FINLAND

Finland’s economic freedom score is 76.1, making its economy the 17th freest in the 2021 Index. Its overall score has increased by 0.4 point, primarily because of an improvement in the government spending score. Finland is ranked 10th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The Finnish economy continues to benefit from high levels of economic freedom. For Finland to move up in the mostly free ranks, the government needs to roll back its ambitious plans to expand spending on infrastructure, education, health care, and welfare services and then make further cuts. It also needs to reform the labor code to make it more market friendly and reduce taxes.

IMPACT OF COVID-19: As of December 1, 2020, 399 deaths had been attributed to the pandemic in Finland, and the economy was forecast to contract by 4.0 percent for the year.

BACKGROUND: Formerly part of Sweden and later of the Russian Empire, Finland gained independence in 1917, joined the European Union in 1995, and adopted the euro in 1999. In December 2019, Sanna Marin of the Social Democratic Party of Finland became the world’s youngest prime minister, taking over from Antti Rinne, who resigned because of controversy surrounding his handling of a postal strike. Prime Minister Marin heads a center-left coalition with the Centre Party, the Green League, the Left Alliance, and the Swedish People’s Party of Finland. President Sauli Niinistö of the National Coalition Party won a second term in 2018. The export-led economy is centered on manufacturing, principally in the wood, metals, telecommunications, and electronics industries.
Finland maintains one of the world’s strongest regimes for the protection of property rights and adheres to many international agreements that are intended to protect intellectual property. Contractual agreements are strictly honored. The quality of the judiciary is generally high. Corruption is not a significant problem in Finland, which was ranked 3rd out of 180 countries surveyed in Transparency International’s 2019 Corruption Perceptions Index.

The top individual income tax rate is 31.25 percent, and the top corporate tax rate is 20 percent. Other taxes include value-added and capital income taxes. The overall tax burden equals 42.7 percent of total domestic income. Government spending has amounted to 53.4 percent of total output (GDP) over the past three years, and budget deficits have averaged 1.0 percent of GDP. Public debt is equivalent to 59.7 percent of GDP.

Business freedoms are well enshrined in Finland, and the government has reduced the fee and processing time for online business registrations, making it easier to start a business. However, labor laws are rigid, and their administration is characterized by excessive red tape. The government continues to subsidize development of the renewable fuels sector.

As a member of the EU, Finland has 45 preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. Finland has an additional nine country-specific nontariff barriers. A sound and transparent investment framework facilitates both foreign and domestic investment. The efficiently regulated financial sector provides a wide range of services.