

NEPAL

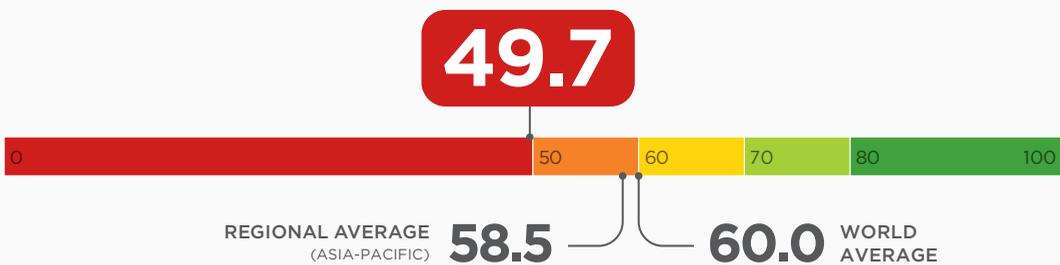
WORLD RANK: **148** | REGIONAL RANK: **31**
 ECONOMIC FREEDOM STATUS: **REPRESSED**

Nepal's economic freedom score is 49.7, making its economy the 148th freest in the 2022 *Index*. Nepal is ranked 31st among 39 countries in the Asia-Pacific region, and its overall score is below the regional and world averages.

Over the past five years, Nepal's economic growth rate decelerated rapidly from 2017 through 2019. The economy went into full contraction in 2020 but rebounded in 2021. A five-year trend of declining economic freedom has continued. With a sharp drop in its **fiscal health** score, Nepal has recorded a 5.4-point overall loss of economic freedom since 2017 and has fallen from the "Mostly Unfree" category to the "Repressed" category. The Nepali economy is lightly taxed, but **investment freedom** and **financial freedom** are very low.

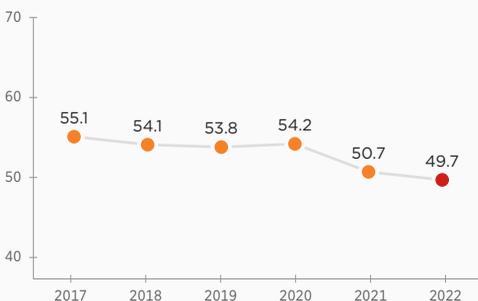
IMPACT OF COVID-19: As of December 1, 2021, 11,529 deaths had been attributed to the pandemic in Nepal, and the government's response to the crisis ranked 37th among the countries included in this *Index* in terms of its stringency. The economy contracted by 1.9 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996): -0.6

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
29.1 million

GDP (PPP):
\$117.1 billion
-1.9% growth in 2020
5-year compound annual growth 4.4%
\$4,061 per capita

UNEMPLOYMENT:
4.4%

INFLATION (CPI):
6.2%

FDI INFLOW:
\$126.0 million

PUBLIC DEBT:
41.3% of GDP

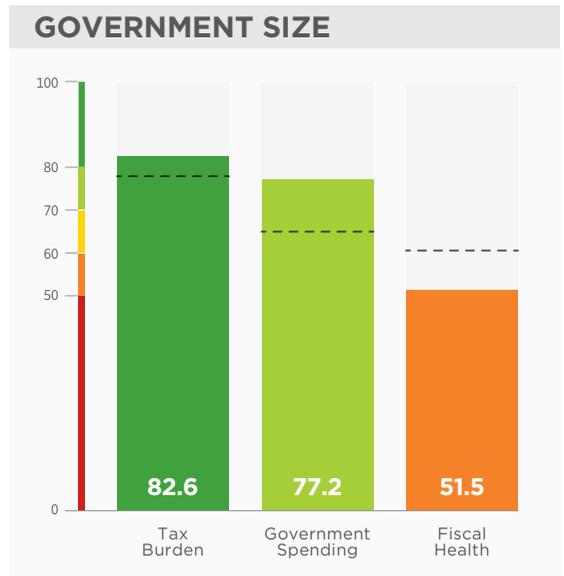
2020 data unless otherwise noted. Data compiled as of September 2021

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. Since then, the country's political life has been paralyzed by continuous instability including multiple political crises in 2021. Nepal 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 increase Chinese investments in Nepal's power grid. China's growing footprint has become a source of contention with India, which traditionally has enjoyed an outsized influence on Nepal's foreign and economic policies.

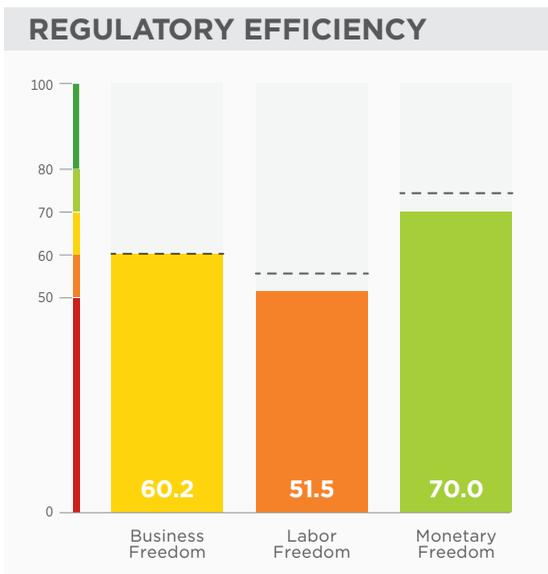
12 ECONOMIC FREEDOMS | NEPAL



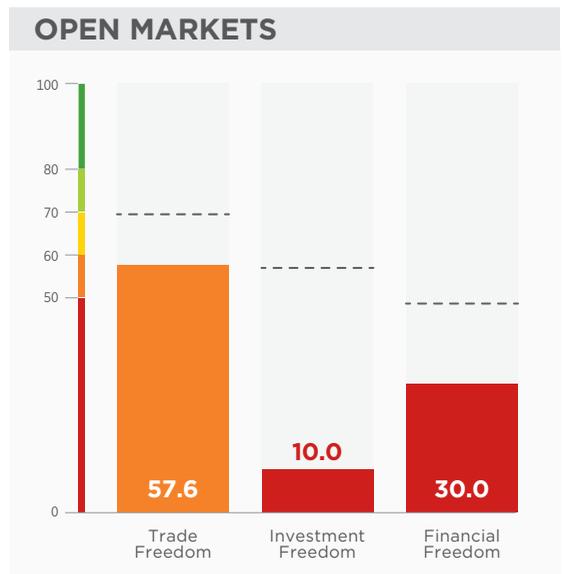
Ownership of property and land can be registered. Lingering property disputes, some dating from the 1996–2006 Maoist insurgency, have undermined the enforcement of property rights. The judiciary is independent, but the courts, although generally reliable, are vulnerable to political pressure, bribery, and intimidation. Corruption is institutionalized and endemic in Nepali politics and government 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 22.1 percent of total domestic income. Government spending has amounted to 27.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 5.3 percent of GDP. Public debt is equivalent to 41.3 percent of GDP.



Political fighting, poor infrastructure, and government restrictions inhibit business freedom in Nepal. Because there is little demand for skilled workers, thousands of skilled Nepalis emigrate each year to work in other countries. The government continues to provide subsidies to private-sector industries, primarily in the agricultural and export sectors.



Nepal has three preferential trade agreements in force. The trade-weighted average tariff rate is 13.7 percent, and nine nontariff measures are in effect. The government's statist approach to economic management and development is a serious drag on trade and investment. The government has raised the minimum foreign investment threshold. The financial sector is dominated by banking and remains underdeveloped and vulnerable to state interference.