



INTERVIEW WITH MR. IVAN TAKEV, CEO OF BSE-SOFIA, PUBLISHED IN THE BULGARIAN ENGLISH-LANGUAGE NEWS PROVIDER NOVINITE.COM (SOFIA NEWS AGENCY)

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What will it take to bring back to life the Bulgaria's capital market, dented now by low liquidity and lack of quality stocks?

Since the start of the crisis the stock market has been suffering from very low investors' activity, which naturally results in low overall liquidity. The outflow of foreign investors marked the start of the crisis and my personal belief is that their return will mark the turning point in the recovery. Many of those foreign investors moved towards less risky markets and that is the reason why we saw some very strong performance on some exchanges in 2010 while some other, like ours, fell quite behind. But as long as the investors exploit all opportunities in those countries they will start seeking new alternatives and will inevitably find Bulgaria on the map because of its increased relative attractiveness.

What do you attribute the sorry performance of the capital market at the moment to?

Our market's 1Q performance wasn't that bad at all. SOFIX rose by more than 20% and that increase was accompanied by a sensible shift in the liquidity. These two facts fed the optimism of market participants and many of them reversed their otherwise negative forecasts for the rest of the year. Of course, we are still very far from the market conditions that prevailed prior to the crisis in terms of liquidity, but no one expects overnight recovery. As I said earlier, the main reason for that situation that is often expressed by all professionals is the decreased interest of foreign institutional investors not only in Bulgaria, but to a certain extent in the Balkan region. Currently the price discovery is being driven only by local retail investors and in the times of crisis it is understandable why they are very cautious. This can be easily observed when looking at trading volume's structure: relatively small trades in size which are typical to retail investors and only occasional large trades attributable to institutional investors.

What should be the role of the Bulgarian state in lifting the country's bourse to much higher levels of liquidity by bringing back investors? Do you expect the Bulgarian government to launch high-quality initial public offerings to enliven the market?



The government has various tools to stimulate the stock market. On-exchange privatization and IPOs are probably the most obvious answer and the most powerful tools at the same time. If we look back in time we can easily see that it was exactly the privatization that sparked the stock market in Bulgaria more than 8 years ago and marked the beginning of a period of growth. So we strongly believe that we can obtain comparable results if we go through a similar process again. This was also the case for many exchanges in Central and Eastern Europe which realized that such type of privatization will lead to a win-win situation for both government and market. The government will be able to acquire significant amount of money in times when budget deficits are an issue and the market will be able to attract new investors boosting the liquidity and increasing its strategic importance.

Is the sale of the minority stakes in the electricity distributors on the stock exchange a must-do task for 2011?

The procedure for one of these companies has just started and hopefully it will be finalized by the end of the year. Many hopes are pinned on the successful sale through the exchange since it is believed it will have a very strong and reviving effect on the stock market. The size of the company, the fact that the stake is relatively large, the attractiveness of the energy sector and, last but not least, the indication that there will be some serious foreign interest will more or less predetermine its success.

How do you view calls for listing the company, which is to be set up for Belene nuclear power plant, in a bid to test the economic feasibility of the controversial project?

I am relatively pessimistic about such an approach. The stock market is a place where capital is being raised but before that investors must be given adequate information in order to be able to decide whether to invest or not. If there's no detailed information about the activity of a certain company, including its cost of operation, the investors will be reluctant to invest. In fact, it is not a secret that we have such companies listed in Bulgaria although their size is much smaller. From that perspective, if such company gets listed just because we want to test the feasibility of its intended business we will make a very controversial move that we've already made in the past. However, if there is a sound business model backed by detailed information, the stock market will always welcome and continuously support such a company.

Bulgaria's capital market collapsed like many others, but why is it not recovering like many others? Does this mean someone has not done his homework?

The recovery of the market is not dependant on someone's homework. Of course, there are always some minor issues that need to be fixed so we can say that we provide comfortable trading conditions to all groups of investors. But they are not so dramatic and they don't repel investors who really want to invest in Bulgaria. The truth is that the market decline that we had over the last 3 years was so serious that very few retail investors are now brave enough to trade and, at the same time, very few institutional investors are really interested because of the small market size. And something very important, which is sometimes neglected when talking about recovery although it is more than obvious: in order to grow each market needs backup from the real economy. Until recently, it didn't emit positive signals or at least they were relatively controversial. Once we have started to receive good signs from the listed companies' financial statements we started feeling investors' increased interest and optimism.

The privatization tender, through which Bulgaria sought to boost public revenues by some BGN 80 M, managed to sell state stakes in only eight companies on Sofia stock exchange at

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the end of last year. Do you think the heavy criticism against the government for its failure to rake in revenues into the budget by privatization is justified?

I don't think the criticism for not collecting much from privatization was that heavy since the real revenues are expected to come from the electricity distributors. These companies are much larger compared to those that were offered last year and their sale will have considerably stronger effect on the state budget. There will be space for criticism if something prevents them from being completely privatized and such failure definitely will be very detrimental to the stock market.

Are you hopeful that Bulgaria's stock exchange, which launched the sale of its shares in January, will attract a key European investor for its majority stake by the end of the year?

Yes, definitely. So far we had some preliminary talks with large stock market operators and their initial interest was encouraging. Also, recently the Council of Ministers passed a resolution according to which the government stakes at the exchange and the depository will be packed together and offered to a strategic investor. Such bundling will sweeten the deal and will ensure that the new owner will have the freedom to define its own policy on both trading and post-trading level.

What was the main goal in increasing the Bulgarian government's share in the bourse and its self-listing? Sale of its majority stake to an industry investor, liquidity boost, restoration of market growth and investor confidence?

The increase of the share was just the first step in the privatization of the entire stake. Now the government has stronger bargaining power since it offers to sell full and unconditional control which was not exactly the case when it had 44%. The listing process ensured that the government would receive a fair market price when selling its stake plus a control premium. When talking about the ultimate goal we must admit that the sale itself is not going to increase the liquidity or restore investors' confidence. But it will ensure that all necessary mechanisms for this to happen are in place and there is a common policy focused on the market, which is in line with world's leading practices.

What should be the next step?

The next step we expect to be the kick-off of the privatization procedure itself.

Does the Bulgarian Stock Exchange require central government control?

Yes, it requires such control but not through ownership. The exchange is constantly being regulated by the respective body - the Financial Supervision Commission, in terms of providing all necessary measures intended to improve the stability of the market. On the other hand, shareholders' control has a completely different purpose; it is necessary to ensure that the management of the company tries to maximize its value.

Don't you fear that investors will turn to other areas of New Europe, where there are fewer threats to their portfolios?

The investors will turn to those areas that are considered to be rewarding for the risk taken. There are no places that are permanently ignored by the investors since the risk/return profile of all markets changes over time. As I said earlier, as long as the other markets including those from New Europe increase in value and possibly overheat, this increases the relative

attractiveness of the local market and will bring more investors to it. Of course, I am not saying that we should sit and wait for the investors to return but this is how the markets work and we can't change it. At least, what we can do is to put some serious efforts to make sure these investors feel comfortable in terms of trading conditions and infrastructure when they are back.