

BEST'S COUNTRY RISK REPORT

South Korea CRT-2

August 22, 2018

Region: Eastern 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.
- South Korea, a CRT-2 country, has low levels of economic, political, and financial system risk. Its economy and financial markets are well integrated with the global economy, and it is a large exporter. Despite a divided government, politics are largely stable. The recent peace agreement with North Korea has significantly mitigated external security risk.
- GDP rose 3.1% during 2017 and is projected to decelerate slightly over the medium term. Inflation is expected to increase slightly, towards 2%, owing to healthy domestic spending as well as higher global oil prices.
- 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.

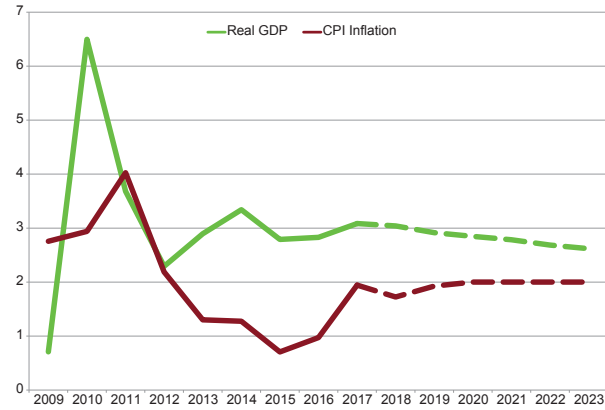
Vital Statistics 2017		
Nominal GDP	USD bn	1538.03
Population	mil	51.5
GDP Per Capita	USD	29,891
Real GDP Growth	%	3.1
Inflation Rate	%	1.9
United Nations Estimates		
Literacy Rate	%	n.a.
Urbanization	%	82.7
Dependency Ratio	%	36.7
Life Expectancy	Years	82.5
Median Age	Years	41.8
Insurance Statistics		
Insurance Regulator	Insurance Division of Financial Services Commission, Financial Supervisory Service	
Premiums Written (Life)	USD mil	102,839
Premiums Written (Non-Life)	USD mil	78,378
Premiums Growth (2016 - 2017)	%	-2.9
Regional Comparison		
	Country Risk Tier	
South Korea	CRT-2	
China	CRT-3	
Hong Kong	CRT-2	
Japan	CRT-2	
Macau	CRT-2	
Taiwan	CRT-2	

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



Copyright © 2018 A.M. Best Company, Inc. and/or its affiliates. All rights reserved. No part of this report or document may be reproduced, distributed, or stored in a database or retrieval system, or transmitted in any form or by any means without the prior written permission of the A.M. Best Company. While the data in this report or document was obtained from sources believed to be reliable, its accuracy is not guaranteed. For additional details, refer to our *Terms of Use* available at A.M. Best website: www.ambest.com/terms.

Economic Growth (%)



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

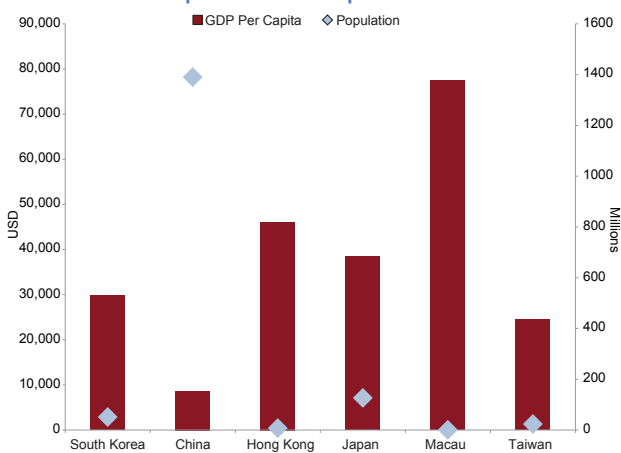
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: Low

- South Korea has a free market that is heavily export-oriented, which increases the economy's vulnerability to global shifts in demand and changes in trade. Strong global growth recently has supported the economy. Healthy domestic spending, along with global oil price increases, should result in a slight increase in inflation.
- South Korea has been successful in reducing poverty, but its aging population remains a concern. As the labor market shrinks, the government will have to raise tax rates to maintain revenues or cut services. Labor market inflexibility is another concern the government needs to address.
- Growth is generally sustainable, however, the standard of living, education, and social welfare have all improved in tandem with economic growth.
- Business operations in South Korea benefit from its advanced infrastructure, especially in key sectors such as communications and transport. The World Bank's Ease of Doing Business survey ranks South Korea 4th in the world out of 190 countries.

Political Risk: Low

- President Moon Jae-In promotes liberal policies and enjoys relatively high popularity, although his Democratic Party lacks a majority in the National Assembly.
- The president's policy priorities include bolstering job creation, and raising both corporate tax rates and the minimum wage, as well as addressing corruption, which is especially rampant among high-level government agencies.
- South Korea's legal system is well-established. Contract enforcement is strong and efficient, placing the country first in the world according to the World Bank.
- Protests and demonstrations led by unions can be large, having the potential of causing disruptions in major cities.
- North Korea and South Korea have recently reached an agreement to sign a peace treaty and move towards complete denuclearization, which is expected to remove the major external security risk for South Korea.

Financial System Risk: Low

- The insurance sector is regulated by the Financial Services Commission and the Financial Supervisory Service.
- The tax system is well established and broadly attractive for foreign investment.
- The country benefits from a large current-account surplus and consistent status as a net creditor. Despite fluctuations, the external liquidity gap has generally been low and diminishing.
- South Korea's overall financial system is sound, according to the IMF. However, a more prudent fiscal policy is recommended, to build a more resilient economy. Labor market inflexibility and low female participation in the workforce are concerns that need to be addressed.