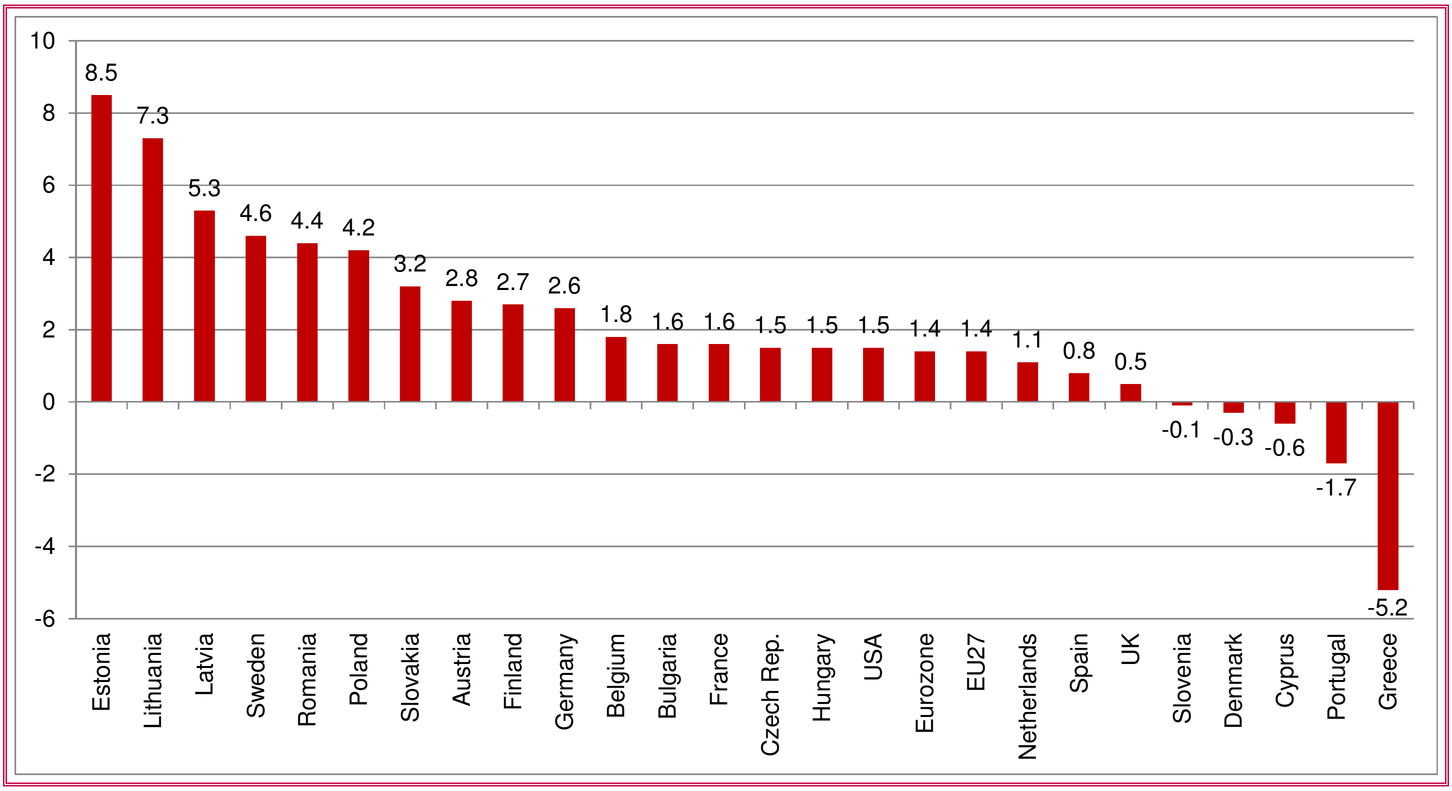
- Bulgaria did not have to look for rescue by the IMF, which places us in the better group of countries.
- Budget deficits were high in 2009 and 2010, which is sad because it led to a bad signal to investors, exactly when other countries in the region were on the verge of bankruptcy (all Bulgaria's neighbours except Turkey have agreements with the IMF). It is not by chance that foreign investment has dropped so much and so continuously. However, for the first ten months of 2011, the deficit is only 1.1% of GDP. With strict budget discipline, we will end the year with a considerable improvement. For 2012, a deficit of 1.3% is planned. If it is achieved, the bad stain from previous years will be erased to a large extent.
- The government debt of Bulgaria is the second lowest in the EU, right after Estonia. The net level is even lower, taking into account the fiscal reserve.
- The banks in Bulgaria are very well capitalized (18% capital adequacy). Liquidity is high, whereas the increase in local savings provides independence from foreign markets.
- The currency board is stable, while according to the National Bank Law the lev is fixed to the euro or the deutsche mark, if such a currency exists. I.e., even if Germany returns to its own currency, the currency board will automatically transfer to the mark. While Germany will have to overcome a lot of technical challenges in case its own currency is introduced – such as printing money, exchange of bills, changes in information and accounting systems, changes of price, etc. – Bulgaria will not have such problems.

