

The background features a grayscale world map with a network of white lines and glowing circular nodes connecting various geographical locations. In the foreground, a person is seen from behind, sitting in a light-colored leather chair with their hands clasped behind their head. Other similar chairs are visible on the left and right sides of the frame.

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A REMARKABLY DIFFERENT WEALTH MANAGEMENT EXPERIENCE.

BULGARIAN CAPITAL MARKET DAY □ LONDON □ 18 MAY 2017

A world map in light gray with a network of white lines and circular nodes connecting various geographical locations. The text is overlaid on this background.

**BULGARIA – A PROMISING
INVESTMENT DESTINATION**

**NIKOLAY VASSILEV, CFA
MANAGING PARTNER AT EXPAT CAPITAL**

BULGARIA – MAIN POSITIVES

- EU member since 2007, NATO member since 2004
- Currency board since 1997. EUR 1 = BGN 1.95583.
DEM 1 = BGN 1
- The lowest direct taxes in Europe, by far
- Stable new government since May 2017 (centre-right)
- Not affected by the refugee crisis and by terrorist attacks
- Strong tourist seasons, summer and winter

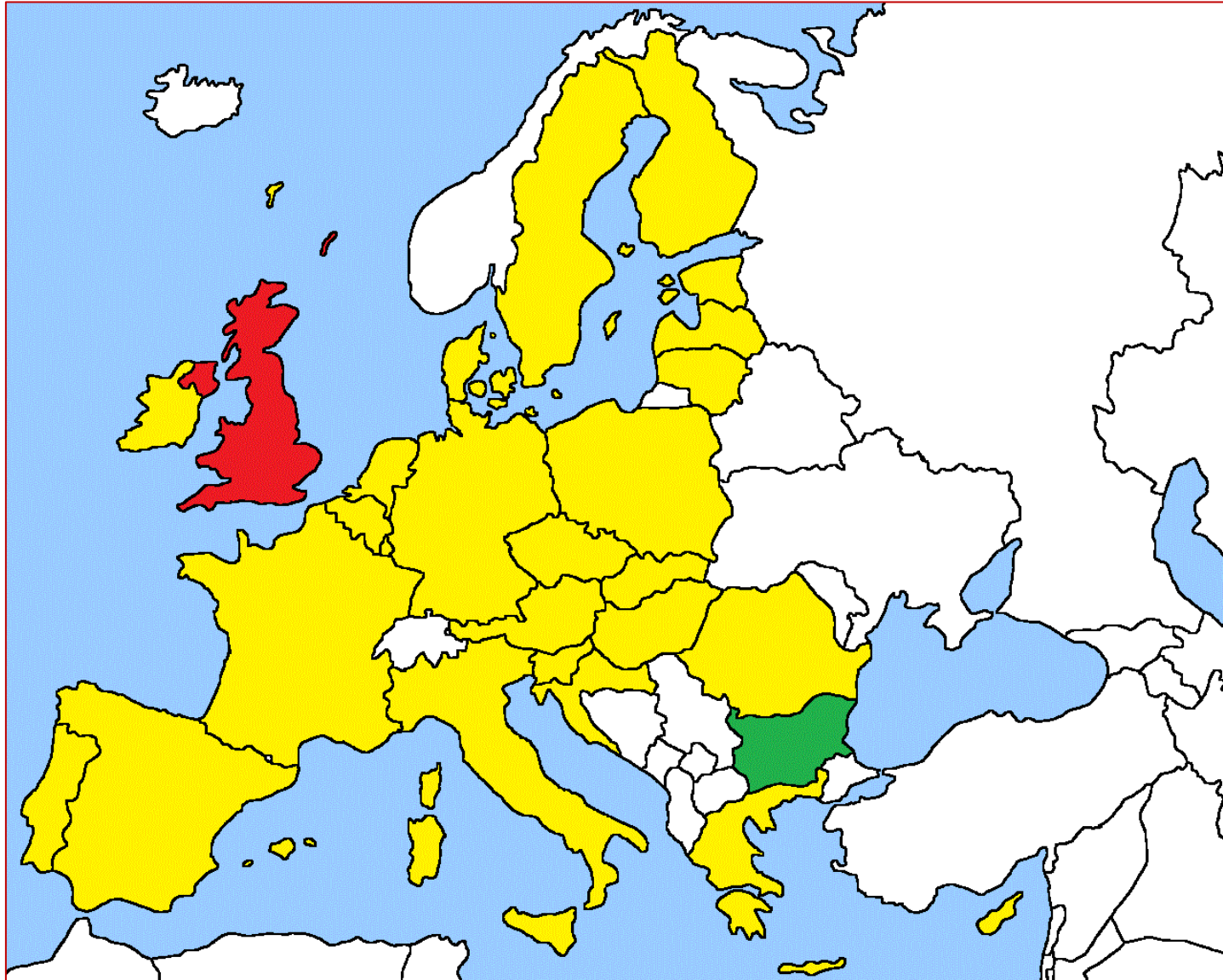
ECONOMIC ACHIEVEMENTS

- Above-average GDP growth. Only 1 year of recession for 20 years
- Currency board. No inflation. Low interest rates
- Cumulative budget surplus for 20 years, % GDP
- 3rd lowest Debt/GDP in the EU
- No current account deficits lately
- Unemployment close to an all-time low
- Bulgaria is one of the few countries in the EU meeting the Maastricht criteria. Eurozone entry expected

BULGARIA – MAIN RISKS

- Instability of the countries in the region: Turkey/Syria, Greece, Macedonia, Ukraine/Russia
- Stable governments in 1997-2013. Frequent early elections since then
- Demography and emigration
- A small capital market – size, liquidity
- Credit rating BB+, Baa3, BBB-. Underrated. Upgrade expected

