

## **Risk-Averse Bulgarians Learn to Invest**

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After getting their fingers burned in pyramid schemes and other frauds, Bulgarians are losing their fear of the stock market.

Aneta Dimitrova and her daughter Maria are anxiously choosing their new car. Neither has had the money to afford such a purchase before, but this year they have had a windfall.

In January, Aneta invested 7,500 Bulgarian levs, about 4,650 US dollars, in a mutual fund and by July her savings had already grown by a handsome 60 per cent, netting her an extra 4,550 levs.

The yield means she can now afford to buy a second-hand car for the family and still put some aside to re-invest. Next year, she may buy a car for her daughter, too.

The Dimitrovas' story would be far from unusual in countries where people are used to speculative investments.

But in Bulgaria it is symptomatic of a profound change in the investment climate, after years in which people shunned the idea of putting their money anywhere except in a bank account.

What has changed people's attitudes is the recent marked growth in mutual funds (or unit trusts) and real-estate investment trusts.

The assets of the ten Bulgarian mutual funds have grown by more than 142 per cent since November 2004. Seven licensed real estate investment trusts have been established since May 2003. An eighth, the Elana Farmland Opportunity Fund, started operating on June 20, specialising in agricultural real estate.

Like other post-communist countries, Bulgaria underwent a difficult transition from a planned to a market economy after 1989 and the experience left many people with a deep distrust of savings schemes.

A number of banks went bankrupt, as a result of which about 3.5 billion dollars in savings was lost, most of it money that had been held in ordinary people's bank deposits.

At the same time, pyramid schemes and other sorts of fraudulent ventures appeared on the scene. To cap it all, inflation peaked at 578 per cent in 1997.

The financial chaos made people suspicious of the banking system, and their worries about losing their savings kept investment activity at a low level.

Another factor was the limited income of most households. Unable to cover basic needs such as food and utilities, few people had money left over to invest.

Now the situation is changing. The capital market in Bulgaria is stable and the stock exchange index,

SOFIX, has seen strong growth.

For five years in a row, the economy has seen stable annual growth rates of about five per cent.

Legal changes have helped build confidence, too. The Special Purpose Investment Companies Act and Public Offering of Securities Act provide tax concessions on income from investments in securities.

According to Estat, a research agency, most Bulgarians still prefer to invest their money in bank accounts, as they are not familiar with the share index, securities, bonds or derivatives. Only six per cent of those polled in a recent survey by Estat said they viewed stocks as the best capital investment.

But at the same time people's attitudes are changing. The same opinion poll showed that 21 per cent of respondents would buy securities on the stock exchange if they had enough money.

One of the signs that the capital market is improving is that investment companies in Bulgaria are flourishing, as evidenced by the creation of the eight investment firms.

According to Anna Brandiiska of Elana, current investments in mutual funds amount to some 70 million lev (about 43 million dollars). But experts predict the figure could rise to 850 million dollars by 2009.

There is clearly more potential for growth, as Bulgaria still ranks far behind other more developed markets.

Desislava Kaliskova, investor relations director at Capman Capital, estimates that the assets managed by mutual funds account for only 0.27 per cent of Bulgarians' total savings. That compares with about seven per cent in new EU member states such as Poland, the Czech Republic and Hungary.

But the experts seem confident that by 2009, two years after they join the European Union, Bulgarians will be investing a similar percentage of their savings.

Real-Estate Investment Trusts, REITs, like Elana, are also growing in popularity. They make their profits by buying, building, renting and selling attractive pieces of real estate, and raise capital by floating on the stock market.

To boost investment, the law offers these funds concessions. REITs are supposed to pay out at least 90 per cent of their net profits in dividends, but there is no tax on either their profits or capital gain.

Average annual profitability of the REITs runs at about 15 per cent, giving investors a much higher income than that provided by bank interest rates of around five per cent or the seven per cent they get on treasury securities.

REITs are becoming more and more popular in Bulgaria, where real estate prices are expected to continue to grow. Local people like them, too, as they have traditionally seen property as a solid investment.

Recent changes to the law relating to buying farmland are also boosting investment activity. This year, parliament abolished all obstacles preventing EU citizens from purchasing land. The changes are due to

come into force by January 2007 and have already sharply increased interest in buying farmland among domestic and foreign investors.

Even before these changes, more agricultural land was changing hands, and prices are expected to continue rising. In areas near the sea, they can reach 950 dollars per acre, though this is still half the price fetched by equivalent land in Poland, Hungary or the Czech Republic.

On the eve of Bulgaria's membership of the EU, more and more locals appear to have unconsciously taken up the view of Albert Einstein - that "long-term investments are the eighth miracle of the world".

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**Location:** [Africa](#)

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