Overall, Bulgaria stands firm – but the risks are increasing for all of Europe. The big challenge still remains – achieving high economic growth.

The challenge for growth

Bulgaria is in a region with a bad image, and the confidence in the Eurozone and the EU as a whole is falling. In addition, despite good measures such as the flat tax of 10% for citizens and companies, the business environment needs serious improvements. This represents a triple challenge which has to be taken care of simultaneously in order to achieve a steady increase in the investment and high and sustainable economic growth and employment. On the other hand, even in the current heavy crisis there are quite a few counties in the EU which have reached high and even record rates of economic growth. This shows that the challenge is not impossible to overcome.

Chart 2. Q3 2011 GDP growth, annualized, %



Source: Eurostat

To a large extent, 2010 was lost for reforms in Bulgaria – they were blocked by the trade unions. Protests and populism delayed the pension reform by decades; disagreements of the trade union blocked the reforms in the state railways. The deficit fashion supported by the unions delayed the consolidation and reforms in the administration. The minimum thresholds for social security contributions, the minimum wage and unemployed benefits were increased following the unions' proposal. Sector labour contracts were distributed administratively, compounding the burden on the labour market. Pension funds were partially nationalized. The social security burden was raised. The increase of other taxes was discussed, which led to serious uncertainty. All this is due to the trade unions and the reluctance of the government to stand up against them last year. The positive fact is that the failure of the unions' ideas was noticed by the government, and the government slowly began fixing its mistakes.

From this prospective, the strike in the state railways, the protests against raising the retirement age, and the protests of grain-producers are an important test to see how the government can pass reforms. If the government fails or bends again to the protests, this would be a bad sign for reforms, and we can hardly expect the protests to continue. Of course, if the government succeeds with these test reforms, this would be a good sign that there is a pilot on board who is ready to take a responsibility.

There is a similar test for the EU – it is called Greece. For two years, the EU has been failing to solve the problems even of a small country such as Greece, and this is the main reason for the markets to be nervous about the future of Europe. How can you trust the euro as a global currency, if the EU cannot handle even a small problem in its backyard? The Greece test must be passed – no matter whether through disciplining the country or through its banishment for edification.

IS IT GOOD FOR CREDITS TO STIMULATE THE ECONOMY?

NIKOLAY VASSILEV, CFA

The article was published in Trud Daily in Oct 2011

Companies do not need credits but equity

- **Exports** do not lead to growth because consumption is not growing
- The population does not consume but **saves** in deposits, with which it is slowing down the economy
- **The banks** hamper business because they do not give credits. In addition, interest rates are high
- The companies need **fresh financing** to start working properly but nobody provides that
- If the government increases **spending** (incomes, public procurement), growth will be higher

You have probably heard similar statements. They float so often in the public space that they sound like axioms. However, things are not exactly that simple. In the economy, all processes are interrelated and should be analysed together.

