

BEST'S COUNTRY RISK REPORT

Saudi Arabia

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.
- Saudi Arabia is a CRT-3 country with low economic risk and moderate political and financial system risk.
- Regional tensions with Iran and Qatar and in Yemen increase the possibility of terrorist attacks and threaten political stability. The hydrocarbon industry's contribution to the country's GDP remains significant, which could jeopardize long-term growth prospects. GDP is expected to grow tepidly over the medium term, remaining about 2% for most of the next five years.
- 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

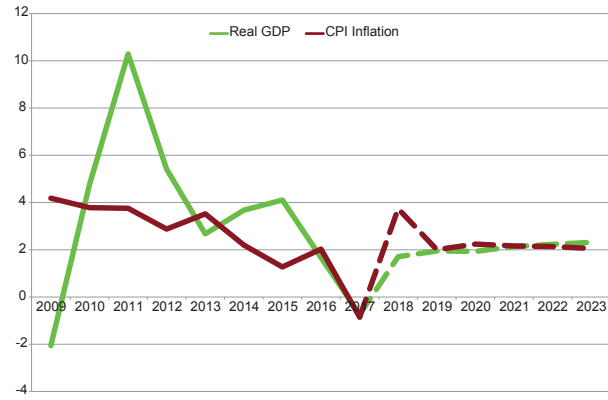
- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries 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	683.83
Population	mil	32.4
GDP Per Capita	USD	21,120
Real GDP Growth	%	-0.7
Inflation Rate	%	-0.9
United Nations Estimates		
Literacy Rate	%	94.7
Urbanization	%	83.5
Dependency Ratio	%	40.9
Life Expectancy	Years	75.5
Median Age	Years	27.5
Insurance Statistics		
Insurance Regulator	Saudi Arabian Monetary Agency	
Premiums Written (Life)	USD mil	283
Premiums Written (Non-Life)	USD mil	9,434
Premiums Growth (2016 - 2017)	%	-0.3
Regional Comparison		
	Country Risk Tier	
Saudi Arabia	CRT-3	
Bahrain	CRT-4	
Kuwait	CRT-3	
Oman	CRT-4	
Qatar	CRT-3	
United Arab Emirates	CRT-3	

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



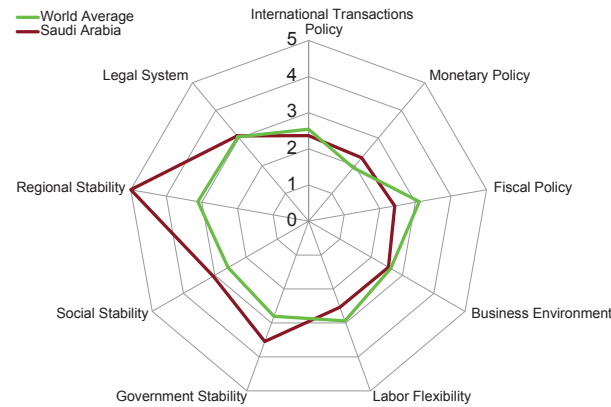
Economic Growth (%)



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

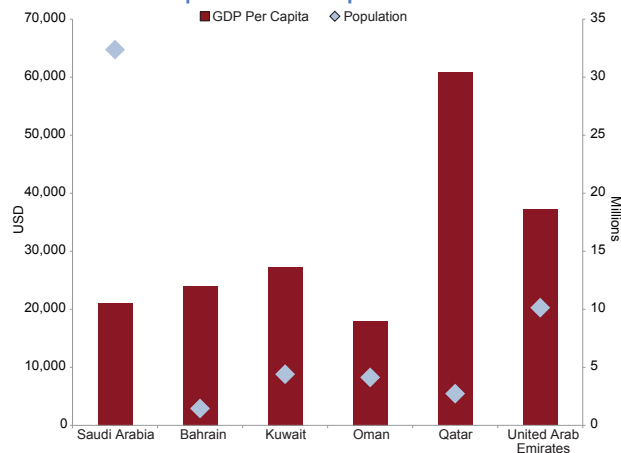
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- Saudi Arabia is the world's largest producer and exporter of oil, making it vulnerable to changes in global demand and pricing.
- In 2016, the kingdom adopted "Vision 2030" as a road map for economic and development initiatives. The framework's goals include diversifying the economy, increasing the role of the private sector, and improving government transparency and accountability. For 2018, growth is expected to be 1.9%, with non-oil growth at 2.3%.
- The country has implemented a number of measures to improve the business operating environment, including making it easier to start a business, passing new bankruptcy laws, and encouraging women to enter the work force.
- Rebounding commodity prices and higher oil prices will act as a tailwind for growth in 2018. However, unemployment remains high at 12.8%, with a low labor force participation rate of 55.5%.

Political Risk: Moderate

- Saudi Arabia is an absolute monarchy, with Salman bin Abdulaziz Al Saud acting as monarch since January 2015.
- King Salman changed succession plans by appointing his son, Mohammed bin Salman, crown prince. The crown prince is currently in charge of economic, political, and security decisions affecting Saudi Arabia. In November 2017, he launched an extensive anti-corruption campaign aimed at reclaiming assets from prominent business figures as well as members of the royal family.
- Political protests are unlikely, but the country faces growing public dissatisfaction owing to high levels of unemployment (particularly among youth), unequal wealth distribution, a reduction of subsidies, and perceived corruption.
- The risk of terrorism is growing, with the Islamic State seeking to demonstrate against the Saudi state, which could exacerbate existing social divisions. Additionally, the possibility of increased terror attacks is also elevated, due to Saudi Arabia's role in the Yemen conflict, tensions with Iran and Qatar, and the Islamic State.

Financial System Risk: Moderate

- Saudi Arabia's insurance industry is regulated by the Saudi Arabian Monetary Authority (SAMA) under the Cooperative Insurance Companies Control Law of 2003.
- The Capital Market Authority is making efforts to develop local capital markets, in an effort to provide more saving and financing opportunities in the domestic economy.
- The government seems committed to maintaining the riyal's peg to the US dollar, which has helped manage inflationary pressures by providing stability to trade and income flows, although it limits monetary policy.
- Saudi Arabian banks remain well capitalized and liquid. Credit and deposit growth have been weak, but bank profitability should increase as interest margins widen.