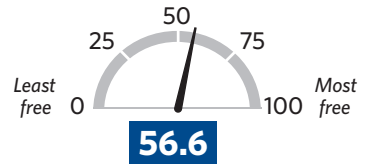


# BHUTAN

## Economic Freedom Score



World Rank: **111**

Regional Rank: **21**

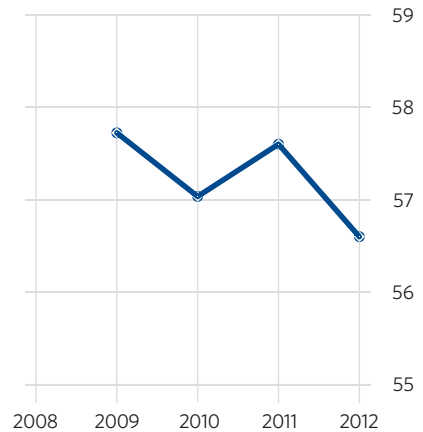
**B**hutan's economic freedom score is 56.6, making its economy the 111th freest in the 2012 *Index*. Its score has decreased 1.0 point from last year, primarily because of worsening government spending, labor freedom, and trade freedom. Bhutan is ranked 21st out of 41 countries in the Asia-Pacific region, and its overall score is below the global average.

The foundations of economic freedom are relatively strong, with corruption present but under control, and new steps have been taken to ensure greater security for property rights. Recently, a higher priority has been placed on measures to diversify the economy, particularly in light of demographic shifts that will bring more young people into the labor market.

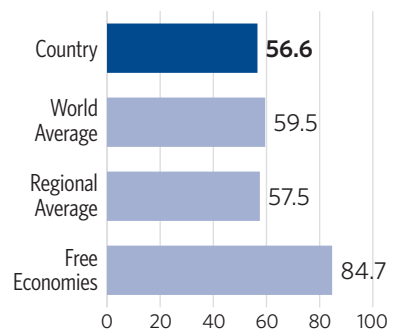
Over the past decade, Bhutan has made progress in modernizing its economic structure and reducing poverty. The public sector, especially hydropower, has long been the main source of economic growth, but the government now recognizes that private-sector development is crucial. Nonetheless, lingering constraints on private-sector development include the inefficient regulatory framework, pervasive non-tariff barriers, and a rudimentary investment code. The financial sector remains small and without adequate regulation or supervision. The lack of access to financing precludes entrepreneurial growth.

**BACKGROUND:** Bhutan, a small Himalayan constitutional monarchy that made the transition from absolute monarchy to parliamentary democracy in March 2008, has one of the world's smallest and least-developed economies. Until a few decades ago, the country was still largely agrarian, with few roads, little electricity, and no modern hospitals. Rugged terrain makes the development of infrastructure difficult. 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 significantly by India.

## Freedom Trend



## Country Comparisons



## Quick Facts

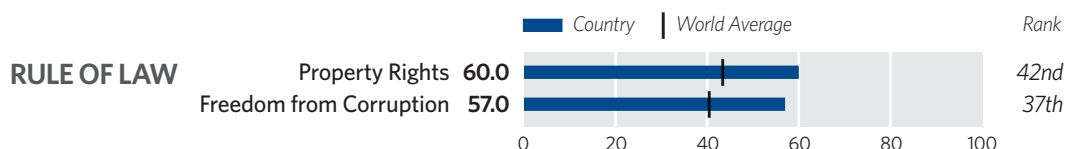
**Population:** 0.7 million  
**GDP (PPP):** \$3.9 billion  
 6.7% growth in 2010  
 5-year compound annual growth 8.8%  
 \$5,430 per capita  
**Unemployment:** 4.0%  
**Inflation (CPI):** 7.1%  
**FDI Inflow:** \$11.7 million  
**Public Debt:** 70.9% of GDP

### How Do We Measure Economic Freedom?

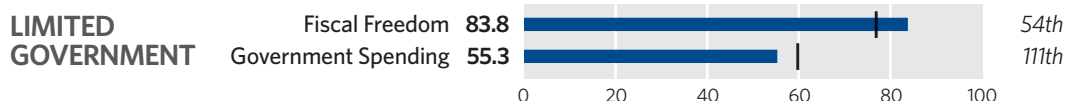
See page 455 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2010 data unless otherwise noted.  
 Data compiled as of September 2011.

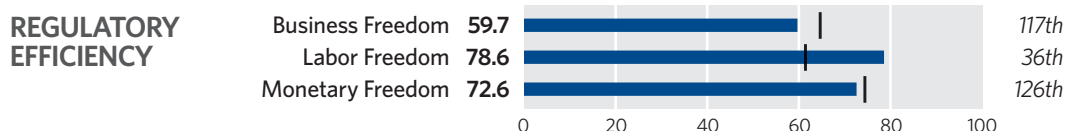
**THE TEN ECONOMIC FREEDOMS**



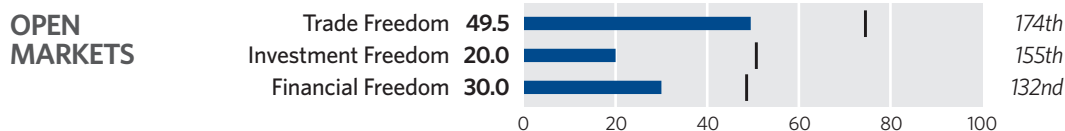
Protections for intellectual property rights are stipulated in the Industrial Property Act and the Copyright Act. Property rights are more equally protected than in most of South Asia, with women rather than men inheriting and owning property in some areas. The government’s Anti-Corruption Commission has identified misuse of resources, bribery and collusion, and nepotism as major forms of corruption.



The top income tax rate is 25 percent, and the corporate tax rate is 30 percent. Other taxes include a property tax and an excise tax, with the overall tax burden equal to 9.9 percent of total domestic income. A value-added tax (VAT) is set to be introduced in an effort to broaden the tax base. Government spending has increased to 38.6 percent of total domestic output, with public debt reaching 70 percent of GDP.



A modern regulatory framework has not been fully developed. Despite recent efforts, the business climate is still hampered by inconsistent enforcement of regulations. On average, it takes 36 days to start a company. The imbalance between labor supply and demand persists. Economic diversification has not progressed significantly, and unemployment has risen in recent years. Inflation has moderated slightly but remains worrisome.



High tariff and non-tariff barriers prevent dynamic growth in trade. Foreign investment has been a sensitive issue, largely due to concerns about its effect on culture and traditions and possibly because of the domestic private sector’s unwillingness to lose the benefits that restrictions provide. The Bank of Bhutan enjoyed a monopoly for many years, but competition has improved with the opening of the sector to more foreign partnerships.

**Score Changes**

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.1	Business Freedom	-0.1	Trade Freedom	-2.5
Freedom from Corruption	+7.0	Government Spending	-8.8	Labor Freedom	-6.1	Investment Freedom	0
				Monetary Freedom	+0.8	Financial Freedom	0