My theses are different:

- The high **exports growth** for the last two years has been the most positive phenomenon for the economy
- The high level of **savings** is favourable because they support the banks and lead to investments. The alternative is to spend them mainly on imported goods
- **Consumption** is stagnating due to the lack of confidence in the future. This lack of confidence is a result of the global crisis and the lack of direction in Bulgaria's economic policy
- **The banks are not 'evil'** for not making loans. Instead, most companies are not able to present convincing results and investment plans to deserve a credit. There is money in the world, although less than before
- Neither a company, nor the whole economy need credits; they need **equity**
- The poor financial discipline (i.e. the large budget deficit) does not lead to high growth; it only **additionally worsens confidence**
- The big problem is **the lack of reforms** and **the underdeveloped capital markets**

1. What is bad about exports?

Some analysts are right claiming that we can speak about long term growth only if there is sustainable internal consumption. It is true that mainly large exporters gain from exports growth. It is true that part of the growth is due to the increase in the prices of raw materials, and not only due to the volumes.

Yet, the expansion of exports to record levels in 2010-11 has led to currency inflows and has improved the trade balance. Viable enterprises are developing – competitive in the world markets. How can we move forward without such businesses? Indirectly, the revenues and profits of exporters lead to higher salaries and social insurance contributions, taxes (not VAT), orders for sub-suppliers.

2. Are banks not giving credits?

If you are an entrepreneur and you do not get a credit, the reason are 'the evil' banks which do not want to comprehend your genius business plans. However, if you are a banker, the world seems very different. Between 2002 and 2008, the banks were too 'good' and were easily giving many loans – to producers and consumers. Credits increased many fold. Today, over 20% of them are non-performing. If that number keeps rising, the avalanche may threaten the banks – and it would be the fault of the same entrepreneurs who today want but do not get financing. We are saved by the fact that the Bulgarian banks have the highest capital adequacy ratios on the continent, and also because we did not go to extremes with credits like Ireland.

Every year, 100-200 companies turn to us at Expat Capital in order to seek financing. The typical such company has a low profit or even a loss, low or even negative equity, a lot of accumulated liabilities, often non-performing. Such companies neither can, nor should receive new loans because they will waste them as well. In the same way, an athlete with a broken leg cannot and should not participate in a competition. He would rather break the other one than become a champion.

The company that everyone would be happy to finance has other characteristics: high and growing profits, large equity, and small liabilities. Those companies are few, but the guilt does not lie with the banks but with the entrepreneurs.

3. What is bad about the deposits?

For the individual, in the years when prices of real estate and of stocks are falling, bank deposits turn out to be the most successful investment instrument, although it is the most 'boring' one. It is another story that we cannot predict this but just report it looking backwards.

Both for the banks and for the entire economy, it is not good to have a lot of credits if there is not roughly the same amount of deposits. Lately, deposits have broken records. Why are credits not growing then? It is simply because deposits are still lower than credits by about BGN 15 billion. Riding the wave of growth till 2008, banks were giving credits easily and at an accelerating speed. They were financed through cheap money from the foreign parent banks or through bonds. Today, both of these sources have dried up.

4. Is it positive to turn deposits into consumption?

It depends for whom. If you are a producer for the local market, it would be good for you. However, let us not forget that a large part of this consumption would go to imported goods or to trips abroad. If you are an importer of cars or TVs, you would have more business. But the trade balance would worsen, which is not good for the stability of the currency.

However, the banks would not be happy with the withdrawal of deposits and would draw back the credits with an even higher speed, without giving any new credits at all. The interest rates would be even higher – also negative for the stability of the currency.

5. Are interest rates high?

If you have received a credit, interest rates are expensive and could lead you to bankruptcy. Then, decrease your credits. Interest expenses increase for the government as well – then it should not allow budget deficits. If you have deposits, enjoy the high interest rates and save more. Let us also not forget the EUR 100 000 deposit guarantee.

