

BEST'S COUNTRY RISK REPORT

Hong Kong 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.
- Hong Kong is a CRT-2 financial services center with low levels of economic and political risk, and very low levels of financial system risk. The country's economy is closely tied to mainland China's. Real GDP grew 3.8% in 2017, but is projected to slow slightly in 2018. The economy is forecast to expand moderately, between 2.0% and 3.0% over the medium term, as China's growth decelerates somewhat and US monetary policy tightens. Inflation is expected to remain moderate, in the 2.5% to 3.0% range.
- The countries pictured in the map hold a great deal of the world's economic potential.



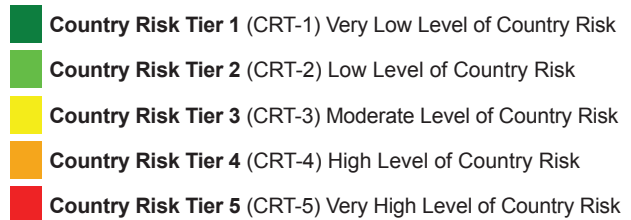
Economic Risk



Political Risk



Financial System 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.

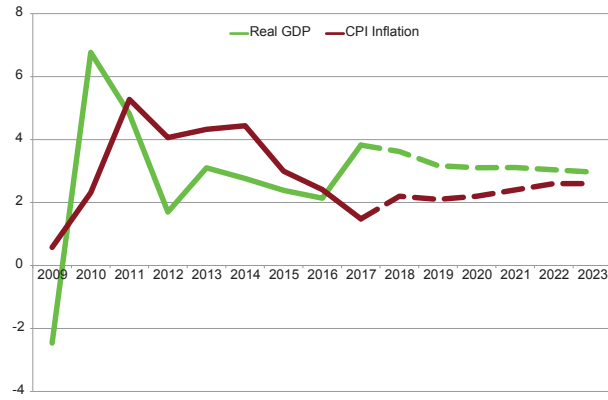
Vital Statistics 2017		
Nominal GDP	USD bn	341.66
Population	mil	7.4
GDP Per Capita	USD	46,109
Real GDP Growth	%	3.8
Inflation Rate	%	1.5
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	100.0
Dependency Ratio	%	35.9
Life Expectancy	Years	83.0
Median Age	Years	44.4
Insurance Statistics		
Insurance Regulator	The Insurance Authority (IA)	
Premiums Written (Life)	USD mil	49,808
Premiums Written (Non-Life)	USD mil	11,477
Premiums Growth (2016 - 2017)	%	6.7
Regional Comparison		
		Country Risk Tier
Hong Kong		CRT-2
China		CRT-3
Japan		CRT-2
Macau		CRT-2
South Korea		CRT-2
Taiwan		CRT-2

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



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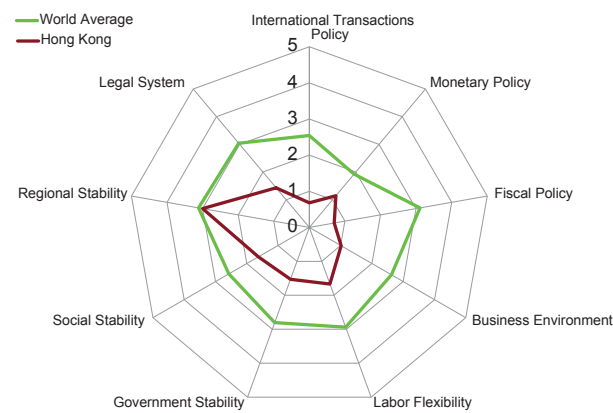
Economic Growth (%)



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

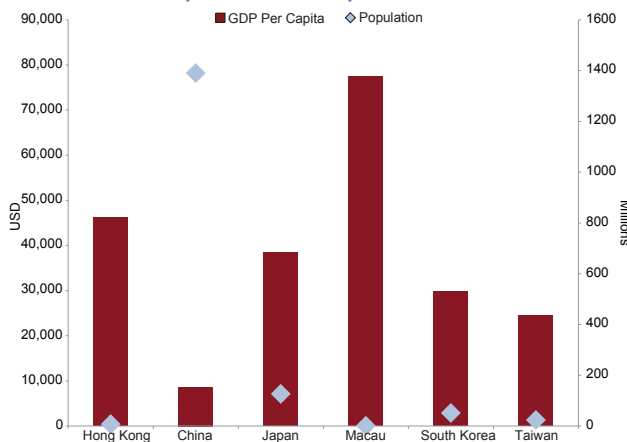
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- Hong Kong's economy is free and open. Growth is supported by strong consumer spending, as well as strong international demand and rising exports. With major infrastructure and housing projects in the works, investment is projected to rise.
- The population is affluent and well-educated but aging rapidly. Higher global food and oil prices will likely drive up consumer price inflation over the near term, while housing price increases are projected to remain broadly stable.
- Hong Kong depends heavily on trade. Its main trading partners are mainland China and the US.
- While a favorable business environment, low tax burden, minimal government intervention, and open economy attract robust foreign investments, Hong Kong's deep integration in the global economy may increase the country's vulnerability to external shocks.

Political Risk: Low

- Hong Kong is a Special Administrative Region (SAR) of China and operates under the "One Country, Two Systems" model. Its autonomy has decreased somewhat recently, with Beijing's increasingly tightening control.
- Pro-democracy protests are likely to grow as mainland China increases its influence in the territory. Current protests are largely peaceful.
- Chief Executive Carrie Lam was voted into office by an overwhelmingly pro-Beijing committee. Although Lam seeks cooperation with her opponents, she recognizes and upholds China's sovereignty over the SAR.
- The government seeks to attract foreign investments. Lam's administration is focusing on economic and social concerns such as research, education, and technology, avoiding direct political confrontation with Beijing.
- The legal system in Hong Kong is highly efficient. Contract enforcement is effective, and individual and property rights are well upheld. In the Ease of Doing Business Index, Hong Kong is ranked the 5th in the world.

Financial System Risk: Very Low

- In June 2017, the Independent Insurance Authority for Hong Kong (IIA) assumed the regulatory duties of the Office of the Commissioner of Insurance for the insurance industry. The IIA is planning to move Hong Kong towards a risk-based capital system, which will improve the system's viability.
- Hong Kong's tax regime is highly competitive, with low tax rates and no tariffs, while providing various incentives.
- Hong Kong is a net creditor, with ample foreign exchange reserves and strong FDI inflows. The current account also enjoys a comfortable surplus.
- However, tighter global financial conditions and uncertainty with regard to China's economic transition may bring potential volatility.