WORLD RANK: **15** | REGIONAL RANK: **7**

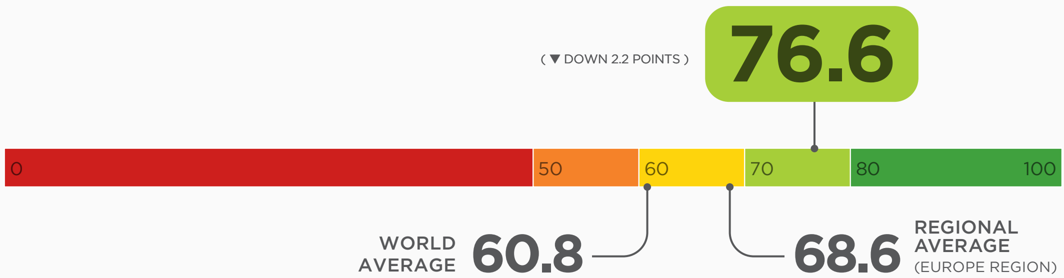
ECONOMIC FREEDOM STATUS: **MOSTLY FREE**

ESTONIA

Estonia's economic freedom score is 76.6, making its economy the 15th freest in the 2019 *Index*. Its overall score has decreased by 2.2 points, with significant drops in scores for **financial freedom**, **judicial effectiveness**, and **monetary freedom** outweighing a small gain in **labor freedom**. Estonia is ranked 7th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

The current government continues to pursue its predecessors' free-market, pro-business economic agenda and sound fiscal policies, which have led to balanced budgets, low public debt, and greater economic freedom. The rule of law is strongly buttressed and enforced by an independent and efficient judicial system, but a massive money-laundering scheme has eroded confidence in the banking sector. A simplified tax system with flat rates and low indirect taxation, openness to foreign investment, and a liberal trade regime support a resilient and well-functioning economy. Management of public finance has been notably prudent and sound.

ECONOMIC FREEDOM SCORE

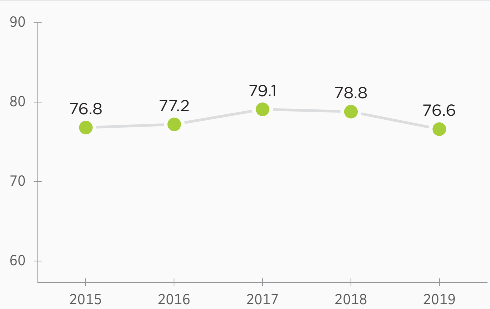


RELATIVE STRENGTHS:
Fiscal Health and Investment Freedom

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995):
+11.4

CONCERNS:
Government Spending and Labor Freedom

FREEDOM TREND



QUICK FACTS

POPULATION:
1.3 million

GDP (PPP):
$41.6 billion
4.9% growth in 2017
5-year compound annual growth 2.7%
$31,750 per capita

UNEMPLOYMENT:
5.8%

INFLATION (CPI):
3.7%

FDI INFLOW:
$784.4 million

PUBLIC DEBT:
8.8% of GDP

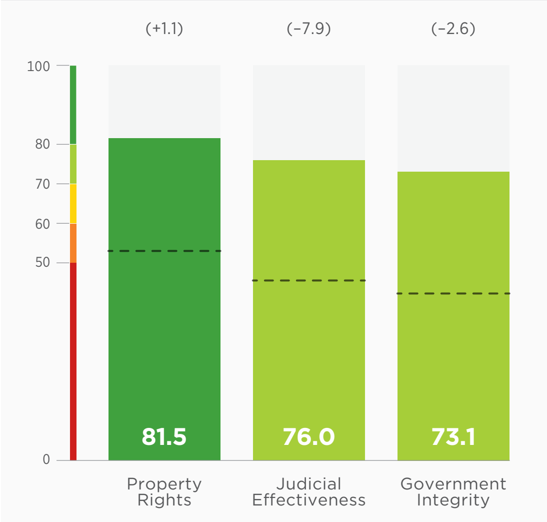
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Estonia, independent since 1991, is 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 2011, it became the first former Soviet state to adopt the euro. In 2014, the government began issuing "E-Residency" status to noncitizens to facilitate business. Jüri Ratas, leader of the left-leaning Centre Party, became prime minister in 2016 after his party's coalition in parliament narrowly defeated the center-right, pro-market Reform Party of former Prime Minister Taavi Rõivas. The economy relies on robust electronics and telecommunications sectors and strong regional trade ties. The government is upgrading border security infrastructure along its nearly 183-mile land boundary with Russia.

– – WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

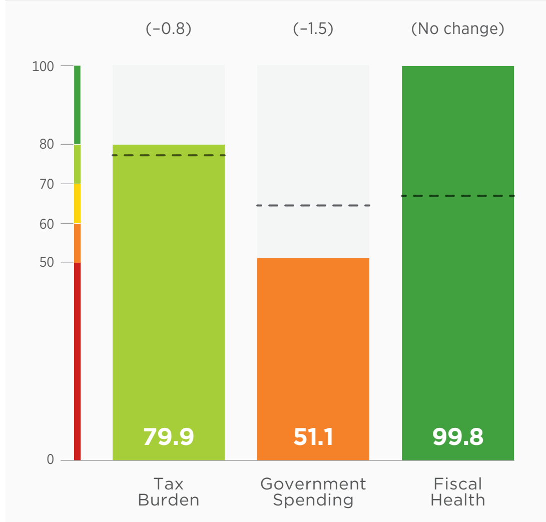
12 ECONOMIC FREEDOMS | ESTONIA

RULE OF LAW



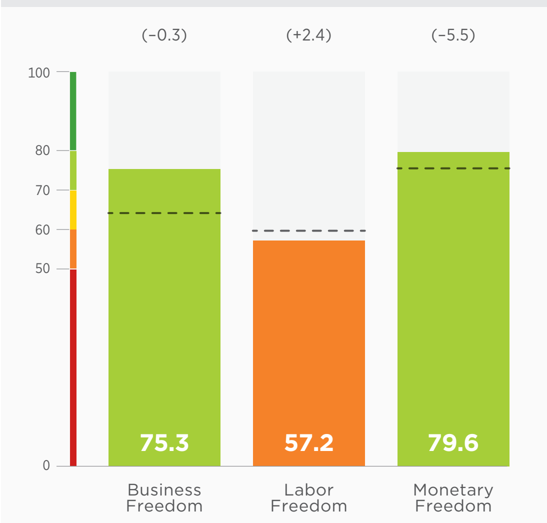
Property rights and contracts are recognized, secure, and well enforced. Expropriations are permitted for the public interest, and compensation is provided based on market value. Commercial codes are applied consistently. The judiciary is independent and well insulated from political influence. Mechanisms to investigate and punish abuse and isolated incidents of corruption are effective. High levels of integrity and transparency characterize most public institutions.

GOVERNMENT SIZE



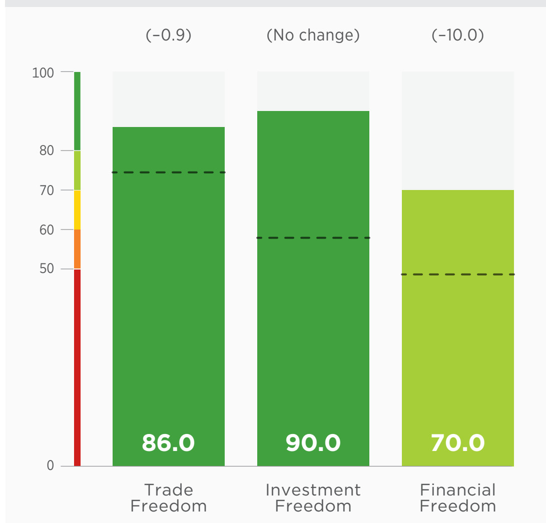
The top personal income and corporate tax rates are 20 percent. Undistributed profits are not taxed. Other taxes include value-added and excise taxes. The overall tax burden equals 34.7 percent of total domestic income. Over the past three years, government spending has amounted to 40.4 percent of the country's output (GDP), and budget deficits have averaged 0.1 percent of GDP. Public debt is equivalent to 8.8 percent of GDP.

REGULATORY EFFICIENCY



The business start-up process is straightforward, and the cost of completing licensing requirements has been substantially reduced. Enhancing labor productivity and employment growth has been a key goal in ongoing efforts to reform the labor market. Estonia continues to subsidize energy and transportation heavily and is fighting the EU's proposal to reduce post-Brexit subsidy spending.

OPEN MARKETS



The combined value of exports and imports is equal to 151.6 percent of GDP. Estonia implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. The average applied tariff rate is 2.0 percent. Estonia is very open to foreign investment. Exposure of a massive money-laundering scheme involving Russian assets has seriously undermined confidence in the banking sector.