The interest rate reflects the time value of money. It is a question of market demand and supply, not of emotions. In the same way, every year we discuss the price of wheat. If it is low, wheat producers allegedly may go bankrupt and they demand support from the state, while the consumers of cheap bread do not say ‘Thank you’. If the price is high, the poor would allegedly get poorer and also demand support from the state. Wheat producers also do not say ‘Thank you’.

The interest rates are what they are – that is called market economy. The alternative is a communist model that we have already rejected.

6. Are there investment alternatives to deposits?

Yes, there are. Even in Bulgaria, many households or companies have at least invested in real estate. In the advanced countries, the financial markets are more developed. There, most of the savings are not invested in deposits but in stocks and different investment funds. Even if their quotations fall at some point, they bring higher profitability in the long run.

7. Our suffering capital markets

With a certain amount of bias, I would say that for the last 20 years the development of capital markets and of the investment industry was a priority for only one Bulgarian government – the one between 2001 and 2005.

Lately, both the Bulgarian and world stock exchange indices have been falling rapidly. Our SOFIX is down 25% for the last seven months, but there are even worse markets. It is almost impossible for any new IPOs to occur. The capital markets cannot fulfill their main function – to provide an opportunity to entrepreneurs to finance themselves through issues of securities as an alternative to credits.

8. Credits or equity?

I share the idea that higher indebtedness increases the risk of bankruptcy. That is why, I recommend to companies to finance themselves with equity, especially during a crisis when sales and profits might collapse entirely.

Possible sources of equity:

- Owners’ personal savings. Very often, companies are registered with BGN 5,000 of equity, and after that the owner provides millions as credits to his company. It would be good to convert these credits into equity, and then the balance sheet would look better
- Attracting new partners – companies from the same industry, people close to the owner
- Private equity funds
- Public issues of securities on the stock exchange

9. Are companies ready to attract shareholders?

Entrepreneurs are angry both with the banks for not giving them credits and with the investors unwilling to buy their shares. The most common problems of the companies are:

- low or negative equity; large debts
- a loss or insufficient profit
- the owner values his business to be more expensive compared to the investors’ valuation. The difference is usually between 3 and 10 times
- the owner does not develop his business transparently and according to the standards of good business ethics, but has surrounded it with a network of related entities
- the owner is openly stealing from his own company – that is the typical scenario. It is hard to explain why

The first three problems are mathematical while the other two are a question of mentality.

10. The lack of reforms

It is a long topic. Here are a few examples, starting from the most important ones in my view:

- Sometime in this century, will there be a decision whether we will construct the nuclear power plant in Belene or not?
- The beginnings of a pension reform in 2009 were sent to a dead end afterwards. Even a part of the private pension funds was nationalized – a bad mistake
- In health care – nothing good
- Privatization – apart from Bulgartabac, almost nothing
- Concessions – apart from Port Burgas, almost nothing
- Capital markets – nothing. Even the stock exchange was nationalized, allegedly in order to be privatized later, but when?
- Regulatory regimes – nothing
- Foreign investment – almost none

I call the current situation in the economic policy chaos and a lack of direction.

11. The government debts and deficits

You can always find an economist or more often a politician who would quote Keynes and would suggest that the government should increase some or other expenses – as if to stimulate the economy. However, at least in the last years, life has taught us something different. During some of the best years for the world economy (till 2007) the governments of most countries missed the chance to achieve surpluses and decrease their debts. Bulgaria was one of the few diligent students who were saving ‘good money for rainy days’. I consider myself to be one of the people ‘responsible’ for that.

The countries with large budget deficits (such as Hungary and Greece) did not achieve higher growth than us and did not get rich faster till 2008. There are at least two reasons. First, the so called ‘**crowding-out**’ effect. If the government borrows billions, it ‘crowds out’ resources from the market, which could have been spent on private projects. For example, a bank can choose whether to provide a credit for a new factory or to buy government bonds instead. Thus, the new factory might never be built.