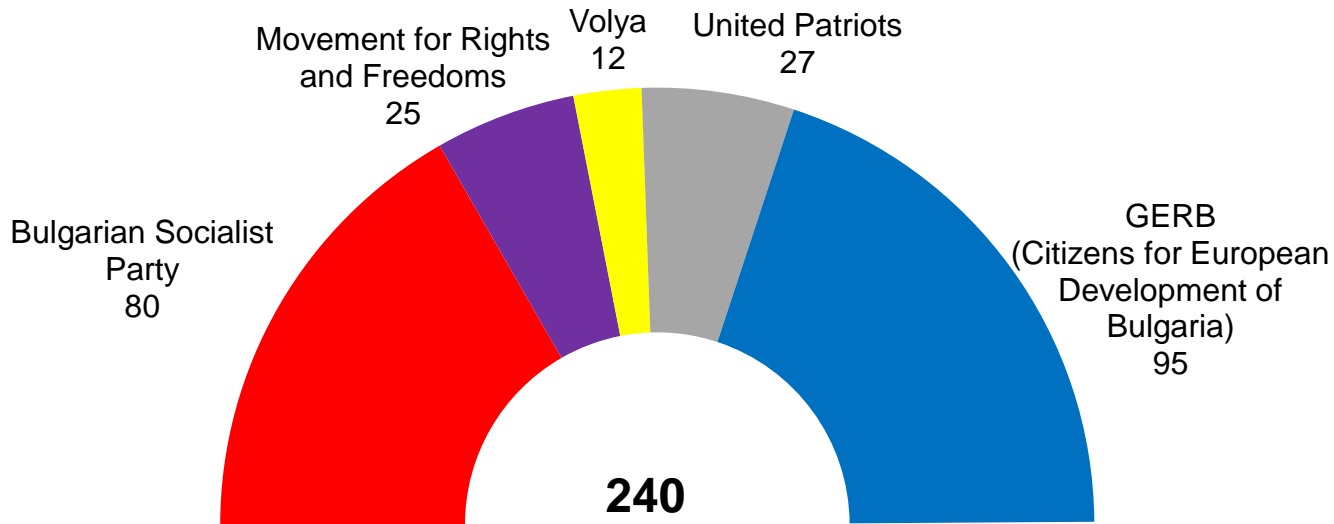
BG ON THE EASTERN FLANK OF THE EU



BULGARIA – NEW GOVERNMENT, MAY 2017

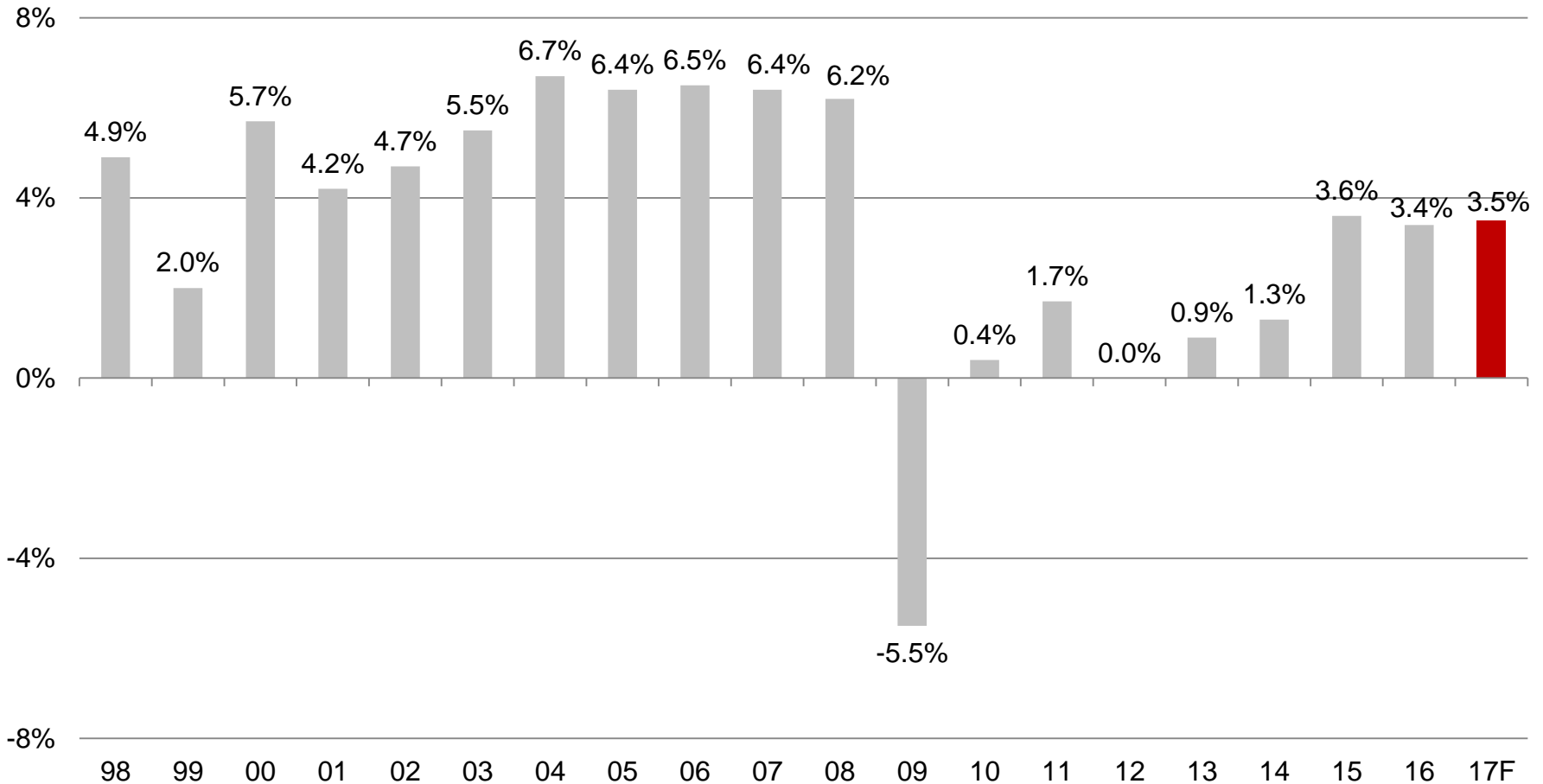
- PM Boyko Borisov's 3rd cabinet (2009-13, 2014-16)
- Coalition between GERB (EPP) and the United Patriots (soft nationalists and populists)
- Centre-right, stable, Western-oriented
- Keep the low taxes and the currency board
- But not very reformist
- Volya ("Will") and the Movement for Rights and Freedoms (Turkish ethnic party) are additional potential supporters, if necessary
- A full 4-year term is possible

