Sweden’s economic freedom score is 74.7, making its economy the 21st freest in the 2021 Index. Its overall score has decreased by 0.2 point, primarily because of a decline in trade freedom. Sweden is ranked 12th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

The Swedish economy has been rated mostly free for more than a decade. The two biggest drags on Sweden’s economic freedom continue to be very heavy taxation and very high government spending. On the other hand, the country’s scores on the Index rule-of-law indicators (property rights, judicial effectiveness, and government integrity) are among the highest in the world.

**IMPACT OF COVID-19:** As of December 1, 2020, 6,798 deaths had been attributed to the pandemic in Sweden, and the economy was forecast to contract by 4.7 percent for the year.

**BACKGROUND:** Sweden joined the European Union in 1995, but voters rejected adoption of the euro in 2003. Prime Minister Stefan Löfven was able to form a minority center-left Social Democratic Party–Green Party governing coalition in January 2019 despite a poor showing in the September 2018 elections and months of stalemate. The populist Sweden Democrats party, campaigning to restrict immigration, placed third in the elections. The influx of large numbers of migrants since 2015, a terrorist attack in 2017, and rising gang violence have made immigration a central issue, and the ongoing formulation of a new migration policy has significant political implications. Timber, hydropower, and iron ore constitute the resource base of a vibrant and outwardly oriented manufacturing-based economy.
Real and intellectual property rights are well protected. Enforcement of contracts is very well established, and the rule of law is well maintained. The judicial system operates independently, impartially, and consistently. Deregulation, budgetary self-restraint, and a stable political environment encourage low rates of corruption. Effective anticorruption measures discourage bribery of public officials and foster government integrity.

The top individual income tax rate is 57 percent, and the top corporate tax rate has been cut to 21.4 percent. Other taxes include value-added and capital gains taxes. The overall tax burden equals 43.9 percent of total domestic income. Government spending has amounted to 48.5 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.9 percent of GDP. Public debt is equivalent to 34.8 percent of GDP.

Starting a business has become more complicated and now takes longer on average. Business freedom remains high, but scores have fallen from previous levels. Rigid labor legislation and regulations and the high cost of labor limit labor freedom. There are few price controls, but the government provides significant subsidies to encourage renewable energy and increased its subsidies for solar power in 2019.

As a member of the EU, Sweden 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. Sweden has an additional eight country-specific nontariff barriers. Open-market policies that sustain competitiveness facilitate large flows of investment. Financial services are well institutionalized throughout the country.