

ESTONIA



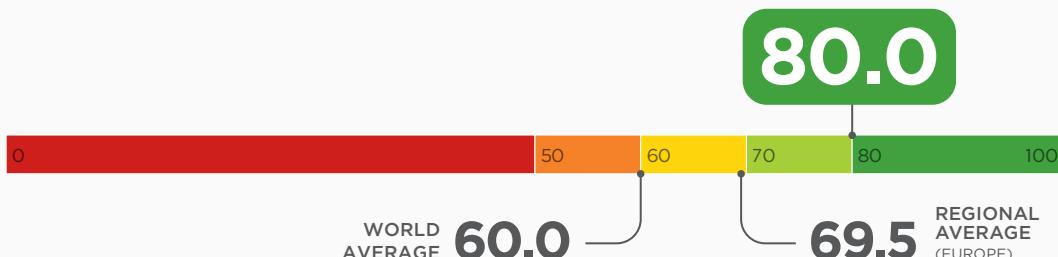
WORLD RANK: 7 | REGIONAL RANK: 4
ECONOMIC FREEDOM STATUS: FREE

Estonia's economic freedom score is 80.0, making its economy the 7th freest in the 2022 Index. Estonia is ranked 4th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Over the past five years, Estonia's economic growth slowed from 2017 through 2019, contracted in 2020, and rebounded in 2021. Estonia's enviable record of vibrant economic freedom has been rewarded this year. Helped by robust increases in scores for **business freedom** and rule of law, Estonia has recorded a 0.9-point overall gain of economic freedom since 2017 and for the first time in its Index scoring history has made it over the threshold from the "Mostly Free" category into the top "Free" category. The only glaring weakness in an otherwise admirable performance is in the score for **government spending**.

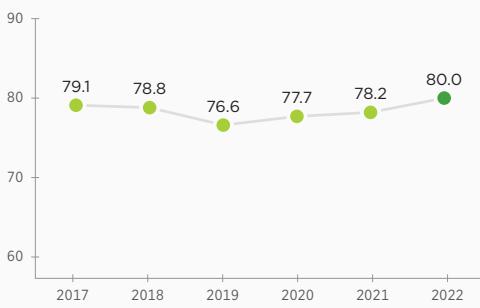
IMPACT OF COVID-19: As of December 1, 2021, 1,803 deaths had been attributed to the pandemic in Estonia, and the government's response to the crisis ranked 133rd among the countries included in this Index in terms of its stringency. The economy contracted by 2.9 percent in 2020.

