

# BEST'S COUNTRY RISK REPORT

## Kuwait CRT-3

August 22, 2018

**Region:** Middle East & North Africa

[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.
- Kuwait, a member of the Gulf Cooperation Council (GCC), is a CRT-3 country, with moderate levels of economic and financial system risk and a high level of political risk.
- Kuwait's economy is constrained by its dependence on the hydrocarbon sector to drive growth, in addition to a lack of competitiveness. The economy contracted in 2017 but is expected to return to moderate growth, on a rebound in energy prices. GDP is forecast to grow by 1.3% in 2018.
- The map depicts countries in the region that A.M. Best evaluates for country risk. The region contains countries with risk levels ranging from CRT-3 to CRT-5.



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: Middle East & North Africa

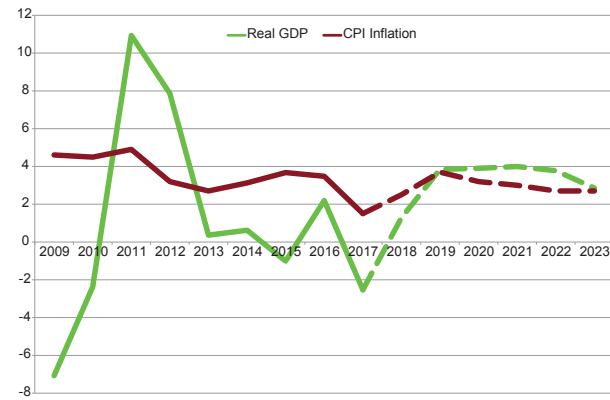
- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries financing large fiscal deficits through increased borrowing and draw downs of fiscal buffers.
- Economic growth for the region is estimated to increase in 2018 on strengthening global growth, a moderate rise in oil prices, easing fiscal adjustment, reforms to promote non-oil sector growth, and growing infrastructure investment.
- Fiscal consolidation and revenue generating programs implemented over the last few years continue, albeit at a slower pace. Revenue measures include the introduction of a value-added tax (January 2018) in Saudi Arabia and the United Arab Emirates, with other countries likely to implement similar measures by the end of the year. Improving the efficiency of public spending (via a bill that lowers the government wage bill, for example) on the expenditure side is also a priority.

Vital Statistics 2017		
Nominal GDP	USD bn	120.35
Population	mil	4.4
GDP Per Capita	USD	27,319
Real GDP Growth	%	-2.5
Inflation Rate	%	1.5
United Nations Estimates		
Literacy Rate	%	95.7
Urbanization	%	98.4
Dependency Ratio	%	29.8
Life Expectancy	Years	78.2
Median Age	Years	29.3
Insurance Statistics		
Insurance Regulator	Dept. on the Supervision of Insurance at the Ministry of Commerce & Industry	
Premiums Written (Life)	USD mil	153
Premiums Written (Non-Life)	USD mil	668
Premiums Growth (2016 - 2017)	%	1.8
Regional Comparison		
	Country Risk Tier	
Kuwait	CRT-3	
Bahrain	CRT-4	
Oman	CRT-4	
Qatar	CRT-3	
Saudi Arabia	CRT-3	
United Arab Emirates	CRT-3	

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



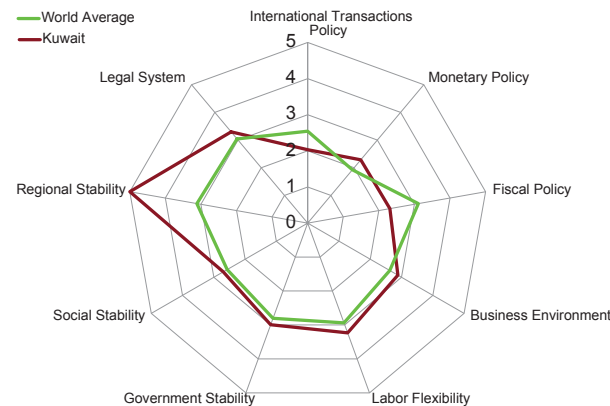
### Economic Growth (%)



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

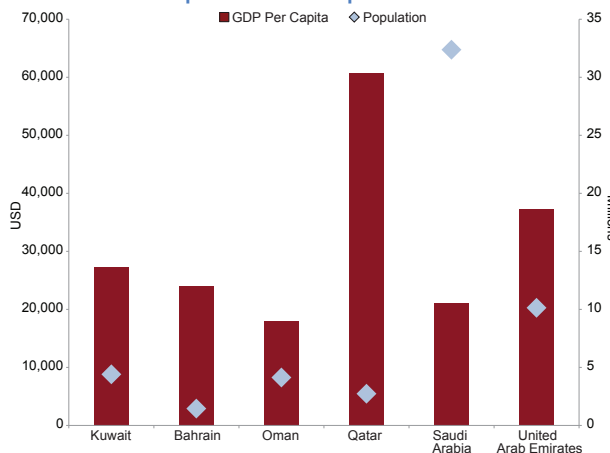
### Political Risk Summary

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 is dominated by oil production, which accounts for approximately half of GDP, 90% of government revenue, and more than 90% of export earnings. The reliance on oil makes the country vulnerable to fluctuations in both oil prices and global demand.
- Kuwait has encountered difficulties in its efforts to diversify its economy from the hydrocarbon industry, owing to a challenging business climate and a large, non-competitive public sector. Estimates are that the government employs almost three-quarters of the country's citizens.
- Challenges to conducting business in Kuwait include onerous levels of bureaucracy, particularly with regard to starting a business and dealing with construction permits. Additionally, corruption at all levels of government remains an issue.
- In 2017, the economy contracted by 2.5% due to oil production cuts. The Organization of Petroleum Exporting Countries (OPEC), of which Kuwait is a member, decided to lower production levels to raise oil prices. With recent production increases and oil price appreciation, the country is expected to return to growth.

### Political Risk: High

- Kuwait is a constitutional monarchy, with executive power in the hands of the emir, who is chosen from within the royal family. The emir appoints the prime minister. There is an elected National Assembly that ratifies laws passed by executive decree.
- Political gridlock and infighting have resulted in policy implementation delays, particularly with respect to implementing unpopular austerity measures. The government has delayed the implementation of a 5% value-added tax, now scheduled for implementation in 2019.
- The sharp decline in oil prices in 2014 resulted in budget deficits and the need to implement austerity measures. To maintain fiscal discipline, the government will need to lower the cost of subsidies and rationalize public wages. Policies are needed to push workers to the private sector.
- Kuwait's sovereign wealth fund, the Kuwait Investment Authority, provides a large fiscal buffer, helping to mitigate some of the country's budget shortfalls.

### Financial System Risk: Moderate

- The Department on the Supervision of Insurance, under the Ministry of Commerce and Industry, is responsible for the supervision of the insurance sector, including brokers and agents.
- According to the IMF, the country benefits from large financial buffers, low debt, and a sound financial sector. The banks are well capitalized and profitable, while the ratio of non-performing loans is low at 2.4%.
- The banking sector's exposure to foreign liabilities is limited, having declined significantly from record highs a decade ago.