Second and more important – the question of **confidence.** If a country has a huge budget deficit, it is headed towards hyperinflation, devaluation, recession, and chaos. In that case, investments flee from there. Who would be willing to invest to the south of Bulgaria this week? Or in Zimbabwe during the last 10 years?

THE PENSIONS – A SMALL, BELATED, AND NOT FINAL STEP

NIKOLAY VASSILEV, CFA

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If we knew there would be a devastating earthquake in a week, when would it be better that we learn about it? Today, so that we could prepare in all respects and limit the damages to a minimum (that is what Germany would do)? Or 5 minutes before the event, so that we do not spoil our party this weekend (like the Greeks with the debt crisis)? Or not to learn in advance at all, but to calculate the losses afterwards (this is what happened in Haiti)? My answer is: a few years earlier would have been best. The situation with the pensions is the same. The informed 'seismologists' are the ministers of finance and of social policy.

Pensions – a third timid attempt to fly

At the beginning of the mandate, the Prime Minister prohibited his ministers to say 'We will'. It would also be appropriate to forbid the usage of the word 'reform' in the sectors where there is none. There, the word 'chaos' would be an appropriate substitute.

The current government started loudly with announcements for reforms in a few tough areas – and the beginning of each mandate is the golden opportunity to implement hard decisions or unpopular measures. However, everyone usually misses this chance. At the first signs of resistance, a coward command 'About face!' was given, and the garbage was hidden under the carpet. A few months ago, after long analyses and negotiations, decisions were made for actions after 10-20 years. Everybody understands that this is an escape from responsibility. Yet, there was a reformist step: the so-called point system 'age OR years at work' was replaced by the 'age AND years at work' rule. Interestingly, people did not notice and did not protest. So far, so good.

The truth versus populism

It is very easy to make the following correct statements:

- The Bulgarian pensions are the lowest in the EU
- Our parents whom we all love, have worked hard during their entire lives, have paid taxes and social security contributions, and deserve decent retirement years
- How can you live with XX levs? – no matter whether this is almost 300 levs (the average pension today) or 40 levs (the minimum pension 12 years ago)
- How to find a job just before retirement age, especially if the latter is increased?

However, the truth has another unpleasant but true side:

- The demographic picture in Bulgaria is one of the worst in the world. Less and less employed people will have to support more and more retired persons. The failure of the solidarity model of the past half century is mathematically unavoidable – 'the earthquake' is coming.
- The problem is not the adults, but the children. They are fewer and more often leave the country – to contribute to other countries' pension funds.
- The average retirement age in Bulgaria is not among the highest in the EU (as the populists consciously deceive the Prime Minister), but the <u>lowest:</u> around 55 years. I.e., one of the problems is the numerous cases of early retirement.
- The budget spending on pensions in Bulgaria has dramatically increased from 8.3% of GDP in 2007 to 11-12% in 2010. The socialists can be proud of this – the increase of pensions is a basic priority for them. But why do we not ask what the working people think? Are they willing to subsidize the annually increasing deficit of the National Social Security Institute? In that sense, the current pension freeze is an unpopular but correct policy in order to compensate for the previous unreasonable increases.

Everyone would like to:

1. Retire earlier
2. If possible, without the necessary number of years at work
3. Receive a higher and higher pension
4. Not to care how this all happens and to be constantly unsatisfied because the pensions in Germany are still much higher

But for the survival of the solidarity model, it is actually necessary to:

1. Work more and harder
2. Retire later
3. Not to evade taxes and social security contributions

These measures will <u>increase</u> pensions. Is that not what we want?

We have to realize the paradox that the biggest enemy of pensioners is a financial and budget crisis. And it can be caused exactly by demanding pension increases and by refusing to reform the model. Trust me, during the hyperinflation of 1991 and 1996, the poor lost out, not the bankers.

