

# BEST'S COUNTRY RISK REPORT

## Bulgaria CRT-4

August 22, 2018

Region: Europe

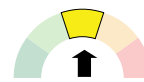
[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political and Financial System Risk.
- Bulgaria, a CRT-4 country, has moderate levels of economic and political risk, and high financial system risk. Over the past few decades, Bulgaria has undergone significant economic reforms, to transform the country from a centralized, planned economy to a more market friendly structure.
- GDP growth was 3.6% in 2017, fueled by private consumption, industrial activity, and investment growth. Medium-term GDP is expected to range between 3.0% and 4.0%.
- A.M. Best categorizes the majority of countries pictured in the map as CRT-1 or CRT-2. Notable exceptions include many of the Eastern European countries such as Belarus, Russia, Romania, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- **Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- **Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- **Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- **Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- **Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

## Regional Summary: Eastern Europe

- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

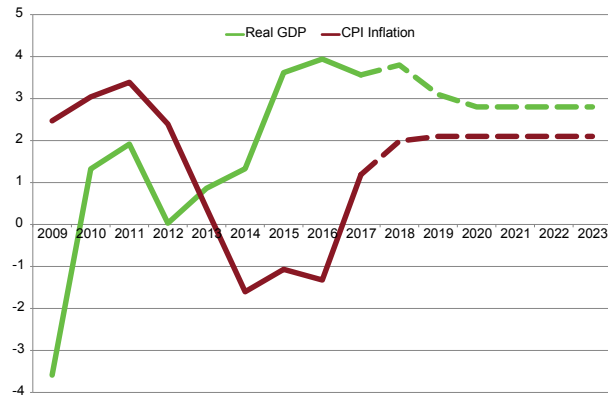
Vital Statistics 2017		
Nominal GDP	USD bn	56.94
Population	mil	7.1
GDP Per Capita	USD	8,064
Real GDP Growth	%	3.6
Inflation Rate	%	1.2
United Nations Estimates		
Literacy Rate	%	98.4
Urbanization	%	74.6
Dependency Ratio	%	51.7
Life Expectancy	Years	74.7
Median Age	Years	42.7
Insurance Statistics		
Insurance Regulator	The Financial Supervision Commission (FSC)	
Premiums Written (Life)	USD mil	213
Premiums Written (Non-Life)	USD mil	1,022
Premiums Growth (2016 - 2017)	%	4.8
Regional Comparison		
	Country Risk Tier	
Bulgaria	CRT-4	
Bosnia and Herzegovina	CRT-5	
Poland	CRT-2	
Romania	CRT-3	
Turkey	CRT-4	
Ukraine	CRT-5	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



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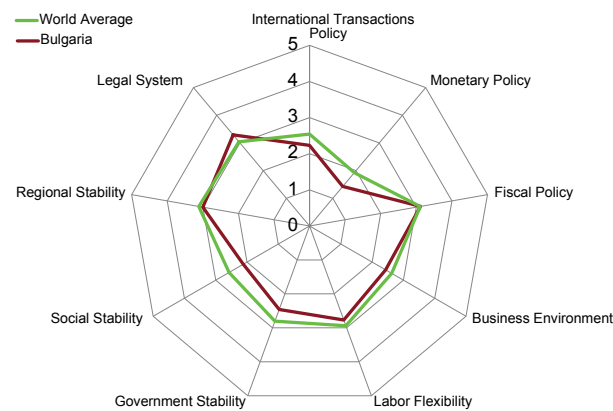
### Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

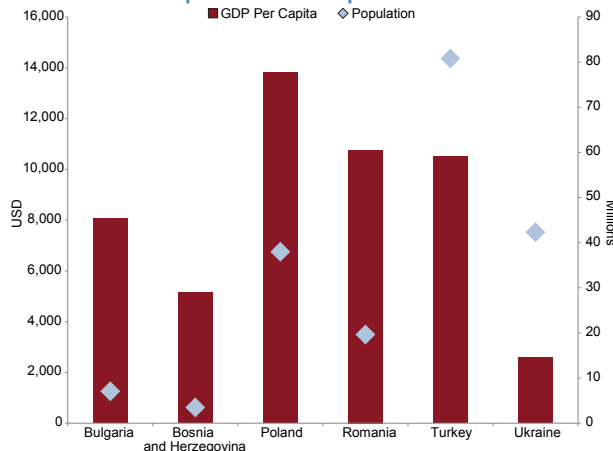
### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Economic Risk: Moderate

- The economy relies highly on the export, agricultural, and construction sectors, which makes it vulnerable to changes in global demand conditions and global financial shocks.
- After three years of negative inflation rates, inflation turned positive in 2017 owing to rising commodity prices. Inflationary pressures are growing, as the unemployment rate declines and wages increase.
- According to the World Bank, Bulgaria has the highest level of income inequality in the EU, and it has been increasing over the last several years. The income of the richest 20% of the population was almost eight times that of the poorest 20%. In 2017, GDP per capita was approximately USD8,000.
- Additional challenges for the economy include an ageing and declining population, infrastructure quality below EU average standards, and the judiciary not being completely independent from politics.

### Political Risk: Moderate

- Following the March 2017 election, the coalition government is composed of the right-leaning Citizens for the European Development of Bulgaria (GERB), led by Prime Minister Boyko Borisov, and the nationalist United Patriots (UP) party.
- The country has been relatively stable politically. Borisov has held power in various coalition governments since 2009. GERB has secured power by combining alignment with the EU and populist appeals.
- However, because of the influence of private interests on both policy-making and the judicial process, Bulgaria's most influential people largely are outside the political system.
- The government has endured public dissatisfaction owing to pervasive corruption. Doubts exist about the government's ability and willingness to tackle this issue.

### Financial System Risk: High

- The Bulgarian insurance market is regulated by the Financial Supervision Commission (FSC), which was established in March 2003. The FSC is responsible for regulating and controlling various segments of the financial system, including the capital markets.
- Eurozone finance ministers endorsed Bulgaria's application to join the EU's banking union, as part of its path towards adopting the euro as its currency. Bulgarian banks will have to pass comprehensive European Central Bank stress tests, reinforce supervision of the non-bank financial sector, and accept the exchange rate mechanism (ERM II) monetary framework, as conditions to join the program.
- The banking system appears resilient, but non-performing loans remain well above the average for the European Union. Additionally, several banks require larger capital buffers due to asset quality concerns.