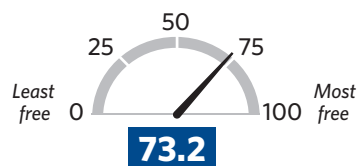


ESTONIA

Economic Freedom Score



World Rank: **16**

Regional Rank: **7**

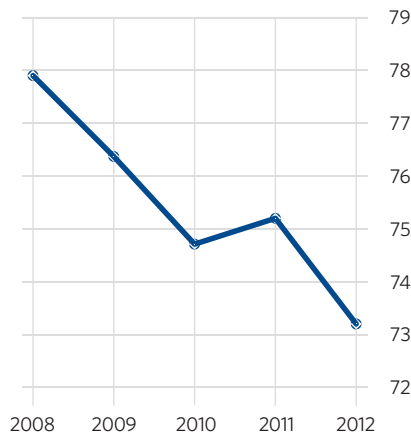
Estonia's economic freedom score is 73.2, making its economy the 16th freest in the 2012 *Index*. Its overall score is 2.0 points lower than last year as a result of declines in freedom from corruption and business freedom and a deteriorating score for government spending. Estonia is ranked 7th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

Estonia upholds all four pillars of economic freedom relatively well, with the rule of law strongly enforced by an independent and efficient judicial system. However, respect for the principle of limited government has eroded as government spending has risen as a share of GDP. Public finance management could be enhanced through clearer coordination between central and local governments as well as better targeting of social benefits. The debt burden remains quite low and has not undermined long-term economic competitiveness.

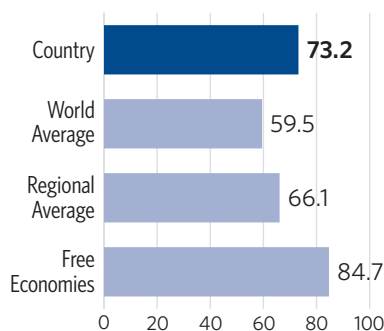
Flexibility and openness have equipped Estonia's small economy with an impressive capacity to adjust to external shocks. Sound economic policies grounded in a strong commitment to economic freedom have ensured high levels of investment and entrepreneurial activity. The overall investment code is conducive to dynamic growth, and the financial sector remains competitive.

BACKGROUND: Estonia regained its independence in 1991 and has become a model of stable multi-party democracy. Since the March 2011 election, a center-right coalition of the Reform Party and the Pro Patria-Res Publica Union (IRL) has held a majority in parliament. Estonia has led reform among the former Soviet-bloc nations and has transformed itself into one of the world's most dynamic and modern economies. The 2005-2007 credit bubble ended two decades of strong growth, and the economy, strongly affected by the downturn in Finland, Sweden, and Germany, contracted significantly in 2009. Estonia became a member of NATO and the European Union in 2004, joined the Organisation for Economic Co-operation and Development in December 2010, and adopted the euro in January 2011.

Freedom Trend



Country Comparisons



Quick Facts

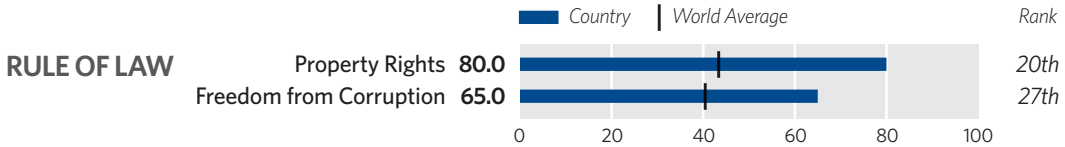
Population: 1.3 million
GDP (PPP): \$24.7 billion
 3.1% growth in 2010
 5-year compound annual growth -0.1%
 \$18,519 per capita
Unemployment: 16.8%
Inflation (CPI): 2.9%
FDI Inflow: \$1.5 billion
Public Debt: 6.6% of GDP

How Do We Measure Economic Freedom?

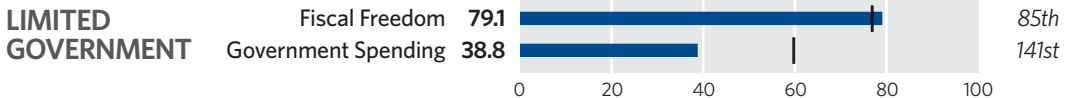
See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

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

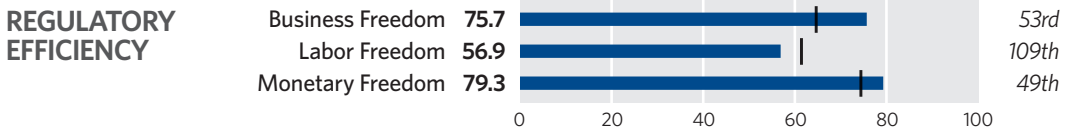
THE TEN ECONOMIC FREEDOMS



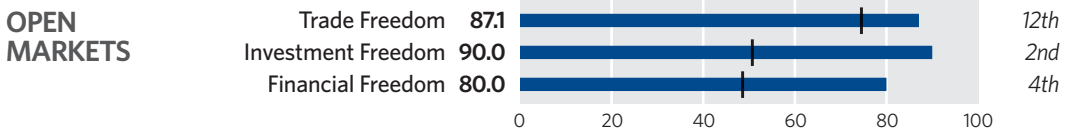
Estonia’s judiciary is insulated from government influence. Property rights and contracts are well enforced and secure. Commercial codes are applied consistently. The long, complex property restitution process is almost complete, even in the area of non-residential property. Protection of intellectual property rights is consistent with global standards. Relatively effective anti-corruption measures are in place.



The top income and corporate tax rates are 21 percent. Undistributed profits are not taxed. Other taxes include a value-added tax (VAT) and excise taxes, with the overall tax burden corresponding to 34.7 percent of total domestic income. Government spending has increased to over 40 percent of total domestic output, but the overall budget balance has been under control, with narrowing deficits. Public debt amounts to less than 10 percent of GDP.



Recent reforms facilitate insolvent firms’ restructuring and make overall bankruptcy procedures less costly, but business reform has been uneven. Getting licenses has become more complex, with increases in the associated time and cost. Enhancing labor productivity has been a key goal, and the recently enacted labor law aims to increase flexibility by reducing costs of dismissing employees. Inflation has been modest.



Estonia maintains a common external tariff with other members of the European Union, and the overall trade regime is fairly competitive and promotes the dynamic growth of trade. The investment environment is attractive and conducive to the free flow of capital. Foreign and domestic investors have the same legal rights. The competitive banking sector provides a wide range of financial services with little state intervention.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	-1.6	Business Freedom	-5.2	Trade Freedom	-0.5
Freedom from Corruption	-1.0	Government Spending	-13.4	Labor Freedom	+1.1	Investment Freedom	0
				Monetary Freedom	+0.6	Financial Freedom	0