2017 PARLIAMENT STRUCTURE



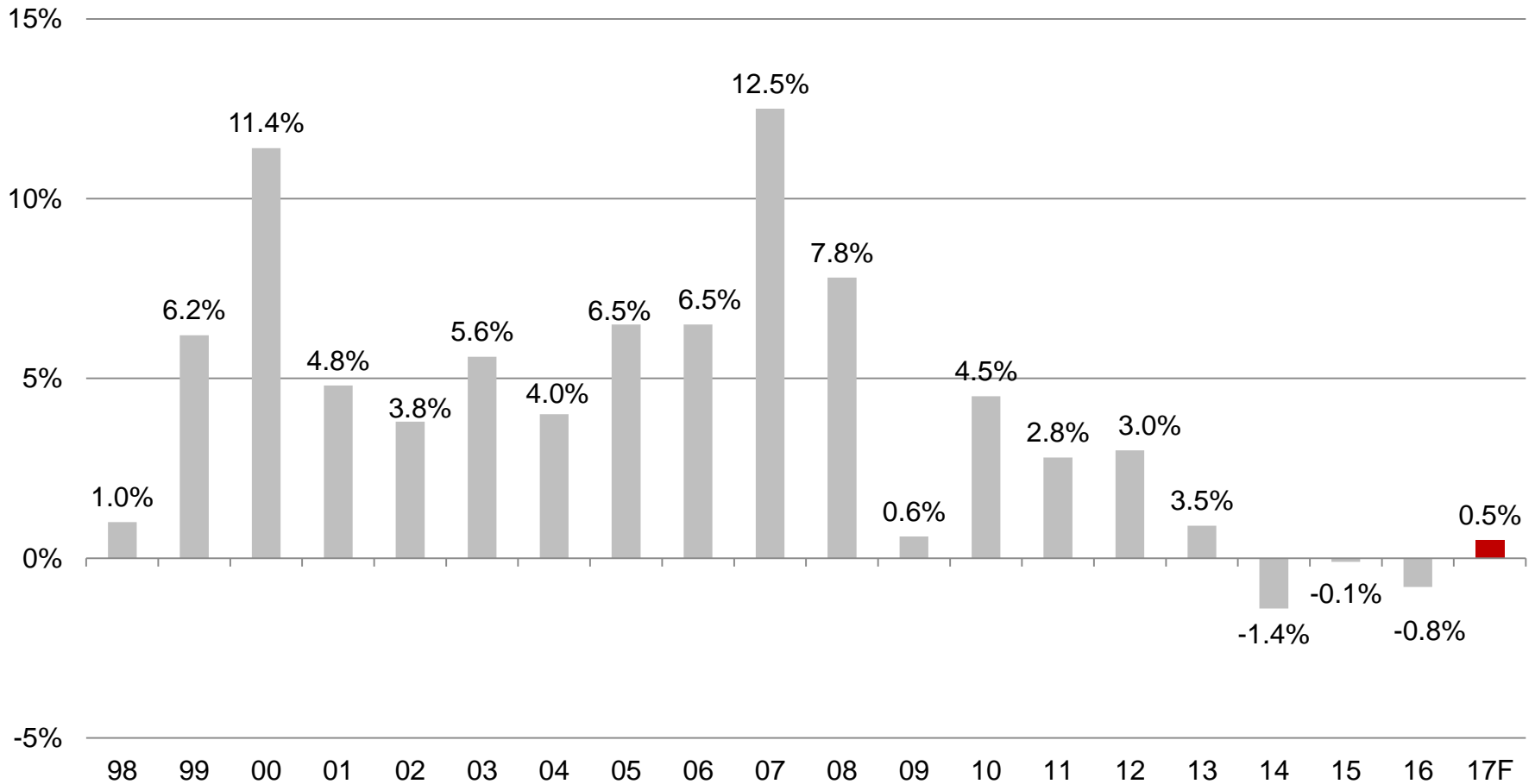
GDP GROWTH – ABOVE THE EU AVERAGE

Chart 1. Real GDP Growth, %



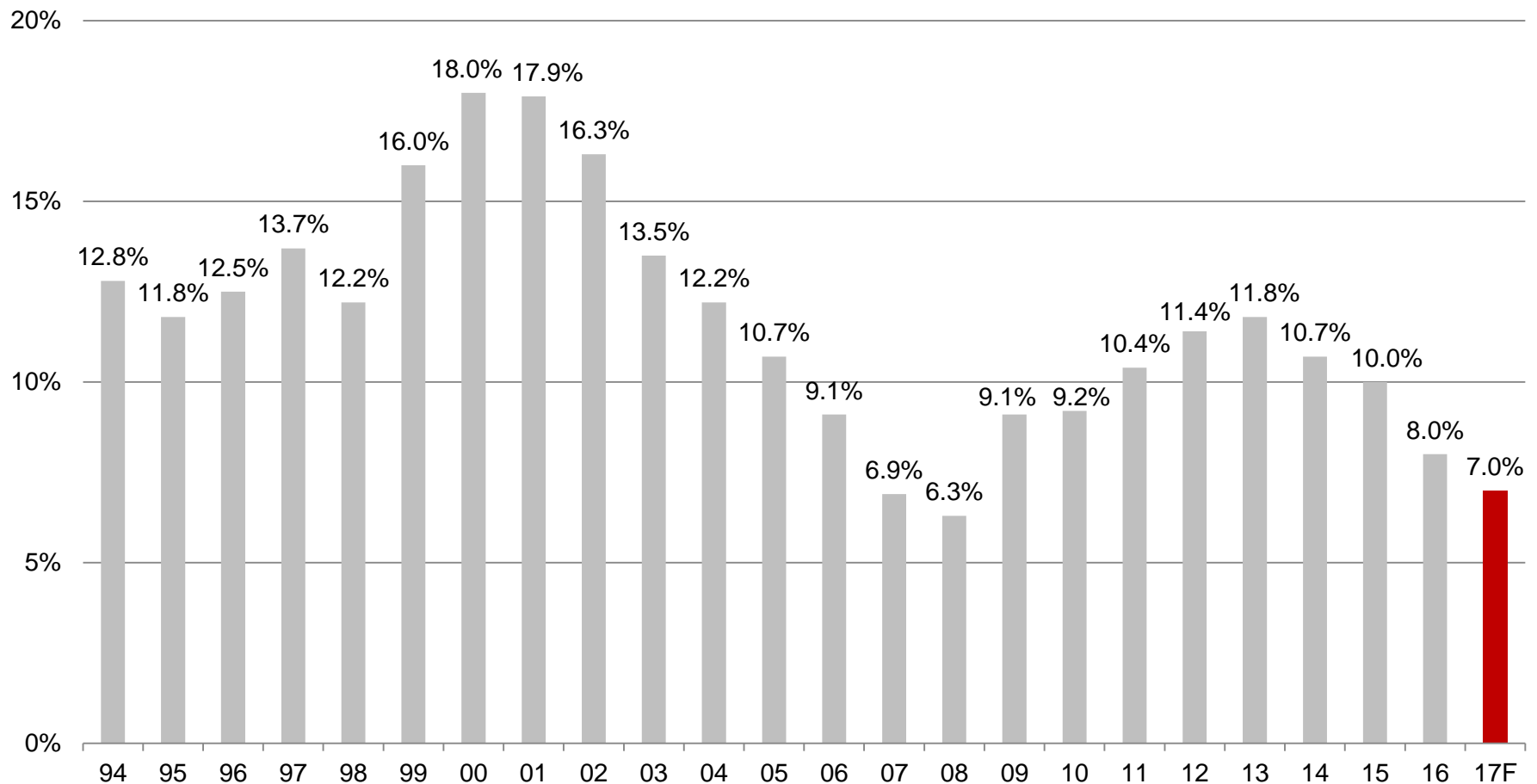
INFLATION – NOT AN ISSUE

Chart 2. Annual Inflation, CPI, %



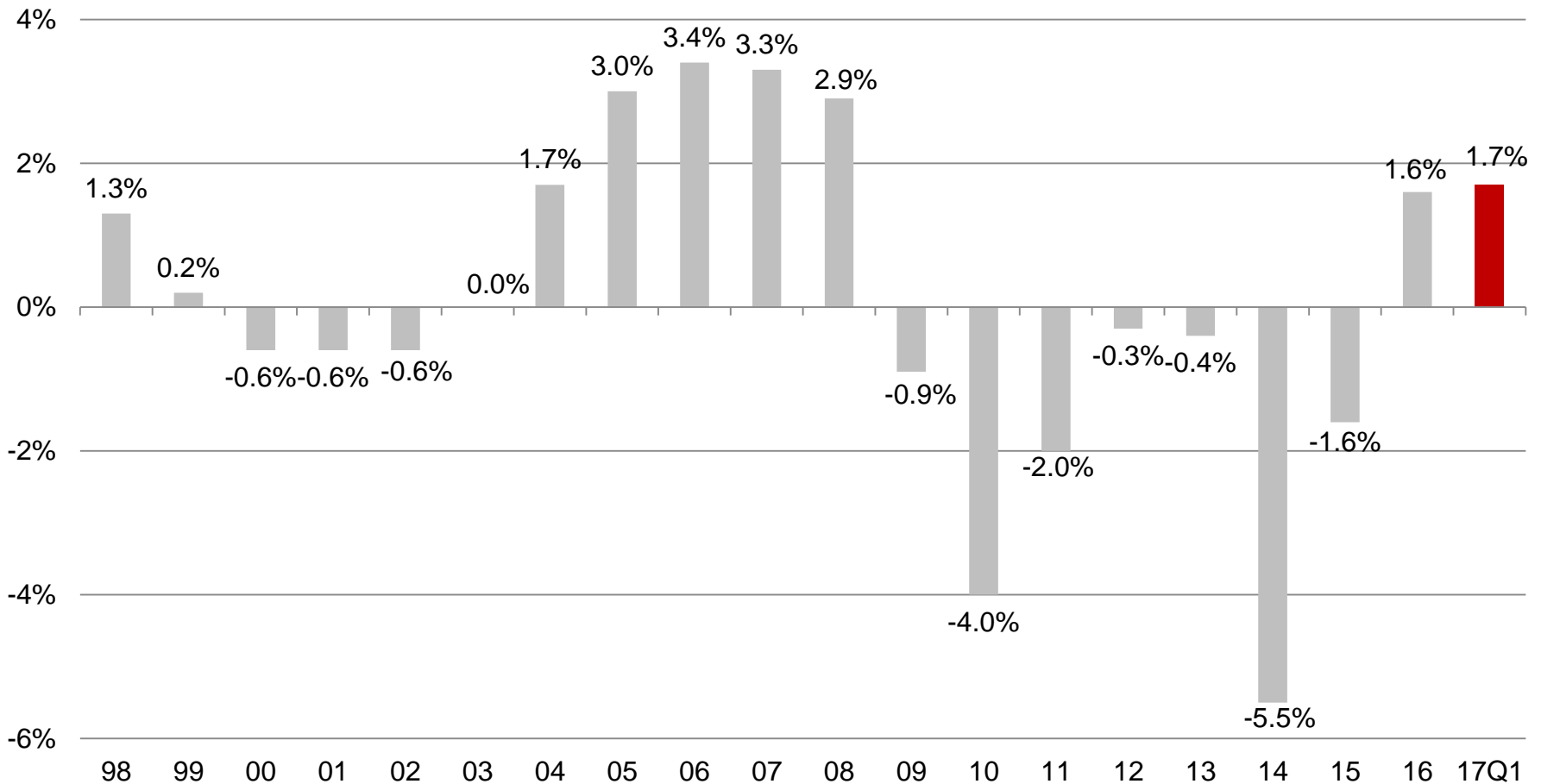
UNEMPLOYMENT – BELOW THE EU AVERAGE

Chart 3. Unemployment, Year-End, %



