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# **FINANCIAL SCIENCE IN CHANGING EUROPE – CHALLENGES AND PERSPECTIVES**

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**Abstract:** With the celebration of the 65<sup>th</sup> anniversary of the first Bulgarian academic department of financial sciences (07– 08 April 2017) at D. A. Tsenov Academy of Economics – Svishtov, a worthy assessment has been given and there has been a debate about what has been built over the years, what the current challenges and perspectives for future development are. The International Scientific Practical Conference “Current Challenges for the Financial Science in Changing Europe” was attended by Bulgarian and foreign scholars, working in the field of finance, as well as representatives of financial practice. One hundred and four people from seven countries and two continents, with ninety-two papers on corporate finance, investment, public finance, banking and micro-financial policy took part in the scientific forum. The host department prepared six plenary papers by its representatives of six hierarchical levels of academic development: students, PhD students, assistants professors, head assistants, associate professors and professors.

**Keywords:** Financial Science, Department of Finance and Credit.

**JEL:** A11, G10, G20, G30.

The 65<sup>th</sup> anniversary of the Department of Finance and Credit at D. A. Tsenov Academy of Economics – Svishtov (by decision of the State Committee for Science, Art and Culture) was celebrated on 8 April 2017. This is the first Bulgarian financial department, having given high quality education to more than twenty-five thousand students who have made their successful realisation in the field of corporate finance, banking and public finance in Bulgaria and abroad. Graduates and lecturers of the Department currently work in all spheres of public life and economy in our country and abroad. More than three hundred people took part in the event held on 7<sup>th</sup> April 2017 with a ceremonial joint meeting of the Department Council in the biggest Lecture Hall of D. A. Tsenov Academy of Economics – Svishtov.

## I.

The anniversary ceremony was opened with the words “the 65<sup>th</sup> anniversary means respect for the past, assessment of the present and vectors for the future”. By giving a worthy recognition and gratitude to the personalities that contributed to the creation and development of the Department and to the thousands of graduates of different generations, the new generation of scholar-financiers has shown respect for the power of traditions and for what has been built.



Among the official guests of the ceremony were: the Rector – Assoc. Prof. Ivan Marchevski, PhD; the Mayor of Svishtov Municipality – Gencho Genchev; the Deputy Governor of BNB – Nina Stoyanova; Prof. Rumen Brusarski, PhD – Deputy Minister of Finance; former Rectors of the Academy of Economics – Prof. Delcho Poryazov, PhD, Prof. Dimitar Panayotov, PhD, Prof. Metodi Kanev, DSc, Assoc. Prof. Zdravko Georgiev, PhD and Prof. Neno Pavlov, PhD; Prof. Elena Markina – Deputy Rector of the Moscow Financial University under the Government of the Russian Federation; representatives of the ‘first builders’ of the Financial School and former Heads of the Department; the Chairman of the Bulgarian Union of Economists – Prof. Tatyna Hubenova, PhD; the Head of the Department of Finance at the University of National and World Economy (Sofia) – Assoc. Prof. Presyana Nenкова, PhD; Assoc. Prof. Stoyan Alexandrov, PhD – graduate of the Department in Svishtov, former Finance Minister and long-time Head of the Department of Finance at the University of National and World Economy (Sofia).



After a decision of the Department Council, individuals and institutions with contributions to the development of the financial-credit theory and practice in Bulgaria were awarded with honorary medals “65<sup>th</sup> Anniversary of the De-

partment of Finance and Credit”. The medal is a replica of 12 troy ounces of the ancient gold medallion “Solidus”, cast by electroplating and cut by Justinian I in 535 AD. The honorary medals were handed in casket – a symbol of the financier’s mission to keep the state treasure.

Honorary medals were awarded to: Prof. Delcho Poryazov, PhD; Prof. Velcho Stoyanov, DSc; Prof. Tsevtan Kotsev, DSc; relatives of Prof. Minko Rusenov, PhD; Prof. Radko Radkov, DSc; the Rector of D. A. Tsenov Academy of Economics; representatives of BNB, the Ministry of Finance, the Municipality of Svishtov, the University of National and World Economy (Sofia), the Moscow Financial University under the Government of the Russian Federation and the Bulgarian Union of Economists. Honorary medals were given to all participants in the celebrations, former Rectors, as well as the former Minister of Finance – Assoc. Prof. Stoyan Alexandrov, PhD. At the initiative of lecturers from the Department, “Prof. Minko Rusenov, PhD ”Foundation, named after the patron of the Department, its creator and first head, was announced.

