

NEPAL

WORLD RANK:

133

REGIONAL RANK:

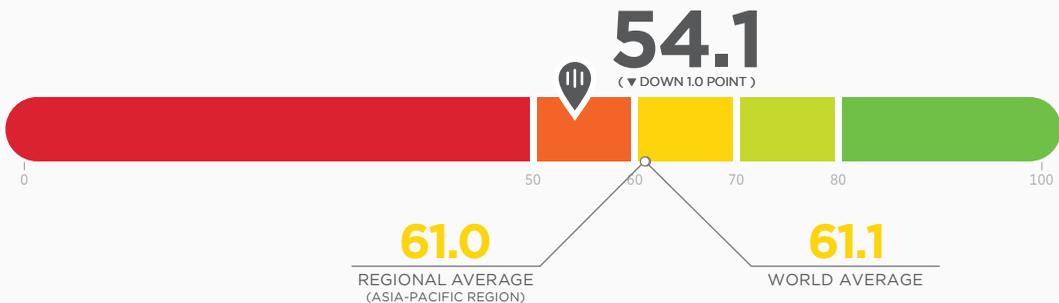
32

ECONOMIC FREEDOM STATUS:
MOSTLY UNFREE

Nepal's economic freedom score is 54.1, making its economy the 133rd freest in the 2018 *Index*. Its overall score has decreased by 1.0 point, with improvements in **judicial effectiveness** and **property rights** outweighed by declines in **monetary freedom** and **labor freedom**. Nepal is ranked 32nd among 43 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

There is a fundamental lack of entrepreneurial dynamism in landlocked and isolated Nepal that blocks economic growth and long-term development. Although the government signed a trade and investment deal with India to increase Nepal's hydropower potential, foreign investment has been hampered by political uncertainty, a history of statism, and a difficult business climate. Lack of transparency, cronyism, and a burdensome approval process are other impediments. Property rights are undermined by an inefficient judicial system that is subject to substantial corruption and political influence.

ECONOMIC FREEDOM SCORE

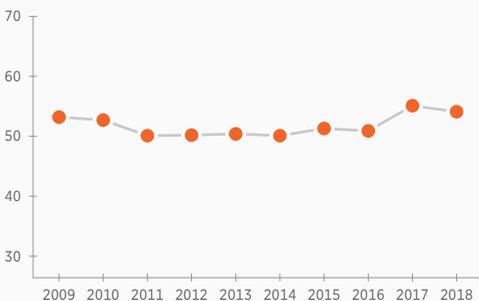


NOTABLE SUCCESSES:
Trade Freedom

CONCERNS:
Investment Freedom, Rule of Law,
and Financial Freedom

**OVERALL SCORE CHANGE
SINCE 2014:**
+4.0

FREEDOM TREND



QUICK FACTS

POPULATION:
28.9 million

GDP (PPP):
\$71.5 billion
0.6% growth in 2016
5-year compound
annual growth 3.6%
\$2,479 per capita

UNEMPLOYMENT:
3.2%

INFLATION (CPI):
9.9%

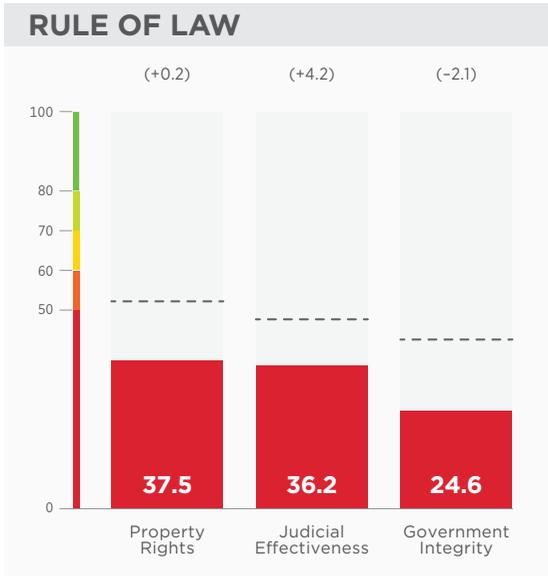
FDI INFLOW:
\$105.9 million

PUBLIC DEBT:
27.3% of GDP

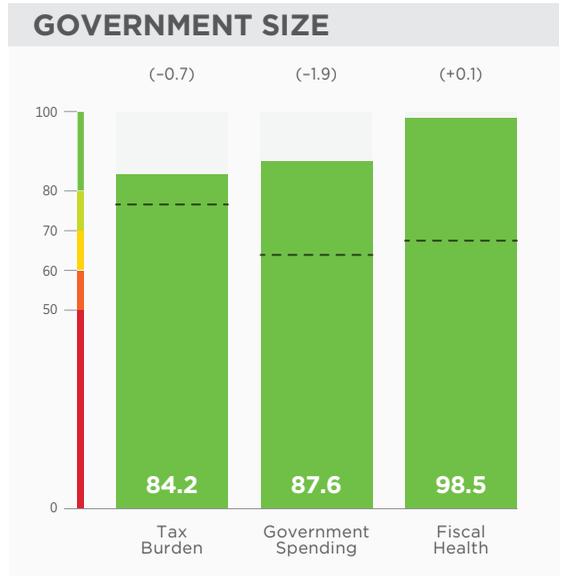
2016 data unless otherwise noted. Data compiled as of September 2017