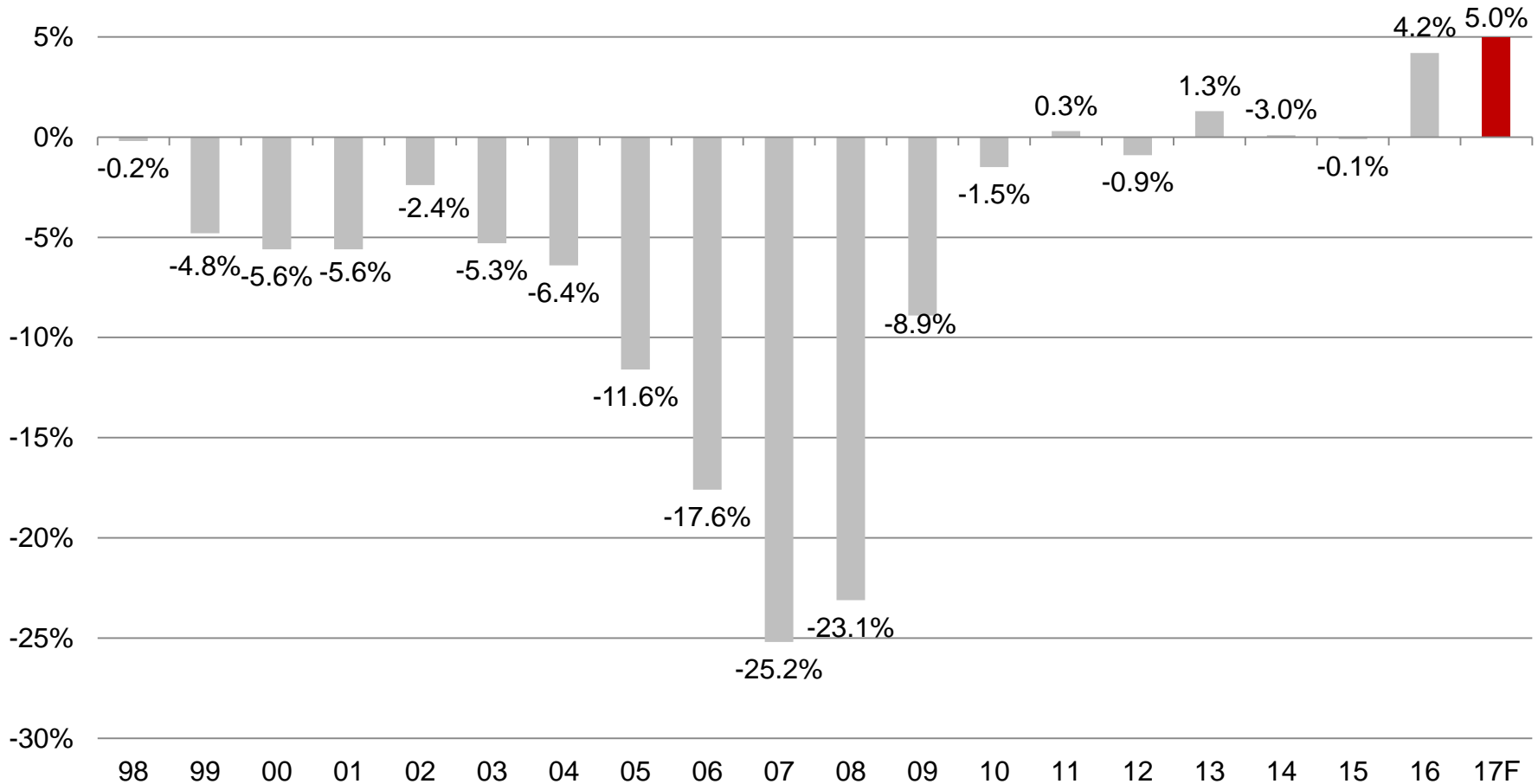
CUMULATIVE BUDGET SURPLUS SINCE 1998

Chart 4. Budget Balance, % GDP



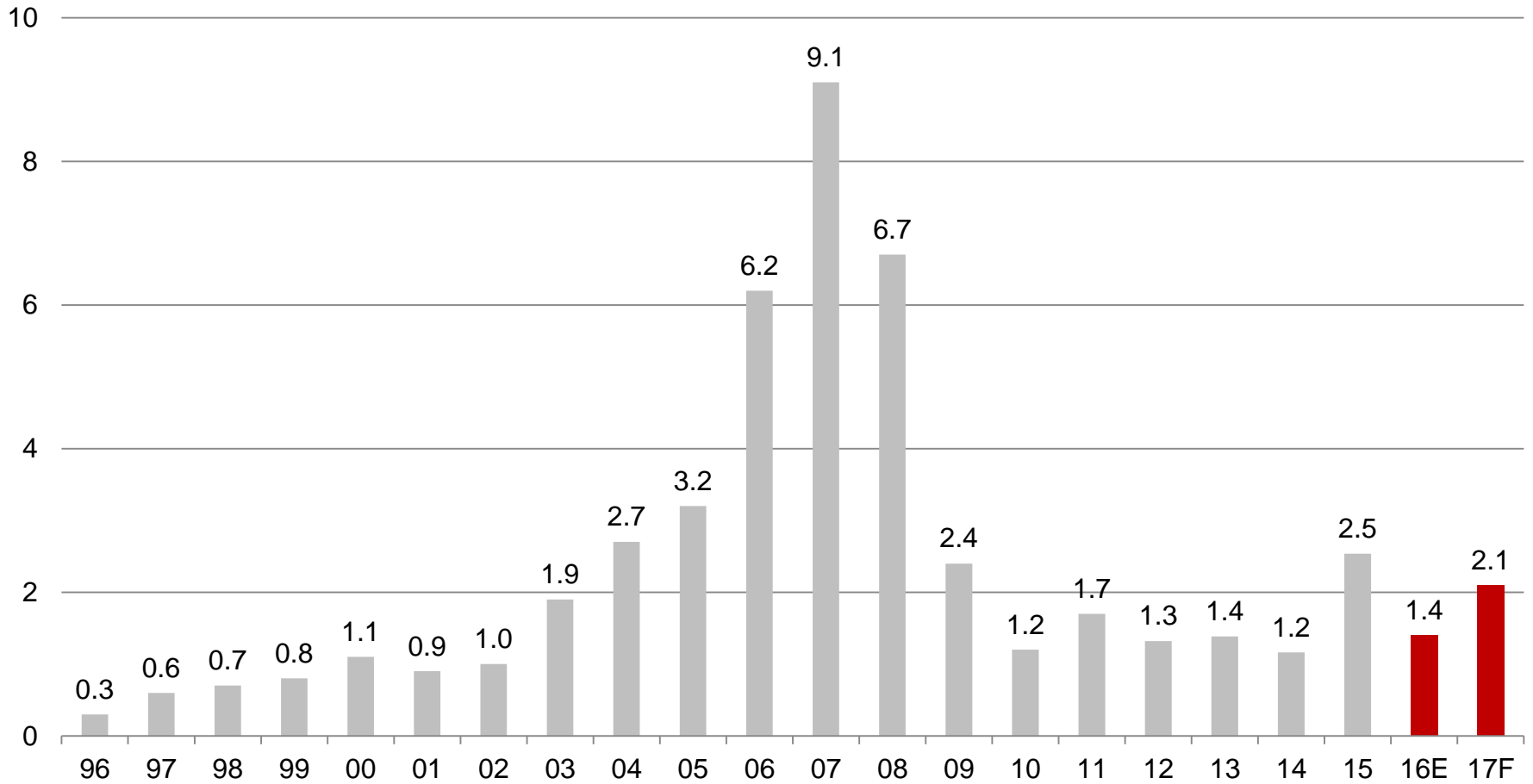
CURRENT ACCOUNT – NOW IN SURPLUS

Chart 5. Current Account Balance, % GDP



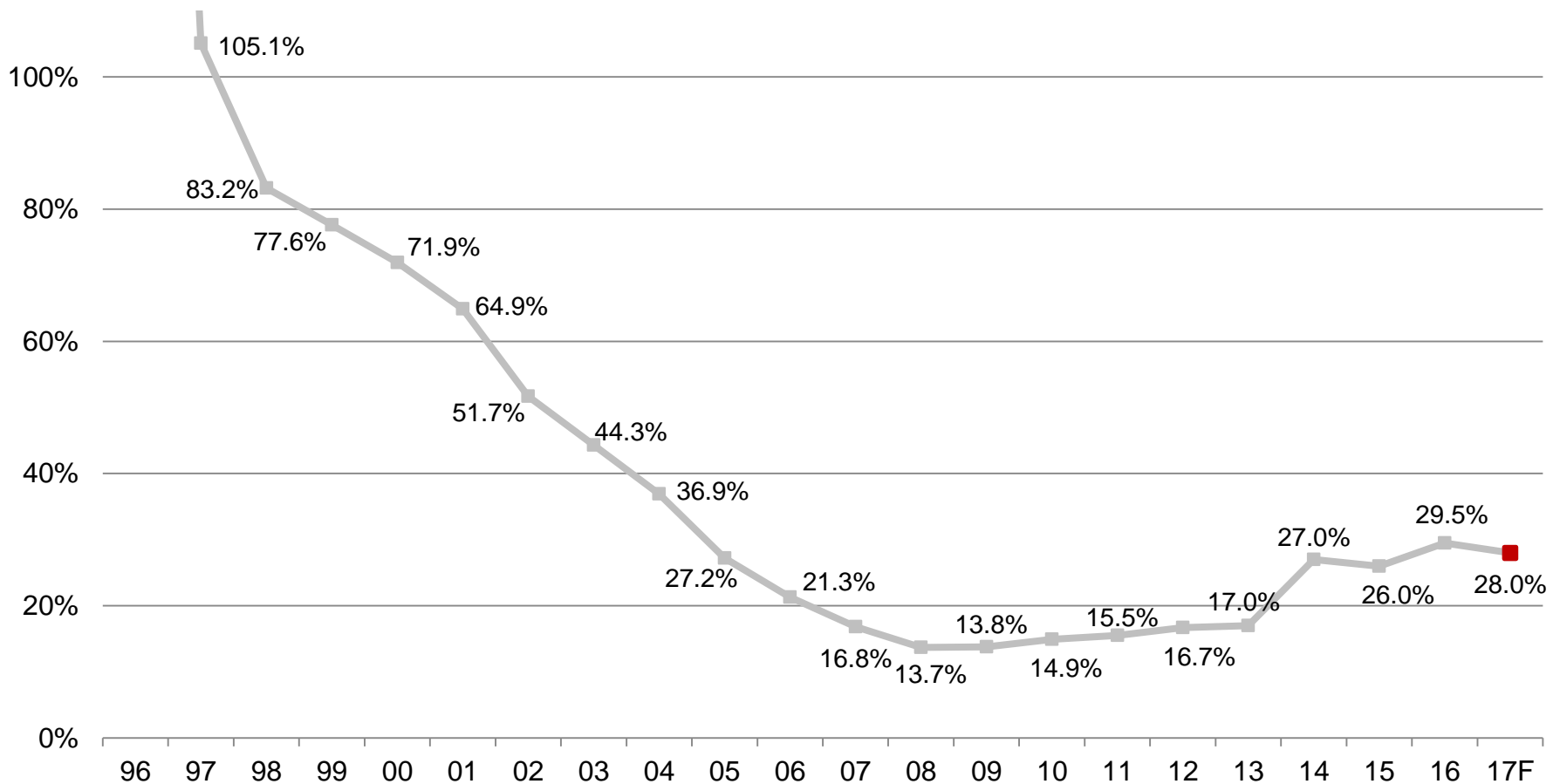
FOREIGN DIRECT INVESTMENT

Chart 6. FDI, EUR bn



PUBLIC DEBT – THE 3RD LOWEST IN THE EU

