

BHUTAN

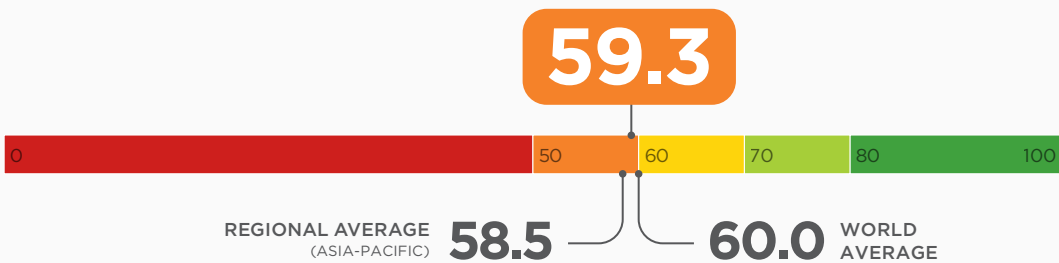
WORLD RANK: **94** | REGIONAL RANK: **19**
 ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Bhutan's economic freedom score is 59.3, making its economy the 94th freest in the 2022 *Index*. Bhutan is ranked 19th among 39 countries in the Asia-Pacific region, and its overall score is above the regional average but below the world average.

Economic growth suffered a mild downturn in Bhutan in 2020 but resumed in 2021. Economic freedom has slipped a little from its all-time high in 2019, but the upward trend seems to have resumed. Led by score increases in rule of law and **fiscal health**, Bhutan has recorded a 0.9-point overall gain of economic freedom since 2017 and is close to the threshold of the "Moderately Free" category. Bhutan's modest **tax burden** supports economic freedom, but the lack of **trade freedom**, **investment freedom**, and **financial freedom** continues to hold back progress.

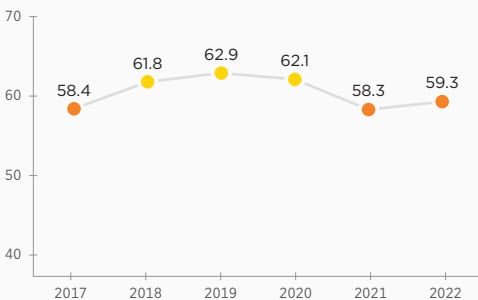
IMPACT OF COVID-19: As of December 1, 2021, three deaths had been attributed to the pandemic in Bhutan, and the government's response to the crisis ranked 62nd among the countries included in this *Index* in terms of its stringency. The economy contracted by 0.8 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 2009): +1.6

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
0.8 million

GDP (PPP):
\$9.0 billion
-0.8% growth in 2020
5-year compound annual growth 4.2%
\$12,060 per capita

UNEMPLOYMENT:
3.7%

INFLATION (CPI):
4.2%

FDI INFLOW:
\$3.0 million

PUBLIC DEBT:
120.7% of GDP

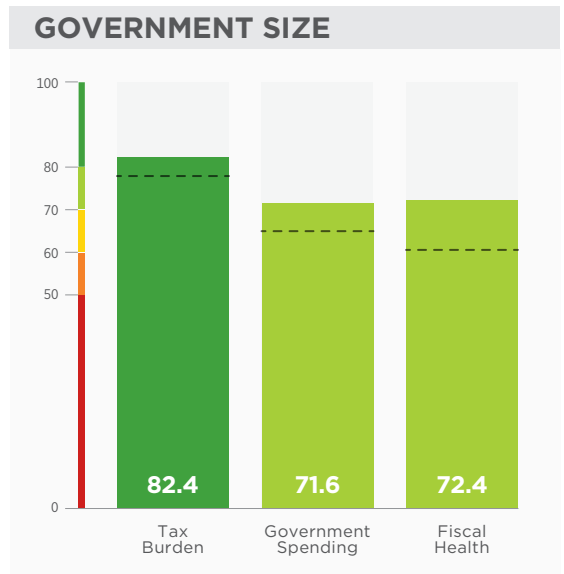
2020 data unless otherwise noted. Data compiled as of September 2021