BACKGROUND: The mountainous Kingdom of Nepal became a multiparty federal republic in 2008, but political instability has continued. Ethnic Madhesis, who have close ties to India, objected to a 2015 constitution that redrew political boundaries. In June 2017, Sher Bahadur Deuba, president of the Nepali Congress party, became Nepal's 40th prime minister, replacing Communist Party of Nepal (Maoist-Centre) Chairman Pushpa Kamal Dahal under a 2016 power-sharing deal. Earthquakes devastated large areas of Nepal in 2015, and reconstruction continues. The economy has recovered from a dramatic drop in trade with India that was caused by the 2015 constitution, and a return to average monsoon rains has helped agricultural yields, but Nepal remains among the world's poorest and least developed countries.

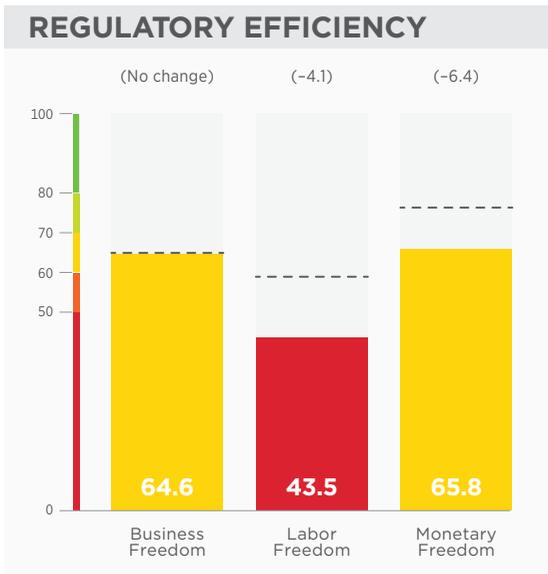
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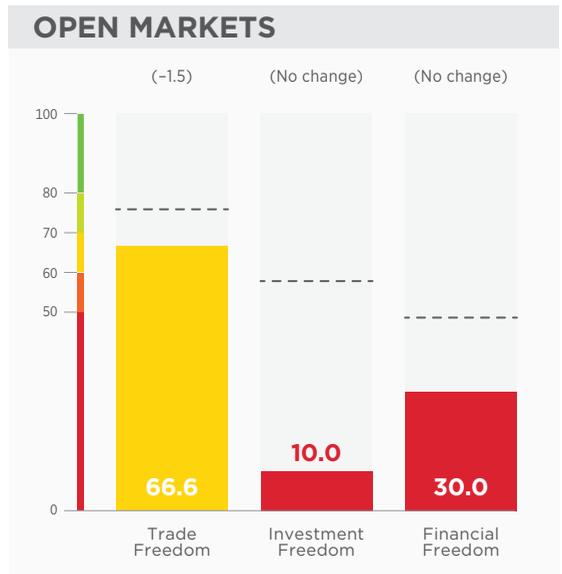
Laws and regulations regarding property registration, ownership, and transfer are unclear. Property disputes account for half of the current backlog in Nepal's overburdened court system, and it can take years to settle a case. The law provides for an independent judiciary, but courts remain vulnerable to political pressure, bribery, and intimidation. Government officials and police may engage in corrupt practices with impunity.



The top individual income and corporate tax rates are 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 18.3 percent of total domestic income. Over the past three years, government spending has amounted to 20.3 percent of total output (GDP), and budget surpluses have averaged 1.2 percent of GDP. Public debt is equivalent to 27.3 percent of GDP.



In 2016, Nepal made new construction more difficult by increasing the cost of obtaining a building permit. It is difficult to dismiss employees, and politicized unions stage frequent strikes. The government continues to subsidize post-earthquake home reconstruction, maintains rent controls, and has introduced new agricultural subsidies.



Trade is significant for Nepal's economy; the combined value of exports and imports equals 50 percent of GDP. The average applied tariff rate is 11.7 percent. Nontariff barriers impede some trade. The regulatory system acts as a barrier to foreign investment. Several state-owned enterprises distort the economy. The financial sector remains fragmented, and government ownership and influence in the allocation of credit remain substantial.