ECONOMIC FREEDOM SCORE



HISTORICAL INDEX SCORE CHANGE (SINCE 1995): +14.8

RECENT FREEDOM TREND



QUICK FACTS

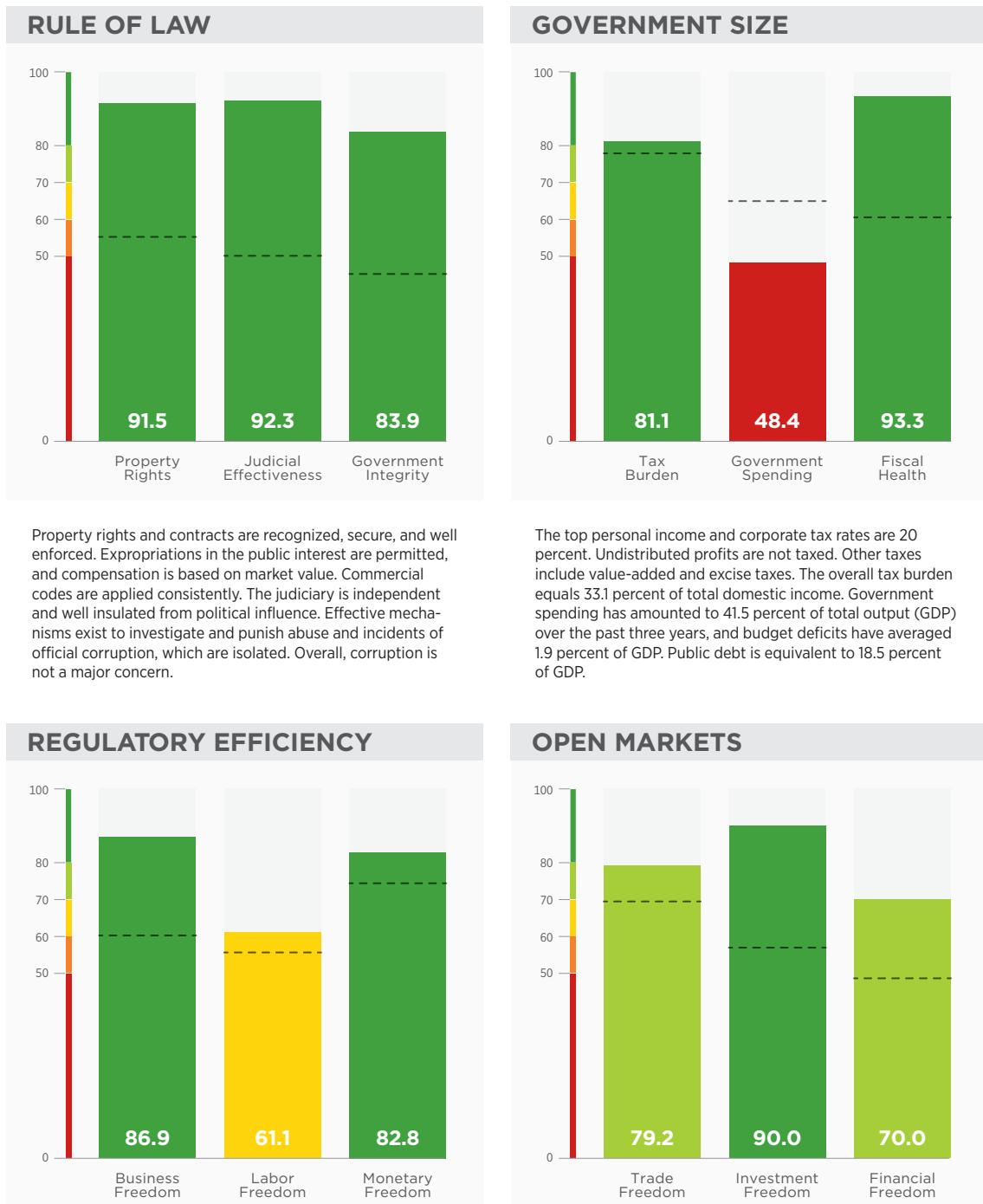
POPULATION:
1.3 million
GDP (PPP):
\$50.2 billion
-2.9% growth
in 2020
5-year compound
annual growth 3.0%
\$37,745 per capita

UNEMPLOYMENT:
6.5%
INFLATION (CPI):
-0.6%
FDI INFLOW:
\$3.2 billion
PUBLIC DEBT:
18.5% of GDP

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

BACKGROUND: Estonia has been independent since 1991 and has become a stable multiparty democracy. It joined NATO and the European Union in 2004 and the Organisation for Economic Co-operation and Development in 2010. In 2010, it also became the first former Soviet state to adopt the euro. Kaja Kallas of the center-right, pro-market Reform Party became the nation's first female prime minister in January 2021. Reform's coalition partner, the left-leaning Centre Party, led the previous coalition government until a corruption scandal led to its collapse. The economy relies on robust electronics and telecommunications sectors and strong regional trade ties. The government has revived plans for a Baltic Sea tunnel, previously scrapped because of security concerns related to Chinese involvement.

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Property rights and contracts are recognized, secure, and well enforced. Expropriations in the public interest are permitted, and compensation is based on market value. Commercial codes are applied consistently. The judiciary is independent and well insulated from political influence. Effective mechanisms exist to investigate and punish abuse and incidents of official corruption, which are isolated. Overall, corruption is not a major concern.

The top personal income and corporate tax rates are 20 percent. Undistributed profits are not taxed. Other taxes include value-added and excise taxes. The overall tax burden equals 33.1 percent of total domestic income. Government spending has amounted to 41.5 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.9 percent of GDP. Public debt is equivalent to 18.5 percent of GDP.

Businesses have a high degree of freedom to operate without the interfering hand of government. A negative birthrate and aging population negatively affect the labor supply. Labor laws are heavily stacked in favor of employees. Increases in electricity prices have raised fears of inflation.

As a member of the EU, Estonia has 46 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 2.9 percent with 640 EU-mandated nontariff measures in force. Estonia has an additional six country-specific nontariff barriers. In general, government policies do not interfere significantly with foreign investment. The modern financial sector has an efficient supervisory framework.