The Celebrations continued with festive session of the Municipal Council – Svishtov in order to award Prof. Delcho Poryazov, PhD with “Honorary Citizen of the town of Svishtov” title, given to him for his great contributions to the development of Svishtov and the Academy of Economics. At the ceremony, a monographic chronicle “First Builders of the Svishtov Financial School” (Lilova & Zahariev, 2017) was presented - dedicated to the work, life and contribution of the Department’s founders and its most prominent scholars. The printing of the chronicle was donated by Mr. Neyko Genchev – the Manager of Faber Publishing House in Veliko Tarnovo.



The National Student Conference “Financiada 2017” was among the events dedicated to the 65<sup>th</sup> Anniversary of the Department. It led to the participation of nearly seventy students who presented fifty-nine papers on topics related to public finance, corporate finance, investment and banking. Within the two-day celebrations, there was a museum exhibition – “The Svishtov Financial School”, dedicated to the scientific achievements of the



twelve most prominent Svishtov scientists whose career was connected with Alma Mater in Svishtov and financial science. Unique library documents for Bulgaria, written by the ‘first builders’ of the financial science in Bulgaria, were presented with the active participation of Mrs. Anka Taneva, Director of the Acad. Nikola Mihov Academic Library and Assoc. Prof. Stefan Simeonov, PhD.

For the celebrations, a special TV-video about the Department and the Academy was prepared and broadcast on the Bulgarian National Television and other media and reached hundreds of thousands viewers.

## II.

The International Scientific and Practical Conference “**Current Challenges for the Financial Science in Changing Europe**” was officially opened, dedicated to the anniversary celebrations. Organizers of the

conference were the Department of Finance and Credit at D. A. Tsenov Academy of Economics – Svishtov and the Department of Finance at the University of National and World Economy – Sofia. A great interest to the conference was shown by Bulgarian and foreign scientists working in the field of finance, as well as by representatives of the financial practice. A hundred and four people from seven countries and two continents took part in the scientific forum. Ninety-two papers on corporate finance, investment, public finance, banking and micro-financial policy were published in a collection of papers with 600 pages. The Department,

organizer of the celebrations, through six plenary papers, presented to the scientific community the major scientific issues within the focus of recent research conducted by generations of scholars-financiers. The host department prepared six plenary papers written by representatives of six hierarchical levels of academic development: students, PhD students, assistant professors, head assistants, associate professors and professors.



A plenary scientific paper, written by Antoaneta Kulaksazova and Aleksandra Petrova – fourth-year students in Finance, Bachelor's degree, who participated twice in the national competition for professional financial analysts CFA Research Challenge, was entitled **“Problems and Solutions in Assessing Public Companies”**. The objective of the paper is the selection of the best and most widely applicable method of valuation of shares through empirical testing, which can be achieved by “back-testing”, analysis and comparison. The paper aims at, as has been pointed out by the authors, the companies from the “Premium” segment of the Bulgarian Stock Exchange, chosen as a representative sample. The subject is - the models for assessing the value of the company. The plenary student paper has found “proof of the fact that, in conditions of imperfect emerging markets, traditional assessment with discount models decrease its significance to comparative assessment”. The latter is a recommendation to the practice “that it is best to use the methods of comparative assessment because, on the basis of the empirical study, these methods have the highest explanatory ability” (Kulaksazova & Petrova, 2017, p.214).

A plenary scientific paper by PhD student Nikola Iliev (a scholarship student of the Bulgarian National Bank) was developed and presented with the title **“Application of the Active Portfolio Management on European Capital Markets”**. The aim of the paper is to appraise the methodology of active portfolio management empirically, testing it on the sample of assets quoted on European capital markets. The object of research is “the assets, especially shares of publicly traded companies, to which active portfolio management will be realized”. The research subject is yields of the selected shares, “decomposed into their components – passive and alpha, where the first is realised in a state of market equilibrium and the second is realized in a state of deviation from market equilibrium”. The thesis is that “the realisation of alpha on the European capital markets is also possible as much as on the US capital market, traditionally accepted as the object of research in all literature in the field of active portfolio management” (Iliev, 2017, p.378). PhD-student Iliev has given the following conclusions and recommendations: “There is no doubt that the European capital markets, although developed, are far from the effective ones and allow the realisation of alpha yield through the use of predictors”. The same is true of the analysis of capital markets in the period of 2015-2017 by styles, “where there are many sources of alpha, the best performing of which are the momentum and the capital efficiency and the worst performing – the size and the volatility”. In assessing capital efficiency, it is found that there is rather a connection with the performance of the company behind the asset. The author concludes: “In the case of size, larger companies obviously do not realize a higher yield, known from the theory for