Chart 7. Public Debt, % GDP

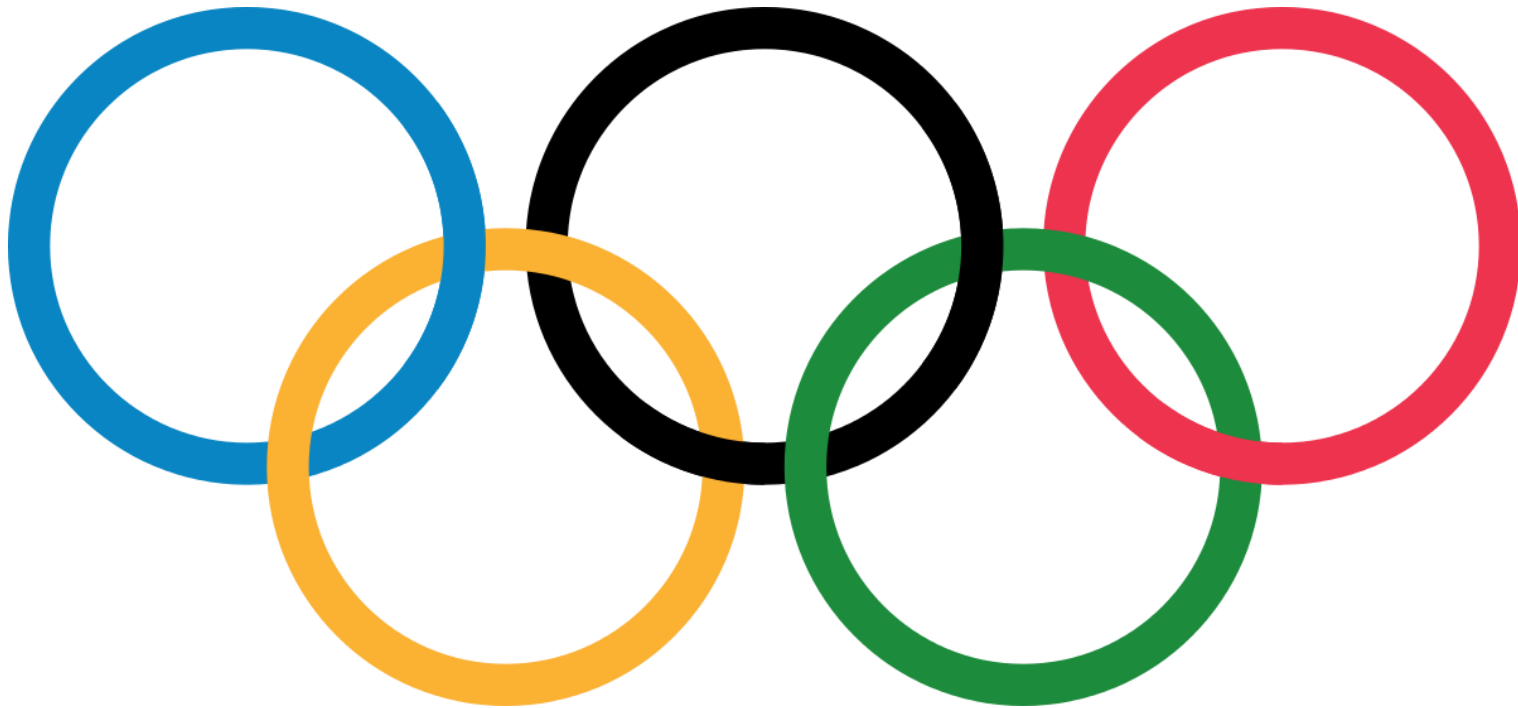


TAX PARADISE

- 10% flat personal income tax
- 10% corporate profit tax
- 5% dividend withholding tax (0% for legal entities)
- 0% capital gains tax (for all EU instruments)
- 0% profit tax for REITs
- 0% tax on financial transactions
- 0% inheritance tax
