

# BEST'S COUNTRY RISK REPORT

## Bhutan CRT-5

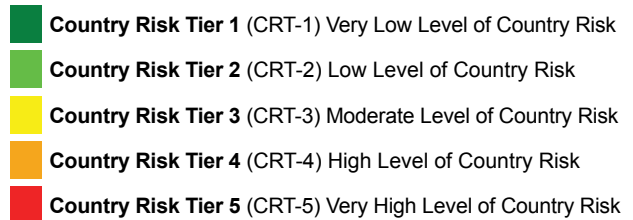
August 22, 2018

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.
- Bhutan has high levels of economic and political risk and a very high level of financial system risk. Its small economy is closely tied to India's, on which it relies as a major export destination. Economic growth will depend largely on Bhutan's hydropower sector. The country experienced strong growth of 6.0% in 2017, and projections indicate a sharp rise in growth until 2020, on hydropower investment. Despite the promise of growth, Bhutan's economy remains shallow and relatively undiversified.
- The map depicts the countries A.M. Best evaluates in the region. The countries in South Central Asia are all considered CRT-3, CRT-4, or CRT-5 by A.M. Best.



## Regional Summary: South Central Asia

- India, the largest country in South Central Asia, has been the fastest growing major economy in the world in recent years, surpassing China.
- Heightened geopolitical tensions in the region have the potential to hold back economic growth through subdued foreign investment. Additional headwinds include low levels of wealth, endemic corruption, underdeveloped tax systems and regulations, infrastructure deficiencies, cumbersome bureaucracy that can be a major impediment to doing business, and a high likelihood of natural disasters.
- The region is highly vulnerable to global financial conditions. The monetary normalization process poses risks to financial stability across the region owing to an increase in financing costs, the potential for significant capital outflows, and volatility in exchange rates.
- High levels of non-performing loans have been a long-standing concern and have the potential to hurt credit growth and investment.

Vital Statistics 2017		
Nominal GDP	USD bn	2.33
Population	mil	0.8
GDP Per Capita	USD	2,903
Real GDP Growth	%	6.0
Inflation Rate	%	3.4
United Nations Estimates		
Literacy Rate	%	64.9
Urbanization	%	40.1
Dependency Ratio	%	47.3
Life Expectancy	Years	70.6
Median Age	Years	27.6
Insurance Statistics		
Insurance Regulator	Financial Regulations & Supervision Department under Royal Monetary Authority	
Premiums Written (Life)	USD mil	n.a.
Premiums Written (Non-Life)	USD mil	n.a.
Premiums Growth (2016 - 2017)	%	n.a.
Regional Comparison		
	Country Risk Tier	

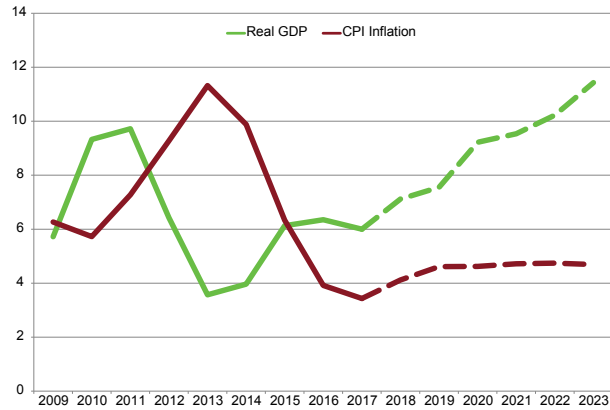
Bhutan	CRT-5
Bangladesh	CRT-5
China	CRT-3
India	CRT-4
Myanmar	CRT-5
Nepal	CRT-5

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



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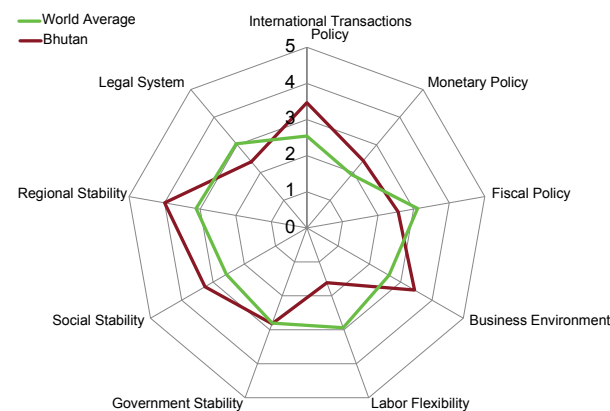
### Economic Growth (%)



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

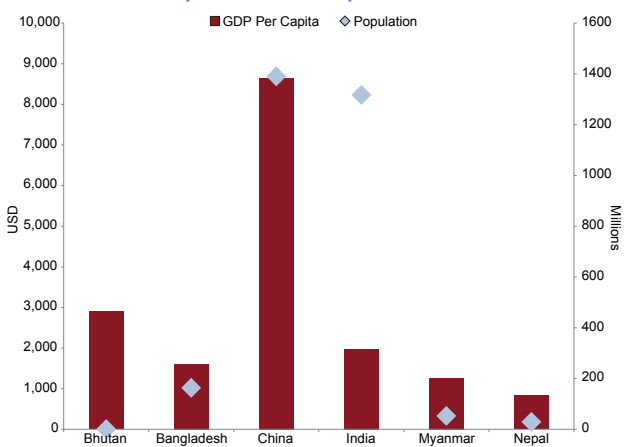
### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

## Economic Risk: High

- Bhutan's economy depends heavily on hydropower construction and agriculture. Hydropower accounts for more than 40% of total exports.
- Electricity generation is the country's leading product and the primary driver for growth. Bhutan is actively trying to diversify its economic base by developing other sectors, including tourism.
- Strong trade partnerships and monetary links tie Bhutan's economy closely to India's, the destination for over 80% of Bhutan's exports. The country is also reliant on financial assistance from India. As a result, the economy is highly susceptible to fluctuations in India.
- Repeated delays in hydrocarbon construction may inhibit sustainable growth, and poor infrastructure exacerbates the country's vulnerability to natural disasters. There has been a tremendous decline in poverty and gender inequality.
- Bhutan is not well integrated into the global economy. Despite its efforts to open up, it remains relatively isolated, in an effort to protect its environment and culture.

## Political Risk: High

- Bhutan is a constitutional monarchy, although the monarchy's political role is largely ceremonial. The People's Democratic Party (PDP) leads the current government, with a majority in the National Assembly. The next National Assembly elections are scheduled for November 2018.
- Corruption is one of the lowest in the region but shows signs of increasing. The legal system, heavily influenced by Buddhist culture, can be inefficient in judicial procedures but is generally independent.
- India is responsible for Bhutan's military protection. China claims 10% of Bhutan's territory, which can cause conflict.
- Despite tension on the Chinese border, armed conflict is unlikely. The tension is likely to de-escalate through diplomatic channels.

## Financial System Risk: Very High

- The Financial Regulations and Supervision Department under the Royal Monetary Authority of Bhutan supervises and regulates insurance businesses.
- Bhutan's tax system is underdeveloped and its laws are ambiguous. Tax revenues are low, but the current administration is unlikely to make reforms.
- The currency is pegged to the Indian rupee, which ensures economic stability but limits flexibility.
- Bhutan's current account deficit and external debt levels are high. Non-performing loans are below 10%.
- The IMF has encouraged capacity building in the tax system, as well as management and supervision of the financial sector.