

# BEST'S COUNTRY RISK REPORT

## United Arab Emirates

**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.
- The United Arab Emirates (UAE) is a CRT-3 country with a low level of financial system risk and moderate levels of economic and political risk.
- GDP growth was weak, at 0.5%, in 2017 but is projected to rebound to 2.0% in 2018. Continued efforts by the government to diversify the economy away from oil will support long-term growth, lessen economic volatility, and help facilitate more foreign investment.
- 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

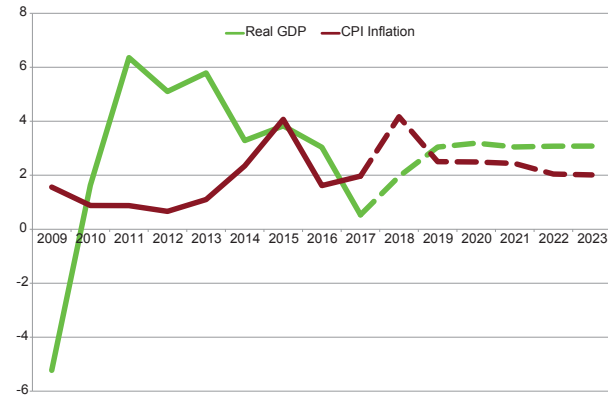
- Higher global interest rates, particularly if interest rates increase faster than expected, raise the potential for greater fiscal vulnerabilities and tighter credit conditions. According to the IMF, debt in the region has increased an average of 10% of GDP each year since 2013, owing to countries 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 adjustments, 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 and benefits, for example) on the expenditure side is also a priority.

Vital Statistics 2017		
Nominal GDP	USD bn	377.44
Population	mil	10.1
GDP Per Capita	USD	37,226
Real GDP Growth	%	0.5
Inflation Rate	%	2.0
United Nations Estimates		
Literacy Rate	%	93.8
Urbanization	%	86.1
Dependency Ratio	%	17.4
Life Expectancy	Years	77.7
Median Age	Years	30.3
Insurance Statistics		
Insurance Regulator	Dubai Financial Services Authority, UAE Insurance Authority	
Premiums Written (Life)	USD mil	3,133
Premiums Written (Non-Life)	USD mil	10,388
Premiums Growth (2016 - 2017)	%	11.0
Regional Comparison		
		Country Risk Tier
United Arab Emirates		CRT-3
Bahrain		CRT-4
Kuwait		CRT-3
Oman		CRT-4
Qatar		CRT-3
Saudi Arabia		CRT-3

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



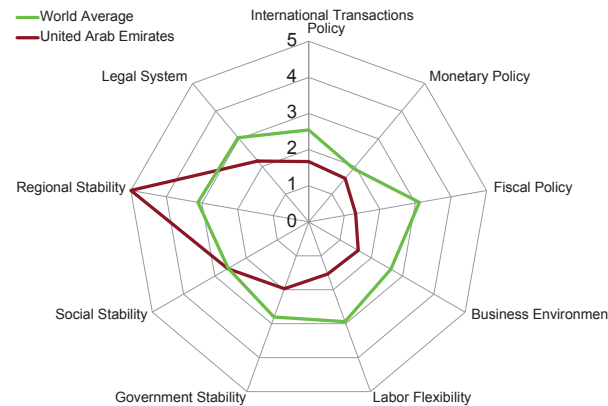
### Economic Growth (%)



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

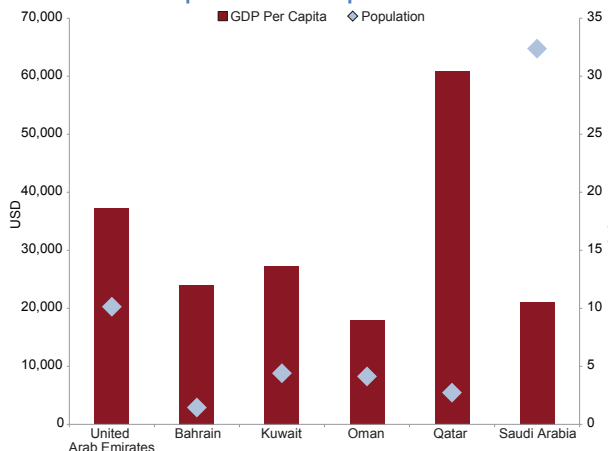
### Political Risk Summary

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 UAE's economy is relatively diversified, especially in comparison to other Gulf Cooperation Council (GCC) countries, although oil dominates the economy. As such, recently increased OPEC oil production quotas and higher oil prices will drive improved growth in 2018.
- Progress in economic diversification has lowered the oil sector's portion of GDP to approximately 50%. The private sector continues to expand in areas such as tourism, trade, construction, and manufacturing.
- The UAE has significant financial sovereign wealth buffers that allow fiscal consolidation efforts to precede gradually. Some estimate that the largest and most affluent emirate, Abu Dhabi, has between USD700 billion and USD800 billion under management in its Investment Authority, making it one of the world's largest sovereign wealth funds.
- Higher spending on infrastructure ahead of the World Expo 2020 will act as a tailwind to growth over the medium term.

### Political Risk: Moderate

- The UAE is a federation of seven emirates. The federal government is responsible for foreign affairs, security, health, education, and currency, while the emirates retain power over matters not constitutionally assigned to the federal government. The federation is presided over by the ruler of Abu Dhabi.
- Consultation across the seven emirates has delayed the passage of federal legislation, owing to different agendas among the emirates.
- The government has effectively mitigated fiscal issues resulting from lower oil prices by enacting subsidy reforms and other expenditure cuts. A 5% value-added tax was implemented January 1, 2018, to diversify fiscal revenues.
- The UAE benefits from no income or corporate taxes, strong infrastructure and free trade zones that streamline regulations. Outside the free trade zones, however, bureaucracy and regulations can be burdensome to businesses.
- The government has further mitigated the recent shortfall in oil revenue by issuing bonds in the international markets, as well as drawing on assets from the country's sovereign wealth fund.

### Financial System Risk: Low

- Dubai developed the Dubai International Financial Center (DIFC) in 2004 and designated it a free trade zone.
- The DIFC is regulated by the Dubai Financial Services Authority, an independent regulatory body officially recognized by the federal UAE government.
- The government is committed to revising the Investment Law, which will permit 100% foreign ownership of firms in certain sectors by year end 2018.
- The stock markets and the real estate sector continue to experience high levels of volatility.