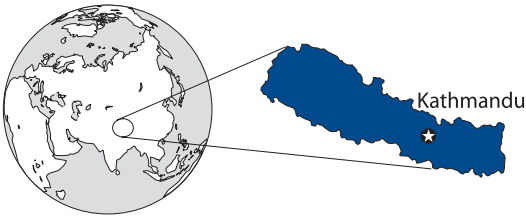


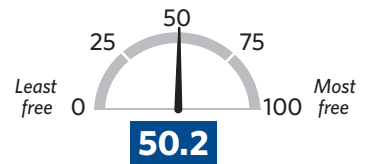
NEPAL



World Rank: **147**

Regional Rank: **32**

Economic Freedom Score



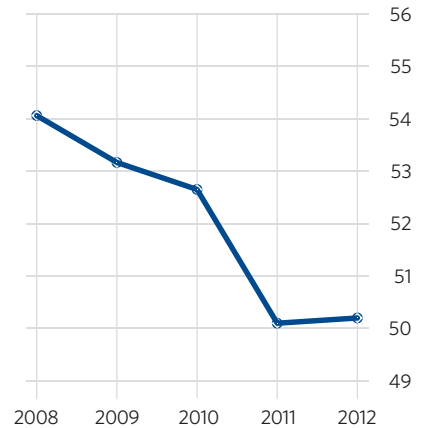
Nepal's economic freedom score is 50.2, making its economy the 147th freest in the 2012 *Index*. Its score is virtually unchanged from last year, with an improvement in investment freedom offset by deterioration in business freedom. Nepal is ranked 32nd out of 41 countries in the Asia-Pacific region, and its score remains far below world and regional averages.

Nepal's statist approach to the economy continues to hold development progress far below the country's potential. The foundations of economic freedom are extremely weak, and corruption, a lack of transparency, and a burdensome business approval process impede much-needed expansion of private investment and production. Property rights are poorly protected by the inefficient judicial system, which is subject to substantial political influence.

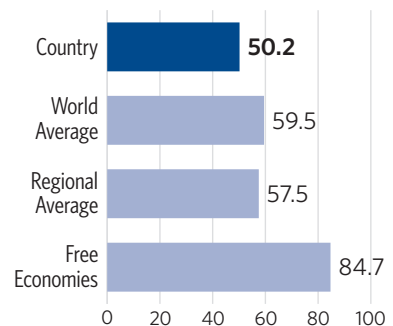
Overall, the economy lacks the entrepreneurial dynamism for broad-based economic growth and sustainable long-term development. Its scores for investment freedom and financial freedom are among the worst in the world. State interference continues to hurt regulatory efficiency, and there has been little effort to open the economy or engage in world markets. Lingering political instability undermines the government's ability and willingness to implement necessary economic reforms.

BACKGROUND: Five years after the end of a Maoist insurgency and the abolition of the monarchy, political instability continues to plague Nepal. Communist Party of Nepal (United Marxist-Leninist) leader Madhav Kumar left his post as prime minister in June 2010 to break a deadlock with the Maoist Party, which refused to extend the Constituent Assembly's term without his resignation. Constituent Assembly elections in February 2011 brought to power another coalition government led by Prime Minister Jhala Nath Khanal of the CPN (UM-L). Crafting an agreement to resolve the status of 19,000 former Maoist fighters has been a sticking point in Nepal's political transition. There is very little foreign direct investment, and the main industries are agriculture and services.

Freedom Trend



Country Comparisons



Quick Facts

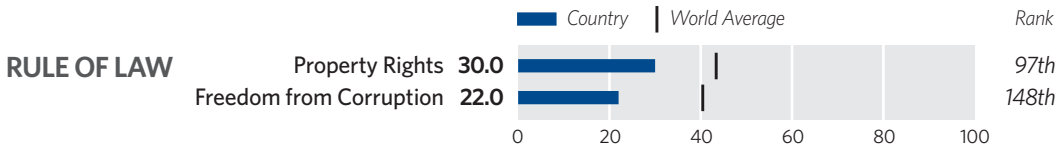
Population: 28.2 million
GDP (PPP): \$35.8 billion
 4.6% growth in 2010
 5-year compound annual growth 4.5%
 \$1,271 per capita
Unemployment: 46.0%
Inflation (CPI): 9.3%
FDI Inflow: \$39.0 million
Public Debt: 35.9% of GDP

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

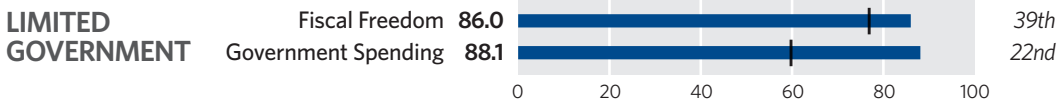
How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

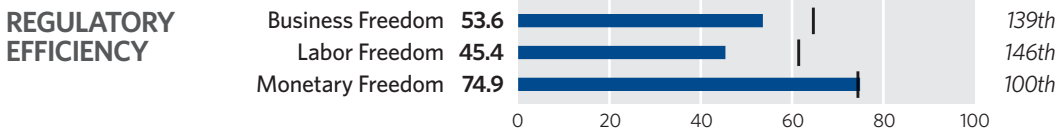
THE TEN ECONOMIC FREEDOMS



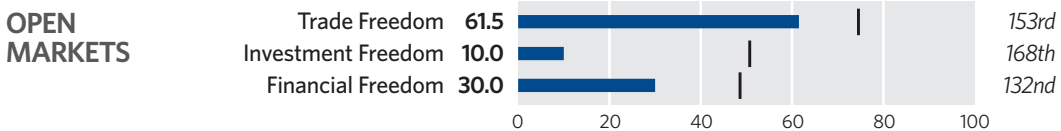
The rule of law is weak, and protections for both real and intellectual property rights are not enforced effectively. The judicial system is inefficient, with lower-level courts particularly vulnerable to political pressure. Public-sector corruption continues to be a serious concern. Effective anti-corruption measures are not in place, and government officials exploit their positions for personal gain.



The top income and corporate tax rates are 25 percent. Other taxes include a value-added tax (VAT) and a property tax, with the overall tax burden amounting to 12.2 percent of total domestic income. Government spending is equivalent to 19.9 percent of total domestic output. The budget balance has been in deficit in recent years, and public debt stands at around 36 percent of GDP.



Despite some progress in streamlining the process for launching a business, other requirements are time-consuming and costly. Completing licensing requirements takes more than 200 days and costs over seven times the level of annual average income. Labor regulations are obsolete. Labor-management tension has grown, and high underemployment persists. Inflation has been unstable and significant.



The trade weighted average tariff rate is prohibitively high at 14.3 percent, with pervasive non-tariff barriers further suppressing freedom to trade. Private investment is hamstrung by political instability, and the inefficient investment regime is a further impediment to much-needed foreign investment. The financial sector remains fragmented, and government ownership continues to be substantial.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-0.4	Business Freedom	-5.6	Trade Freedom	+0.1
Freedom from Corruption	-1.0	Government Spending	-0.3	Labor Freedom	+1.1	Investment Freedom	+5.0
				Monetary Freedom	+1.1	Financial Freedom	0