

# BEST'S COUNTRY RISK REPORT

## Macau CRT-2

August 22, 2018

Region: Asia

[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.
- Macau, a CRT-2 region, is a Special Administrative Region of China, and a former Portuguese colony. It has a moderate level of political risk and low levels of economic and financial system risk. Its economy is closely tied to China's and depends highly on the tourism and gaming sectors.
- Macau has recovered from a recession in 2016 that resulted from China's anti-corruption initiative (which placed limits on currency withdrawals in Macau) and decelerating Chinese growth. The country is expected to grow 7% in 2018. Stronger demand and higher global oil and energy prices, however, are likely to increase inflation.
- The countries pictured in the map hold a great deal of the world's economic potential.



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 Asia

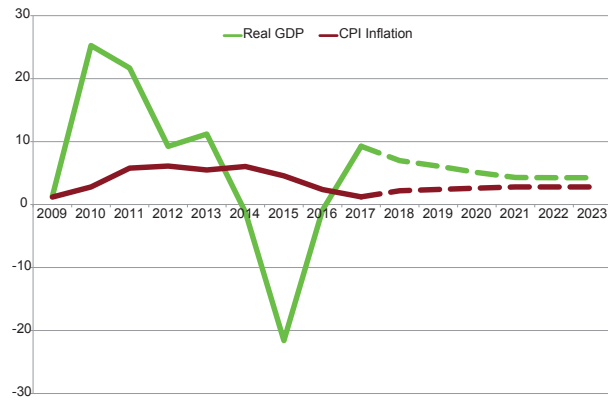
- Eastern Asia is home to some of the world's largest and most advanced economies. China (the second-largest economy in the world), Japan (third-largest), and South Korea (twelfth-largest) dominate much of Eastern Asia's economy as measured by gross domestic product (GDP) by the International Monetary Fund at year-end 2017.
- Tailwinds to the region include robust global growth and the resulting increase in demand for exports, growing domestic consumption, low interest rates, favorable labor market conditions, and government investment in infrastructure.
- Eastern Asia is particularly vulnerable to the rise in global trade protectionist policies and the resulting disruption in regional production networks. Additional risks for the region include an increase in geopolitical tensions, tighter global financial market conditions, potential capital outflows, exchange rate and financial market volatility, aging demographics and the resulting associated costs, government intervention in the private sector, and rising government debt levels.

Vital Statistics 2017		
Nominal GDP	USD bn	49.80
Population	mil	0.6
GDP Per Capita	USD	77,451
Real GDP Growth	%	9.3
Inflation Rate	%	1.2
United Nations Estimates		
Literacy Rate	%	96.5
Urbanization	%	100.0
Dependency Ratio	%	26.6
Life Expectancy	Years	84.6
Median Age	Years	39.3
Insurance Statistics		
Insurance Regulator	Monetary Authority of Macau	
Premiums Written (Life)	USD mil	734
Premiums Written (Non-Life)	USD mil	230
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
		Country Risk Tier
Macau		CRT-2
China		CRT-3
Hong Kong		CRT-2
Japan		CRT-2
South Korea		CRT-2
Taiwan		CRT-2

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



### Economic Growth (%)



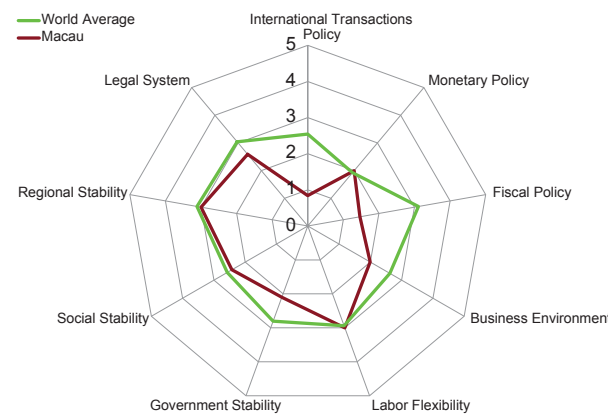
Source: IMF World Economic Outlook and A.M. Best

### Economic Risk: Low

- Macau has one of the world's most open free market economies. Tourism, including the gaming market, accounts for 55% of GDP.
- The gaming sector has grown robustly, fueled by Chinese consumers' rising spending power and less restrictive policies on tourists from the mainland.
- A corruption crackdown in 2014 in China led to a sharp decline in gaming revenues, which spilled over into the broader economy, leading to a recession.
- Current growth is supported by strong domestic demand, which, along with higher global oil and energy prices, are expected to drive inflation up at a faster pace.
- The Macau and Mainland Closer Economic Partnership Arrangement (CEPA) has significantly lowered trade and investment barriers between the two entities.
- The population enjoys one of the highest per capita incomes in the world. The labor market remains tight, with unemployment consistently below 2%. However, the uneven distribution of income is worsening.

### Political Risk Summary

Score 1 (best) to 5 (worst)

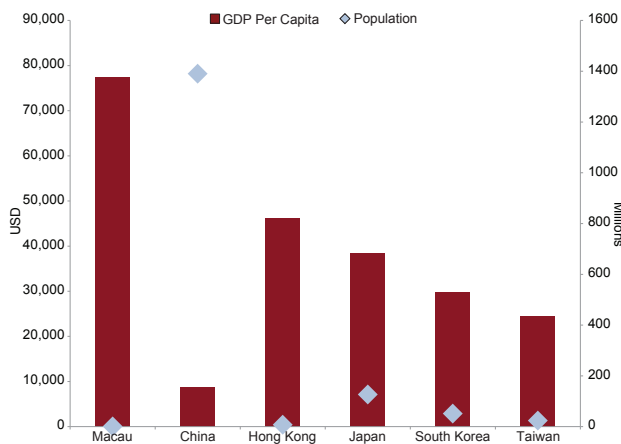


Source: A.M. Best

### Political Risk: Moderate

- Macau enjoys a high level of autonomy over internal affairs. The government is broadly pro-Beijing, with its main political opposition largely weakened.
- The government seeks to attract foreign investments and is committed to maintaining an attractive business environment and tax system. The government has adopted policies to encourage businesses in sectors other than gaming to promote economic diversification.
- Public unrest is minimal. There is, however, some dissent owing to high housing prices, income inequality, and the government's inadequate response to the 2018 typhoon. Nonetheless, support for the government is relatively high, and political stability has been unshaken.
- Because of the nature of the gaming sector and institutional weaknesses, corruption and money laundering remain concerns. The legal system faces a shortage of qualified professionals and can be inefficient at times.

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Financial System Risk: Low

- Macau's insurance industry is regulated by the Insurance Supervision Department of the Macau Monetary Authority (AMCM). The AMCM also regulates the banking industry.
- Macau's currency is pegged to the Hong Kong dollar, limiting its control over interest rates. However, an ample amount of foreign reserves helps mitigate this restriction.
- Macau's external position is strong, with high foreign exchange liquidity, ample external assets, and robust FDI inflows. The slowdown in China's economy may have inevitable spillover effects on Macau's performance.
- The IMF has encouraged a more diversified economy for economic growth and foreign exchange earnings.