Gibraltar

CRT-1

August 22, 2019

Region: Europe

Country Risk Criteria Procedures

Guide to Best’s Country Risk Tiers


- Gibraltar, a self-governing British Overseas Territory, is a CRT-1 country, with low levels of economic, political, and financial system risk.

- Gibraltar is located on the southern tip of the Iberian Peninsula. Given its proximity to both the Mediterranean and Atlantic, shipping and trade are key to the economy. Shipping, financial services, and tourism comprise the majority of Gibraltar’s economy.

- AM Best categorizes the majority of countries depicted in the map as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries such as Belarus, Romania, and Ukraine.

Regional Summary: Western Europe

- Composed of 28 countries, the EU accounts for slightly over a fifth of the world’s GDP. The IMF predicts that GDP for the region will be 18.71 trillion euros in 2019, largely flat from 18.75 trillion euros in 2018.

- Uncertainty about Britain’s exit from the EU lingers, weighing on regional growth prospects. A decision on Brexit is due in October, with a “no deal” Brexit remaining a possibility.

- Growth in Western Europe has stagnated; impediments include weakness in the region’s manufacturing sectors, heightened trade tensions, and a general worldwide economic slowdown.

- The European Central Bank (ECB) ended its unprecedented quantitative easing program in December 2018. However, the ECB has signaled that further stimulus could be forthcoming if economic softness persists.
Economic Risk: Low

• Gibraltar’s economy is small but somewhat diverse. Main service sectors include tourism, financial services, internet gaming, e-commerce, and shipping.

• The country’s primary trading partners are the UK and Spain—about a quarter of the country’s trade comes from Spain. These countries also play a large role in Gibraltar’s tourism industry, as the majority of the tourists to Gibraltar come from Spain and the UK.

• Gibraltar has carved a niche in the online gambling industry. However, headwinds to the industry include an increase in the tax rate from 1.0% to 15% and competition from the Isle of Man and Malta.

Political Risk: Low

• The current chief minister of Gibraltar is Fabian Picardo from the Gibraltar Socialist Labour Party. His party and the Liberal Party of Gibraltar are currently supported by 10 of the 17 seats in parliament. The other seven seats are controlled by the Gibraltar Social Democrats. Political differences in Gibraltar stem primarily from the country’s relationship with Spain and its border policy.

• Constitutionally, the next election in Gibraltar must take place before April 7, 2020, but elections may be held as early as fall 2019.

• An agreement could be ratified by the EU and Spain to allow Gibraltar continued access to the Spanish labor market until 1 January 2021. However, whether Spain and the EU are willing to agree to such a deal is unclear.

• The UK-appointed governor of Gibraltar is currently Edward Davis. His primary responsibilities are foreign relations, security, and defense.

Financial System Risk: Low

• The Gibraltar Financial Services Commission (FSC) regulates all financial services in the territory, including insurance. The Insurance Companies Act of 1987 and the Financial Services Act of 1989 are the primary governing legislation. In the insurance industry, motor insurance dominates.

• The official currency of Gibraltar is the Gibraltar pound, which is pegged to the pound sterling. This currency is controlled directly by the government, rather than a central bank. Monetary policy is primarily concerned with maintaining a one-to-one exchange rate with the pound sterling.

• Currently, 61 insurance companies are licensed to operate in Gibraltar, with non-life services accounting for more 90% of the market and life services accounting for less than 10%.