NEPAL

Nepal’s economic freedom score is 54.2, making its economy the 139th freest in the 2020 Index. Its overall score has increased by 0.4 point with improvements in scores for labor freedom and government integrity. Nepal is ranked 34th among 42 countries in the Asia–Pacific region, and its overall score is well below the regional and world averages.

The Nepalese economy has been mostly unfree for a quarter of a century. Economic growth, on the other hand, has been trending upward, led by a rebound in private consumption and continued strength in investment, supported by accelerated progress on earthquake reconstruction projects.

Expanding economic freedom in the near term may be too much to hope for under a Communist government that has already announced budget-busting redistributive and populist spending programs. Surprisingly, however, the ruling party’s control of parliament will ensure quicker passage of business-friendly reforms and an easing of regulatory burdens.

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 years 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. Also 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.
Property rights are not protected effectively. Property disputes can take years to resolve. The law provides for an independent judiciary, and court procedures are generally competent, fair, and reliable, but judicial independence is compromised by endemic corruption in most courts. Corruption is rampant in politics and government, especially in the awarding of licenses, government procurement, and revenue management, and often goes unpunished.

The top individual income and corporate tax rates are 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 20.3 percent of total domestic income. Government spending has amounted to 27.2 percent of the country’s output (GDP) over the past three years, and budget deficits have averaged 2.8 percent of GDP. Public debt is equivalent to 30.4 percent of GDP.

Widespread underdevelopment, political gridlock, and inconsistent electricity supply make the business climate difficult. Running a business became harder when the government imposed several new taxes on labor. Nepal recently overhauled its labor laws, modernizing regulations dating from 1993. The government continues to provide subsidies to private-sector industries, primarily in the agricultural and export sectors.

The total value of exports and imports of goods and services equals 54.3 percent of GDP. The average applied tariff rate is 12.3 percent, and pervasive nontariff barriers further suppress the freedom to trade. The inefficient investment regime impedes dynamic flows of foreign investment. The financial sector remains fragmented, and government ownership continues to be substantial.