eighty years, while the volatility is an option but not a certainty for deviation". There is also "... a tendency in which almost all industries are comparable, with the exception of IT, Telecom, Healthcare, where loss occurs. However, it is important, at least for Healthcare, where it is practiced – France, Austria, Sweden, Finland, Denmark and Switzerland. In these countries strong public healthcare is a competitor of the private healthcare sector, respectively the possibility of realising an active yield from trading with shares of private companies from the same sector decreases. (Iliev, 2017, p.182-183)".

A plenary scientific paper entitled **"Predictor Models for the Assessment of the Government Bond Spread"** was written by Zhivko Todorov (part-time PhD student at the Department of Finance and Credit). It aimed at "conducting a critical analysis and selection of the most appropriate model from the group of *'Error Correction Models'* for accurate and sufficiently plausible assessment of variation in the spread of government bonds of each country" (Todorov, 2017, p.352). As a result, the author stated: "First, there is a sufficiently flexible mechanism establishing the existence of deviations from equilibrium levels in past periods which should also define a part of the current behaviour of the government bond spreads. The results of the application of modified model should provide a sufficiently objective market assessment of the changes in bonds due to local and / or supranational shocks. Second, these models provide information on the level of integration achieved among countries. This information is incorporated into the correction coefficient and time of recovery to the equilibrium level (co-change). As long as this time interval is greater, the risk additive, respectively the spread among countries will grow" (Todorov, 2017, p.360-361)".

In plenary scientific paper on **"Behavioural Modelling of the Market Volatility of the Bulgarian Capital Market"**, written by Head Assistant Professor Tsvetan Pavlov, PhD (scientific secretary of the Department), the main objective set by the author was: "exploring to what extent the deviations from the fair levels in the volatility of the shares quoted on the Bulgarian capital market are the result of the influence of socio-psychological factors" (Pavlov, 2017, p.119). The author made the following conclusions:

„First. The specificities of human psychology in the formation of beliefs and making financial decisions in the conditions of uncertainty affect the volatility of Bulgarian capital market. The volatility of Bulgarian Stock Exchange can be recreated by the changes in cash flows (the leading factor) which investors have mistakenly assessed because of heuristics conservatism, representativeness, anchoring and application of irrational changes in risky preferences formed by past and expected yield. Second. The proposed behavioural model provides reliable forecast of future SOFIX levels when sufficient data on the expected FCFE over the current year (period) and

relatively steady GDP growth rate are available. In recession or volatility in GDP dynamics, the model must be used carefully. Third. Implicit premium required to shareholders is an indicator of irrational market moods. The application of IEP in practice should be linked to the resource allocation processes and market-timing strategies in the management of investment portfolios. In successive reductions of IEP, in the conditions of growing market, there is a signal of overestimation of assets, and in the opposite situation – an underestimation. Fourth. Parallel to yield and risk, the investment community needs to pay attention to indicators such as IEP that allow the measurement of the probability of balloons in stock prices. In this regard, it is also useful to monitor the dynamics of labour productivity and the unemployment rate because new extreme values of IEP are not always needed to “burst” the developing speculative balloon”. (Pavlov, 2017, p.130-131.).

In the plenary scientific paper of Assoc. Prof. Stoyan Prodanov, PhD (Executive Director of BUL INS JSC insurance company) on “**Financial and Technological Innovations Changing the Insurance Paradigm**”, the main objective of the study was “the emergence, evolution and future of the following phenomena, having the potential to fundamentally alter the insurance paradigm, including: (1) Insurance securitization – the transfer of insurance risk to the capital markets; (2) The concept of “*Internet-of-things*”-insurance aspects; (3) Application of Blockchain technology and smart contracts in insurance” (Prodanov, 2017, p.283-284). The author concluded that: “First. Insurance-linked securities reveal new opportunities for insurers. They can deal with underwriting policy, without taking the whole risk. On the other hand, insurers can choose better alternative between a traditional reinsurance contract and reinsurance contract with a company with a special reinsurance purpose. Second. Internet-of-things is one of the areas with an enormous potential to change the existing insurance business practices, to create new models, to merge with other advanced areas of insurtech penetration. Third. There is a huge potential for the development of the financial and insurance industry related to the application of Blockchain technology... “however, new information technologies can destroy the value of the insurer. Changing the business model of traditional insurance may lead to a reduction in insurers’ profits and the total value of the industry at the expense of the benefits for final users. New opportunities for insurers from the application of Blockchain technology and smart contracts will define new favourites in the struggle for consumer confidence and new losers, which are hard to create the yield demanded by investors’ (Prodanov, 2017, p.286-291).