Four decisions of the problem – how to avoid the earthquake?

1. Economic growth

Only economic growth, employment, and better tax collection would allow higher social expenditure. It would be nice if the governments of the world, as well as of Bulgaria, had a vision for this. But they do not. Economic growth cannot be accomplished through spells, but through a lot of efforts for the:

- Attraction of investment. This is not happening – both because of the crisis and because of the constant mess around projects such as the Belene nuclear power plant, and the periodic blaspheming of large companies at the highest level. Not surprisingly, more foreign investors would like to sell out everything and leave Bulgaria, than new ones to come. As far as the new Mercedes-Benz factories in Hungary are concerned, we will only watch them on TV.
- Improvement in the business environment. I do not remember any regulatory regimes to have been simplified during the last years.
- Development of capital markets. This topic is definitely not among the priorities of the government. Let me remind you – the Stock Exchange is still nationalized.

2. Aggressive demographic and migration policy

The best way to thank the people who worked in the past is to take care of the future. The priority should be to encourage more births – including through ‘in vitro’ programmes, modernization of maternity hospitals and kindergartens. The most important is that the young and talented do not leave the country. And they are leaving because of our weak higher education and the poor quality of life in general. I would suggest to the government to publish the age pyramid of the population, so that we can discuss it publicly. I am afraid, it will have a rhomb shape.

If we ask the pensioners whether they would prefer a 9-lev increase of their pensions or to have more grandchildren, probably most of them would prefer the latter. And to enjoy being with them here, instead of talking via Skype with Los Angeles.

3. A change of the model

- Early retirement should be widely removed. When a minority is deprived of certain privileges, it always reacts loudly. However, let us ask what the remaining 90% of the population think.
- The retirement age should be increased. I am not fond of the very slow and gradual steps in a ‘smoothly after 2021’ style. In that way, at least 4 governments would constantly work on that topic. Poland’s shock therapy after 1989 has apparently worked better compared to the ‘doing nothing’ policy in Bulgaria for 7 full years.
- There should be no upper limit of the pension. Otherwise, why should we pay high social security contributions?
- The role of the private pension funds should be increased at the expense of the solidarity model.

4. Role of private pension funds

Younger people should rely less and less on the state solidarity model and should save more and more in private pension accounts and different investment funds. First, it is expected that private asset managers are more successful investors compared to civil servants. Second, there is a stimulus for the employed people to save in their own accounts throughout their lives, instead of subsidizing millions of other participants. Thus, one could decide himself at what age to retire and would know how much he/she would receive – according to his/her discipline in investment for retirement.

And what did Bulgaria do? It partly nationalized the private pension funds – a harmful and unconstitutional action, in Hugo Chavez style.

What should we protest against?

Not against correct, although belated steps. It should be clear to us that the increase of the retirement age by just one year is neither the final, nor a sufficient measure. Let us protest against the lack of reforms in the pension model, healthcare, higher education. This very lack aggravates the demographic picture and hampers the increase of incomes.

Does the Government have the courage?

This seems to be the first government since Videnov (1995-1996), which runs budget deficits in all the five years of its governance (if we also count the second half of 2009). In my opinion, this is wrong and it does not suit a cabinet which claims to be right-wing and reformist.

Immediately after the recent elections is a good time for unpopular measures. The government should withstand the pressure and should eliminate the automatic indexation of salaries, as well as increase the retirement age. But, knowing how many times announced reforms have been canceled afterwards, we cannot be sure this will happen.

