

BEST'S COUNTRY RISK REPORT

Nepal 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.
- Nepal, a CRT-5 country, has very high levels of economic and financial system risk and a high level of political risk. The country's dependence on India and remittances are key vulnerabilities. The economy underwent a strong recovery in 2017, with 7.5% GDP growth. Growth is expected to decelerate in 2018 to 5%. Inflation also fell significantly in 2017, and it is projected to moderate towards 5.5% in the medium term.
- 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.



- 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: South Central Asia

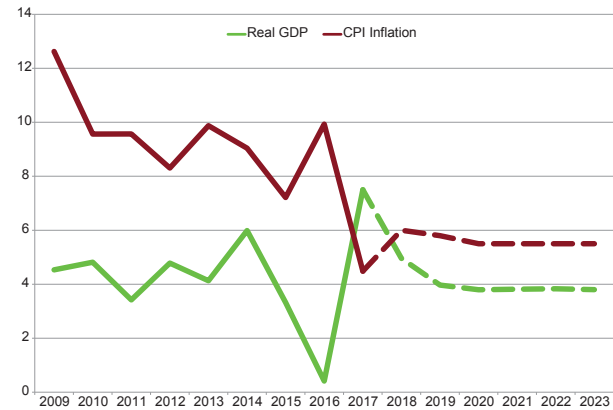
- India, the largest country in South Central Asia, has been the fastest growing major economy in the world in recent years, surpassing China.
- Heightened geopolitical tensions in the region have the potential to hold back economic growth through subdued foreign investment. Additional headwinds include 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	24.47
Population	mil	29.3
GDP Per Capita	USD	834
Real GDP Growth	%	7.5
Inflation Rate	%	4.5
United Nations Estimates		
Literacy Rate	%	63.9
Urbanization	%	19.4
Dependency Ratio	%	61.4
Life Expectancy	Years	71.0
Median Age	Years	24.1
Insurance Statistics		
Insurance Regulator	Insurance Regulatory Authority of Nepal	
Premiums Written (Life)	USD mil	343
Premiums Written (Non-Life)	USD mil	182
Premiums Growth (2016 - 2017)	%	26.9
Regional Comparison		
	Country Risk Tier	
Nepal	CRT-5	
Bangladesh	CRT-5	
Bhutan	CRT-5	
China	CRT-3	
India	CRT-4	
Myanmar	CRT-5	

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



Economic Growth (%)



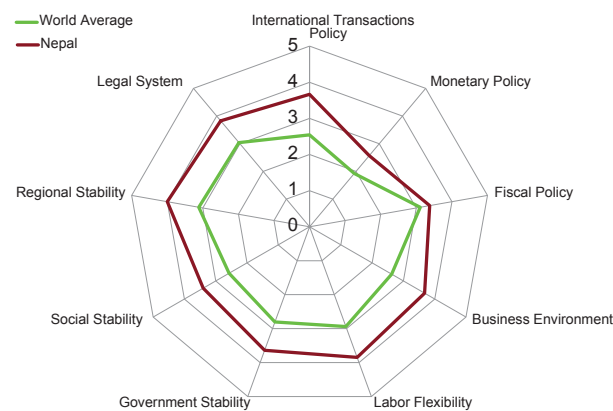
Source: IMF World Economic Outlook and A.M. Best

Economic Risk: Very High

- Nepal's economy depends heavily on remittance inflows, which account for approximately one-third of GDP. Agriculture accounts for a third of the economy as well, but employs more than two-thirds of the population.
- Despite its membership in multiple international trade associations and agreements, Nepal is not well integrated into the global economy. The lack of transport infrastructure, high trade barriers, and lack of global competitiveness weaken its role in international trade relations. Furthermore, its geography acts as a constraint, as Nepal relies on India as a transit point to access the rest of the world's markets.
- The economy recovered last year, driven by reconstruction efforts following damaging earthquakes in 2016 and strong remittances. The outlook for fiscal year 2018 is constrained by the potential for severe floods, which would adversely affect agricultural production.
- Nepal's economic progress is also constrained by widespread and extreme poverty and social inequality. The lack of infrastructure and institutional capacity are major obstacles to sustainable growth.

Political Risk Summary

Score 1 (best) to 5 (worst)

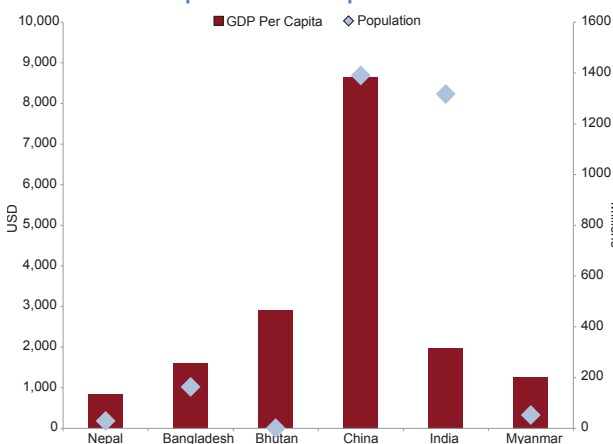


Source: A.M. Best

Political Risk: High

- Nepal's government has experienced frequent changes since the abolishment of the monarchy in 2018. The current government is led by Prime Minister K.P. Sharma Oli, whose party enjoys simple majorities in both houses.
- The adoption of bicameralism as well as a new constitution in 2015 indicate the possibility of improved political stability. However, political deadlocks have been delaying critical reforms and legislations.
- The judiciary is perceived as independent, but lacks capacity and efficiency. The legal system requires modernization, which previous governments have failed to address. Contract enforcement is ranked by the World Bank at 153 out of 190 countries.
- Protests and strikes are relatively frequent in Nepal and likely to lead to disruptions in the transport system.

GDP Per Capita and Population



Source: IMF and A.M. Best

Financial System Risk: Very High

- The Insurance Regulatory Authority of Nepal is responsible for supervising and regulating the insurance industry.
- Nepal's taxation system is opaque and tax collection is highly inefficient, exacerbated by rampant corruption.
- The financial system benefits from ample foreign exchange reserves. Non-performing loans remain low, at 1.7%. The IMF has noted, however, the need for additional banking supervision and better risk management.
- The currency peg to the Indian rupee helps ensure financial stability. Most of Nepal's external debts are concessional. The IMF has recommended tightening monetary policies to maintain the peg.