

BEST'S COUNTRY RISK REPORT

Oman CRT-4

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.
- Oman is a CRT-4 country with a moderate level of economic risk and high levels of political and financial system risk.
- Its oil-based economy exposes the country to shifts in global demand and oil prices. Oman is the largest non-OPEC oil producer in the Middle East. (It is not a member of the Organization of Petroleum Exporting Countries.) Production cuts led to an economic contraction in 2017. Growth is expected to return 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	74.27
Population	mil	4.1
GDP Per Capita	USD	17,973
Real GDP Growth	%	-0.3
Inflation Rate	%	1.6
United Nations Estimates		
Literacy Rate	%	93.0
Urbanization	%	78.5
Dependency Ratio	%	32.4
Life Expectancy	Years	75.7
Median Age	Years	25.6
Insurance Statistics		
Insurance Regulator	Capital Market Authority	
Premiums Written (Life)	USD mil	161
Premiums Written (Non-Life)	USD mil	1,053
Premiums Growth (2016 - 2017)	%	11.6
Regional Comparison		
	Country Risk Tier	

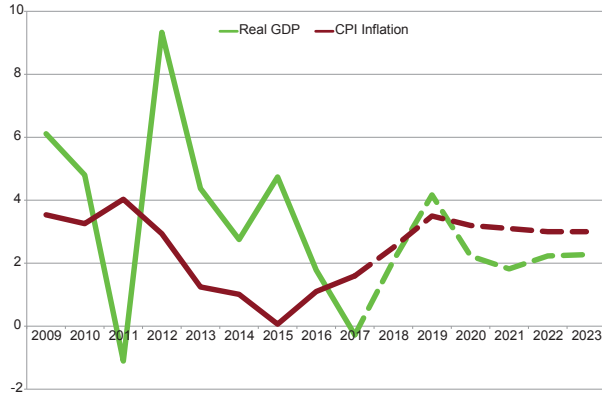
	Country Risk Tier
Oman	CRT-4
Bahrain	CRT-4
Kuwait	CRT-3
Qatar	CRT-3
Saudi Arabia	CRT-3
United Arab Emirates	CRT-3

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



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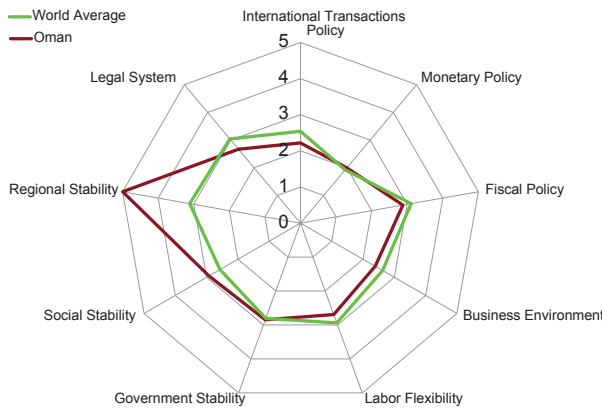
Economic Growth (%)



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

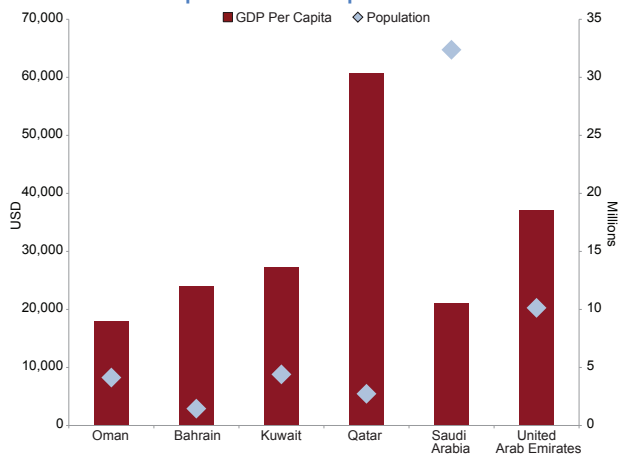
Political Risk Summary

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 is undiversified and is dominated by the hydrocarbon sector, making the country vulnerable to global demand conditions. The government is trying to diversify the economy by implementing various pro-business reforms and trying to attract foreign direct investment.
- An estimated 70 enterprises are state-owned. These enterprises need to submit plans to the Ministry of Finance on how they are to be privatized over the next five years.
- Oil and oil products currently account for 70% of exports (by value), with a majority of the oil exports bound for China. Other key export partners include the United States, Japan, Thailand, South Korea, and Taiwan.
- Inflation is expected to rise owing to an increase in electricity tariffs and the implementation of a value-added tax planned for 2019. Inflation was 1.6% in 2017 and is expected to increase to 2.5% in 2018 and 3.5% in 2019.

Political Risk: High

- The Sultanate of Oman is an absolute monarchy. Sayyid Qaboos bin Said al Said has been sultan since 1970, and rules by decree. A Council of Ministers is selected by the sultan.
- The sultan remains a very popular leader, which has raised succession concerns, as he has no clear heir. In March 2017, Qaboos elevated his cousin to the post of deputy prime minister, which lessened succession-related instability and potential infighting over succession.
- Debt levels have increased in recent years owing to lower commodity prices. The government sold a USD6.5 billion bond, its largest ever, in early 2018 and has also used external buffers to plug up budget deficits. Borrowing costs have increased recently due to sovereign rating downgrades.
- Despite a decline in government revenues, high levels of social spending continue. However, the government has pledged to keep social spending to no more than 40%-45% of GDP. The 2018 budget was approximately 7% higher than the 2017 budget and is based on an oil price assumption of \$50/per barrel.

Financial System Risk: High

- The Capital Market Authority is responsible for supervising the insurance industry.
- The currency is pegged to the US dollar, which has helped with macro stability but diminishes monetary policy options.
- Private sector credit growth has moderated. According to the IMF, the banking sector is very well capitalized, with a low number of non-performing loans and strong levels of liquidity.
- Tighter US monetary policy could have adverse implications for borrowing costs across the region and bears watching.