

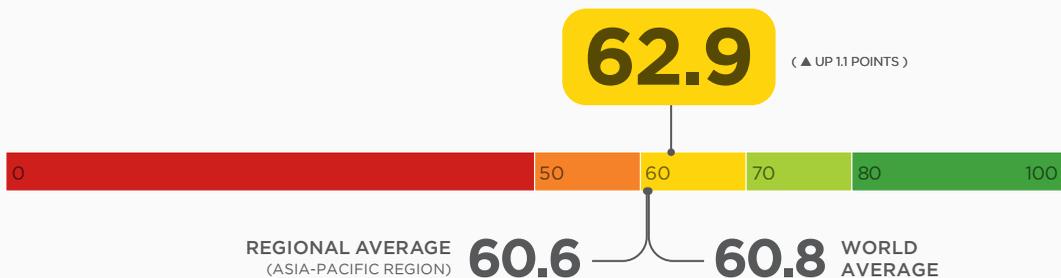
# BHUTAN

WORLD RANK: **74** | REGIONAL RANK: **16**  
 ECONOMIC FREEDOM STATUS: **MODERATELY FREE**

Bhutan's economic freedom score is 62.9, making its economy the 74th freest in the 2019 *Index*. Its overall score has increased by 1.1 points, with higher scores for **judicial effectiveness**, **trade freedom**, and **labor freedom** offsetting declines in **business freedom** and **fiscal health**. Bhutan is ranked 16th among 43 countries in the Asia-Pacific region, and its overall score is above the regional and world averages.

The public sector has long been the main source of economic growth, but the government now recognizes that private-sector growth is crucial. Bhutan has made progress in modernizing its economic structure and reducing poverty. Economic diversification is now a higher priority, particularly with demographic shifts bringing more young people into the labor market. The government has acted to ensure greater security for property rights. Constraints on private-sector development include an inefficient regulatory framework, significant nontariff barriers to trade, and a rudimentary investment code.

## ECONOMIC FREEDOM SCORE

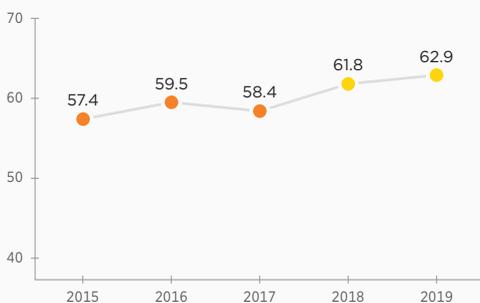


**RELATIVE STRENGTHS:**  
Tax Burden and Labor Freedom

**HISTORICAL INDEX SCORE CHANGE (SINCE 2009):**  
+5.2

**CONCERNS:**  
Investment Freedom and Financial Freedom

## FREEDOM TREND



## QUICK FACTS

**POPULATION:**  
0.8 million

**GDP (PPP):**  
\$7.0 billion  
6.0% growth in 2017  
5-year compound annual growth 5.2%  
\$8,744 per capita

**UNEMPLOYMENT:**  
2.4%

**INFLATION (CPI):**  
3.4%

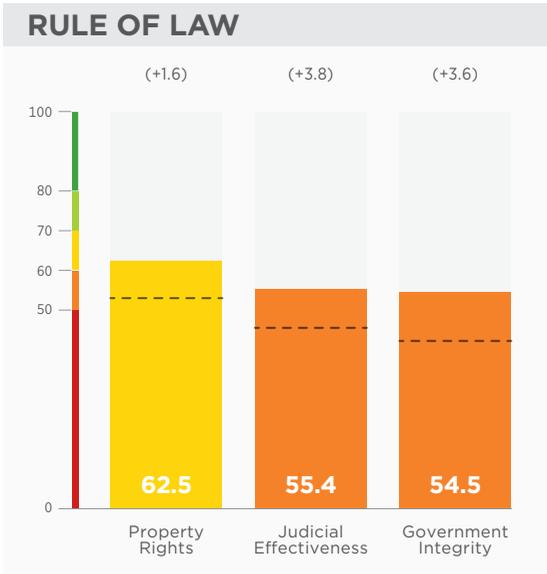
**FDI INFLOW:**  
\$10.3 million

**PUBLIC DEBT:**  
102.4% of GDP

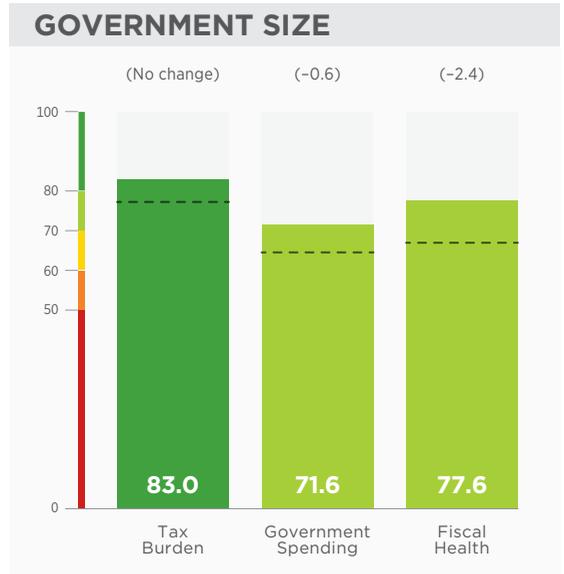
*2017 data unless otherwise noted. Data compiled as of September 2018*

