NEPAL

Nepal’s economic freedom score is 53.8, making its economy the 136th freest in the 2019 Index. Its overall score has decreased by 0.3 point, with lower scores for trade freedom and government spending exceeding improvements in labor freedom and monetary freedom. Nepal is ranked 34th 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 holds back 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. Cronyism, a burdensome approval process, and a lack of transparency are other impediments. Property rights are undermined by an inefficient judicial system that is subject to substantial corruption and political influence.

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**ECONOMIC FREEDOM SCORE**

- **Score:** 53.8 (▼ DOWN 0.3 POINT)
- **Regional Average (Asia-Pacific Region):** 60.6
- **World Average:** 60.8

**FREEDOM TREND**

- **2015:** 51.3
- **2016:** 50.9
- **2017:** 55.1
- **2018:** 54.1
- **2019:** 53.8

**QUICK FACTS**

- **POPULATION:** 29.3 million
- **GDP (PPP):** $78.6 billion
- **7.5% growth in 2017**
- **5-year compound annual growth:** 4.3%
- **FDI INFLOW:** $198.0 million
- **PUBLIC DEBT:** 27.1% of GDP

**BACKGROUND:** The Kingdom of Nepal, a small Hindu-majority nation wedged between India and China in the Himalayas, became a multiparty federal republic in 2008. In the decade since then, Nepal has faced nearly continuous political instability, and it remains one of the world’s poorest and least-developed countries. Khadga Prasad Oli of the Maoist-leaning Communist Party became the country’s 41st prime minister in 2018, reflecting the decade-long expansion of Chinese influence. In 2018, China and Nepal agreed to establish a rail link and signed a deal to boost Chinese investments in Nepal’s power grid. China’s growing footprint has become a source of contention with India, which traditionally has enjoyed outsized influence over Nepal’s foreign and economic policies.

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**Rule of Law**

Property rights are not protected effectively, and it can take years to resolve property disputes. The law provides for an independent judiciary, and the courts are generally reliable, but they remain vulnerable to political pressure, bribery, and intimidation. There are numerous reports of corrupt practices undertaken with impunity by government officials, law enforcement officers, and political parties that undermine the rule of law.

**Government Size**

The top individual income and corporate tax rates are 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 18.7 percent of total domestic income. Over the past three years, government spending has amounted to 23.3 percent of the country’s output (GDP), and budget surpluses have averaged 0.2 percent of GDP. Public debt is equivalent to 27.1 percent of GDP.

**Regulatory Efficiency**

The economy lacks the entrepreneurial dynamism needed for stronger economic growth and long-term development. Despite some streamlining of the process for launching a business, other time-consuming requirements reduce the regulatory system’s efficiency. Labor regulations remain obsolete, and underemployment persists. The government has expanded its renewable energy subsidy to private developers of smaller hydropower minigrids.

The combined value of exports and imports is equal to 51.8 percent of GDP. The average applied tariff rate is 12.3 percent. As of June 30, 2018, according to the WTO, Nepal had nine nontariff measures in force. Nepal’s statist approach to economic management and development has been a serious drag on trade and investment activities. About half of adult Nepali have access to an account with a formal banking institution.