The sixth plenary paper on “**Currency Market – Global and National Trends (2007-2016)**” was prepared by Prof. Andrey Zahariev, PhD (Head of the Department). The paper aimed at identifying “the main trends in



national and international currency markets on the bases of a three-year observation methodology of the Basel Bank for International Settlements through comparable international statistic surveys conducted in 2007, 2010, 2013 and 2016". In the first part of the paper, focusing on the global currency market, it was found that in the latest BIS global survey of April 2016, a daily turnover of net-net basis of \$5,067 trillion was equal to 6.73% of the forecasted global GDP for 2016, which in turn was estimated at \$75, 25 trillion, or it was the production of global GDP for 24.58 working days (see Table 1).

The analytical section of trends in the global and national currency market allows the author to find that: First. The three-year period observations of the global currency market in 2007, 2010, 2013 and 2016 formed a steady growing trend of daily forex trading volumes which compared to the base year 2007 rose 1.52 times at the end of the period (from \$3,424 trillion to \$5,067 trillion) with a daily average turnover of \$4, 43 trillion, with a standard deviation of \$948 billion and a coefficient of variation of 21.4%. Second. The three-year period observations of the Bulgarian currency market in 2007, 2010, 2013 and 2016 formed a steady growing trend of daily forex trading volumes which compared to the base year 2007 rose 3.14 times at the end of the period (from \$0,563 billion to \$1,767 billion) with a daily average turnover of \$1,207 billion, with a standard deviation of \$0,581 billion and a coefficient of variation of 48.14% (Zahariev, 2017, p. 408-408).

*Table 1. Global daily forex market turnover (2007 – 2016) and global GDP*

<i>In billions of US dollars</i>	<b>2007</b>	<b>2010</b>	<b>2013</b>	<b>2016</b>
<b>Foreign exchange instruments</b>	<b>3324</b>	<b>3971</b>	<b>5345</b>	<b>5 067</b>
Spot transactions	1005	1488	2046	1 652
Outright forwards	362	475	680	700
Foreign exchange swaps	1714	1759	2228	2 378
Currency swaps	31	43	54	82
Options and other products	212	207	337	254
<b>Global GDP</b>	<b>57756</b>	<b>65853</b>	<b>75471</b>	<b>75250</b>
<b>Share of daily forex market turnover in global GDP</b>	<b>5.76%</b>	<b>6.03%</b>	<b>6.98%</b>	<b>6.73%</b>

Source: (BIS, 2016); (IMF, 2016) with complementary author's calculations.

The main conclusion of the plenary paper is that "the post-crisis recovery of the global economy through the prism of foreign exchange trading

is already a fact. Bulgarian currency market is steadily catching up with the turnover indicators of the global market and represents a positive characteristic for our country as a functioning market economy, an EU member and a recent Eurozone candidate.” (Zahariev, 2017, p. 409).

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With the 65<sup>th</sup> Anniversary of the Finance Department in Svishtov, the old maxim, that the respect for traditions is a living root for the future projects, is confirmed. The series of events showed the public and scientific significance of the Department of Finance and Credit as a scientific centre and a trustworthy partner in international, scientific and social perspective. With 25 000 graduates (150 PhD students, 10 000 bachelors, 13 000 masters and more than 2 000 post-graduate students) the Department is an emanation of the Benefactor Dimitar Apostolov Tsenov’ will and in his last will, he determined “The disciplines to be taught must comprise: Commercial Science; **Financial Sciences**; Commercial Law; **Banking**; Insurance Science and etc.” Already one hundred and five years after Dimitar Apostolov Tsenov’s testament, signed on 1 September 1912 in Svishtov Alma Mater, the will of the benefactor “to study the Financial and Banking Sciences at the Higher School of Commerce in Svishtov” (Lilova & Zahariev, 2017, p.9) continues to have its successful and generally recognised realisation in the face of the Department of Finance and Credit – the first academic department of financial sciences in Bulgaria.

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