THE MAYA, 2012, AND THE EUROZONE

NIKOLAY VASSILEV, CFA

The article was published in Standart Daily in Dec 2011

With the coming of 2012, the Mayan prophecy for the end of the world will be cited over and over again. Thereby, more and more people will smilingly comment that the end will be postponed again. I am not a believer in any centennial predetermination for the future of mankind, nonetheless I reckon that the world leaders have made some serious governance mistakes over the last decade. These mistakes cause us a lot of hardships for years ahead and will bring about the progress of certain countries and continents (Asia) at the expense of others (Europe and the US). Some pessimists foresee more military conflicts – let us hope that they are wrong. In the movie ‘2012’, the problems were in the Earth’s crust, while in reality, financially, they are somewhere in our brains.

What are the mistakes?

In my opinion, the mistakes can be categorized in 3 groups:

1. Accumulation of colossal public debt through budged deficits. During the years of record growth till 2007, a historical chance was missed to achieve budget surpluses and to lower the debts. Bulgaria was one of the excellent exceptions, where the debt dropped from over 100% of GDP to 15% – this is almost unbelievable.
2. Not reforming the pension models. With the changing demographic picture in Europe, the solidarity model after the World War II has become obsolete. The politicians must admit to the unsatisfied voters that we are living at the expense of the future unborn generations. The ugly truth is that the expenses have to decrease before we all go bankrupt.
3. The acceptance of countries with poor indicators into the common currency. Clearly, the acceptance into the Eurozone was more according to political affections rather than economic rules. Up to now, Bulgaria has not been allowed even into the ERM-2. If the Maastricht criteria for the debt/GDP ratio and budget deficit were respected over the last years, only Estonia, Bulgaria, Luxembourg, and a few other countries would have been accepted into the Eurozone. Many countries with good football teams such as Greece, Italy, Portugal, Spain, Belgium, and even Germany and France would have had to watch the Euro 2012 from the outside. It was accepted that when most countries exceeded the deficit ceiling every year, this was normal and allowed. The same was true about Greece, Italy, and Belgium whose debts before 2000 were almost double the permitted levels. Now, it has become too late.

What are NOT the good solutions?

I am not in favour of three proposals, circulating in Europe:

1. To create a European Rating Agency. Its task would only be to give a AAA rating to the European countries and to claim that everything is in order. But, which investor would trust such an institution?
2. To impose a tax on financial transactions, i.e. the ‘evil’ speculators. Wonderful, the financial business will move towards Asia even more. New York was just getting into trouble, and now here is a chance to step forward. On the 14th December 2011, for the first time in history, Hong Kong was announced to be the best financial centre in the world. I recall Daniel Valchev’s words that ‘joining the EU, Bulgaria is boarding the slowest train’. I am not surprised that with his veto, David Cameron things the same. The City of London is Britain’s economic engine. Why tax exactly the financial transactions? If Cameron suggested that a new tax should be imposed on olive producers only, what would the southerners say?
3. To harmonize the taxes. With respect to direct taxes (on profits and incomes), it would not be a bad idea for Western Europe to take lessons from the new members such as Bulgaria and to lower its tax rates to around 10%. Then, we would compete with other continents as a good place for business and investments. However, the wealthy countries imagine the opposite – to make us increase the taxes to, say, 40%. I do not see why we should agree. Let those who have problems with the budget and the debt increase taxes. We are not among them.

I support the limitation of deficits in the constitutions

I stand by the idea for forceful changes in national constitutions to limit the budget deficits. I would even recommend to ban deficits altogether, instead of deficits of 0.5-2-3% of GDP. Let us remind you that the Maastricht Treaty had such regulations but they were not followed. An automatic mechanism for enormous financial sanctions is necessary in case the rules are broken. I say ‘forceful’ because exactly the eccentric actions of the separate members of the Eurozone have driven us here. The financial discipline must not be a question of choice. If a country does not want to balance its budget, it should leave the Eurozone.

I will answer to two groups of potential skeptics.

1) If one claims that the deficits are beneficial, let me ask:

- Did the countries which realized huge deficits both during the fruitful 2006 and the severe 2010 defeat the crisis and become wealthier? Did your neighbour become rich by borrowing twice as much in order to spend more?