BACKGROUND: The small Himalayan kingdom of Bhutan transitioned from absolute monarchy to constitutional parliamentary democracy in 2008. Former Prime Minister Tshering Tobgay's People's Democratic Party, which won a majority in the National Assembly in 2013, lost unexpectedly to Lotay Tshering's Bhutan United Party in 2018 elections. Bhutan has one of the world's smallest and least-developed economies. Until recently, the landlocked country was largely agrarian with few roads, little electricity, and no modern hospitals. Recent interregional economic cooperation that includes growing trade with Bangladesh and India is stimulating economic growth. Connections to global markets are limited and dominated by exports of hydropower to India. If chronic construction delays were resolved, those exports could increase.

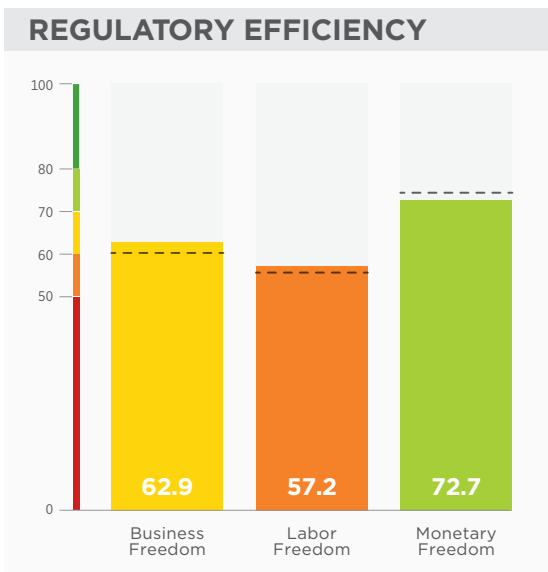
12 ECONOMIC FREEDOMS | BHUTAN



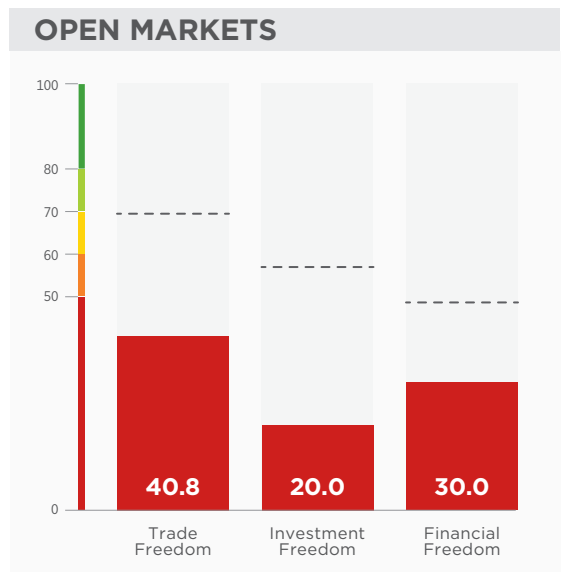
Although individuals generally have the right to own property and establish businesses, the registration of property or new businesses can be cumbersome. Judicial independence is respected, but court rulings are often inconsistent. In general, criminal penalties for corruption by officials are implemented effectively. However, nepotism and favoritism remain problems in public procurement and government employment.



The top individual income tax rate is 25 percent, and the top corporate tax rate is 30 percent. Other taxes include property and excise taxes. The overall tax burden equals 15.4 percent of total domestic income. Government spending has amounted to 30.7 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.2 percent of GDP. Public debt is equivalent to 120.7 percent of GDP.



Complex controls and confusing industrial licensing, trade, labor, and finance policies complicate business facilitation. Bhutan is behind schedule in building 12 new hydropower dams with a combined capacity of 10,000 megawatts, a project orchestrated in a deal signed with India in 2008. The country continues to depend on credit subsidies from India to address balance of payments problems.



Bhutan has three preferential trade agreements in force. The simple average tariff rate is 22.1 percent. Layers of nontariff barriers significantly impede dynamic flows of trade. Bhutan is not a member of the World Trade Organization. Dynamic flows of foreign investment are constrained by persistent policy and institutional weaknesses. Despite the development of microfinance institutions, overall access to credit remains low.