- Stable tax policy for 10-15 years. No danger to raise taxes in the foreseeable future
- My dream: To be a wealth manager in a country with such taxes, good weather, good wine 😊

THE OLYMPIC TAX POLICY

0% is a magic number

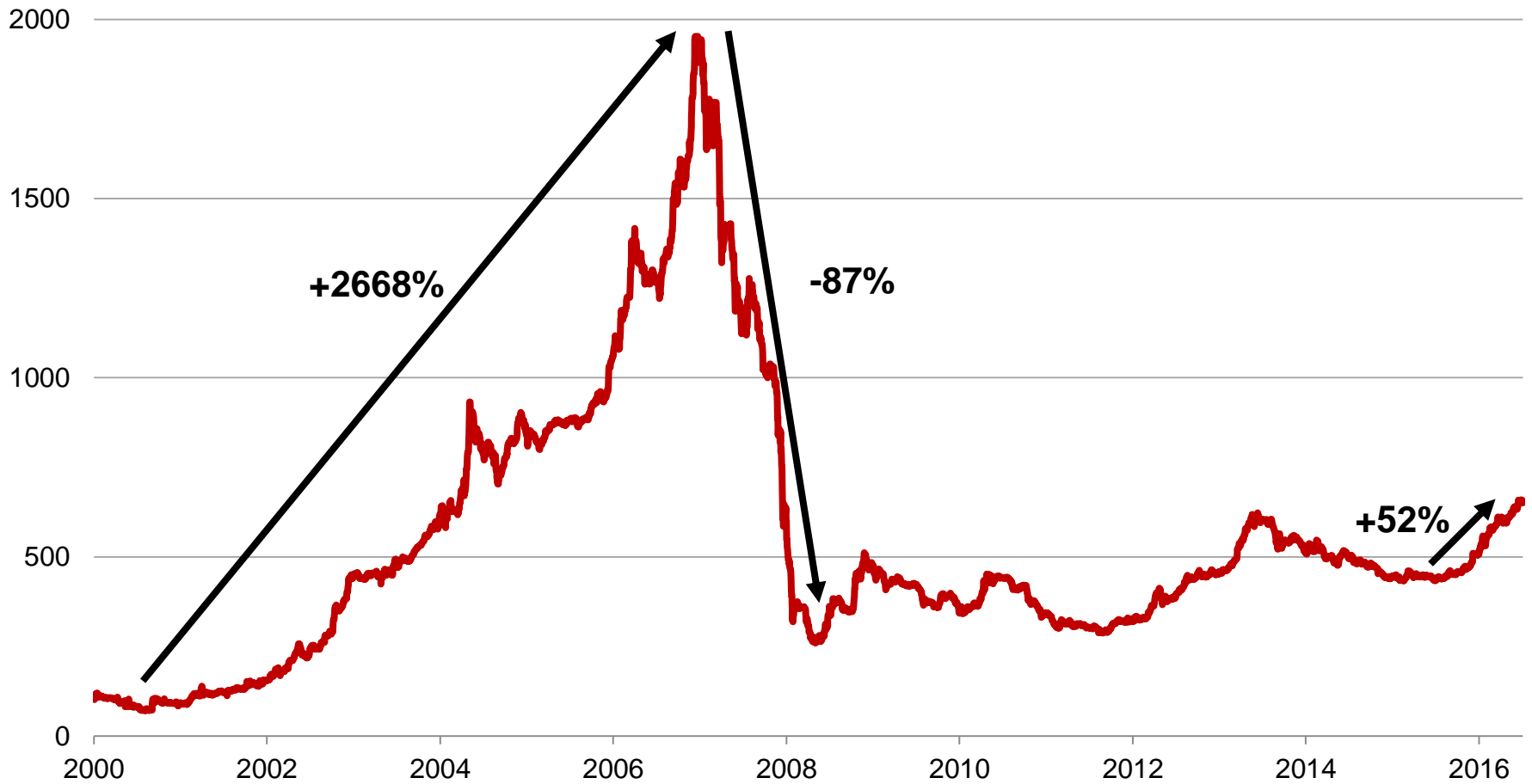


BULGARIAN CAPITAL MARKET

- In 2001-2007, SOFIX rose >26 times in EUR, >40 times in US\$. Probably a world record
- Oversold since then. Down -87%
- Woke up in mid-2016
- Moderate aggregate valuations: P/B 1.4x; P/E 12x
- Remember the 0% capital gains tax, 0-5% tax on dividends
- Strong improvements in corporate governance over the last 15 years

THE SOFIX INDEX

Graph 8. Performance of the SOFIX Index since Inception



CONCLUSIONS

- Strong macroeconomic performance
- Stable new centre-right government
- Very low taxes
- Moderate market valuations
- The market has been oversold and not rediscovered
- Financial instruments to be listed abroad
- All the stars seem aligned for strong stock market performance in the next several years

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