**BACKGROUND:** The small Himalayan kingdom of Bhutan transitioned from absolute monarchy to constitutional parliamentary democracy in 2008. Former Prime Minister Tshering Tobgay's People's Democratic Party, which won a majority in the National Assembly in 2013, lost unexpectedly to Lotay Tshering's Bhutan United Party in October 2018 elections. Bhutan has one of the world's smallest and least-developed economies. Until a few decades ago, the landlocked country was agrarian with few roads, little electricity, and no modern hospitals. Recent interregional economic cooperation, particularly involving trade with Bangladesh and India, is helping to encourage economic growth. Connections to global markets are limited and dominated by exports of hydropower to India, but those exports could increase if chronic construction delays are resolved.

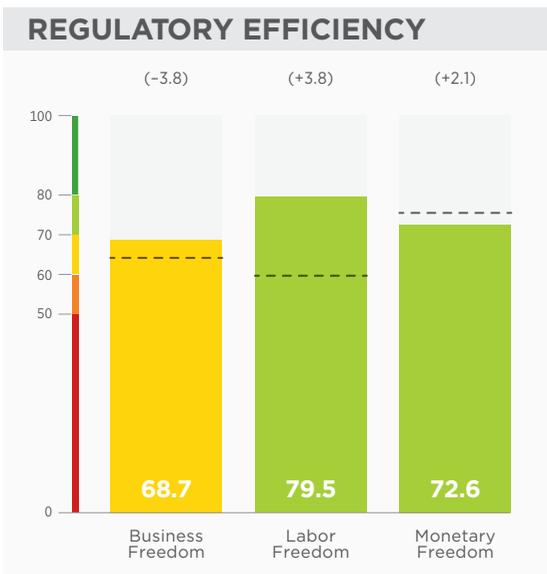
# 12 ECONOMIC FREEDOMS | BHUTAN



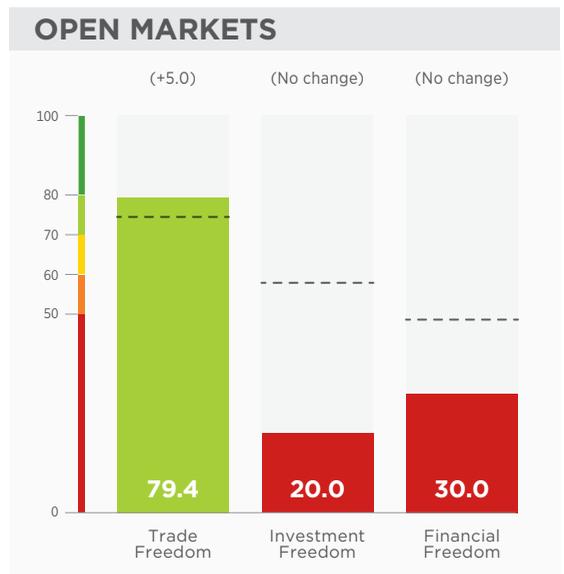
The government has improved contract enforcement by creating a special court to resolve commercial disputes as part of its efforts to move decisively toward judicial-based rule of law. Judicial independence is now largely respected. The law provides criminal penalties for corruption by officials, and the government generally implements such laws effectively, although there are isolated reports of government corruption.



The top income tax rate is 25 percent, and the corporate tax rate is 30 percent. Other taxes include property and excise taxes. The overall tax burden equals 13.4 percent of total domestic income. Over the past three years, government spending has amounted to 30.7 percent of the country's output (GDP), and budget deficits have averaged 1.2 percent of GDP. Public debt is equivalent to 102.4 percent of GDP.



A modern regulatory framework has not been fully developed. Despite recent efforts, the business climate remains hampered by inconsistent enforcement of regulations and a lack of transparency. The labor supply-and-demand imbalance persists. The state maintains significant financial and commercial controls, and Bhutan is the largest recipient of Indian foreign aid, especially through cofinancing of numerous hydropower projects.



The combined value of exports and imports is equal to 74.0 percent of GDP. The average applied tariff rate is 2.8 percent. Investment in some sectors is restricted. Bhutan needs a more efficient banking sector to channel long-term capital to facilitate private-sector development. An underdeveloped regulatory framework limits access to capital. About 38 percent of adult Bhutanese have access to an account with a formal banking institution.