2) If one believes that the position of budget policy does not belong to the Constitution but is in the prerogatives of the democratically elected governments:

- In certain historic periods, different ideas become important and find their place in the constitution: women's suffrage, revocation of the death penalty, right of work, access to healthcare… In 2012, our right to live in countries which will not go bankrupt seems to be as equally fundamental. It is possible that in the future environmental and climate-related ideas will come forward as well.

Will the Eurozone survive?

If someone knows what exactly is going to happen, it means that he/she either has a crystal ball, or is an excellent analyst, or will become a billionaire if he/she speculates. There are at least two options:

- Painful survival of the current model of the common currency at any price. This option does not exclude the possibility for one country to leave the Eurozone by exception. 'At any price' might include forced changes in the EU treaties and in the national constitutions (these are already happening), and the fall from power of many governments in future elections. The efforts of Merkel and other leaders might not be appreciated by the voters and also in history textbooks. According to me, however, the reason will not be because the reforms are unpopular but because the leaders are not visionary and reformist enough.
- Uncontrolled and hopeless breakdown in an unknown direction – if, one after the other, the countries fail to put in order theirs public finances, and the markets punish them for that. Then, neither new taxes against bad speculations, nor even a AAAAA rating by a European rating agency would help us.

Is our currency board in danger?

Bulgaria does not have the problems of some European partners with its deficit, debt, and shattered banks. There are no direct reasons for us either to be ashamed, or to be scared more than the others. First, I reckon that the Eurozone will not be left to fall apart. Second, if some countries leave the Eurozone, our lev could stay fixed to the remaining winners such as Germany, not to the losers. Third, even if twenty new (or old) currencies are born, I do not see a reason why our currency should depreciate against most of them. On the contrary, I see factors suggesting that many other currencies should depreciate against the lev, if the fixed exchange rates are removed. Thus, for now we can calmly leave our investments in levs.

We also have to conduct reforms

Despite the numerous problems, for 14 years, Bulgaria has performed well from a financial point of view. However, life does not stop here, and it is never late for us also to make new mistakes and to take part in the '2012' movie. In my view, the most important several policies for the following years are:

1. To change the Constitution in order to limit the budget deficit – a 0% deficit would be best
2. To reform sharply, not slowly, the pension model in order to reduce the deficit of the National Social Security Institute
3. To withstand potential pressure from the outside to increase direct tax rates
4. To create better conditions for business and to attract more investment. To accelerate the privatization in the energy sector, the concessions of infrastructure projects
5. To undertake aggressive measures to increase the birth-rate and decrease emigration

Whether we will take part in the '2012' movie depends on the correct and strict decisions of the politicians – as long as it does not turn out that we are in a movie with a bad script and too many special effects. And if Merkel, Sarkozy, and Barroso say John Cusack's words from the movie, 'Don't look back, look at me, do I look scared?', then the Maya might be right…

EXPAT NEWS

EXPAT CAPITAL TURNS 5

Expat Capital celebrated 5 successful years with a party on 13 December in the Black Label Club in Sofia. Over 100 friends and partners came to greet the team of the company.

The managing partners Nicola Yankov and Nikolay Vassilev, as well as the member of the Board Lubomir Stoev expressed their gratitude to the guests for their trust and support and wished even greater success to the company and the investors.

For these 5 years, Expat Capital became one of the largest independent investment and asset management companies in Bulgaria with more than BGN 50 mln of assets under management. Gathering a team of professionals with extensive experience in the financial and industrial sectors, as well as in government, the company offers a wide range of asset management and financial advisory services. Among the companies in Expat's family are Expat Asset Management which manages 3 mutual funds and lots of individual investment accounts, as well as the real estate investment trust Expat Beta.

Expat Capital owns a 20% stake of Eurohold Bulgaria – a company with some EUR 300 mln in assets and some EUR 220 mln in annual revenues. The Eurohold group is focused on three mutually integrated business segments – auto sales and services, leasing operations, and insurance.

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