FINLAND

Finland’s economic freedom score is 78.3, making its economy the 9th freest in the 2022 Index. Finland is ranked 6th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

Finland’s economic growth turned negative in 2020 but rebounded in 2021. A five-year trend of expanding economic freedom has continued. Led by an increase in its rule of law (property rights, judicial effectiveness, and government integrity) scores, Finland has recorded a 4.3-point overall gain of economic freedom since 2017 and is now near the top of the “Mostly Free” category. Business freedom, monetary freedom, and trade freedom are strong, but government spending is excessive.

IMPACT OF COVID-19: As of December 1, 2021, 1,348 deaths had been attributed to the pandemic in Finland, and the government’s response to the crisis ranked 132nd among the countries included in this Index in terms of its stringency. The economy contracted by 2.9 percent in 2020.

BACKGROUND: Formerly part of Sweden and later part 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 had resigned because of controversy surrounding his handling of a postal strike. Prime Minister Marin leads 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.
Property rights are protected by one of the world’s strongest enforcement regimes. Finland 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 2020 Corruption Perceptions Index.

The top individual income tax rate is 31.3 percent, and the top corporate tax rate is 20 percent. Other taxes include value-added and capital income taxes. The overall tax burden equals 42.2 percent of total domestic income. Government spending has amounted to 54.6 percent of total output (GDP) over the past three years, and budget deficits have averaged 2.2 percent of GDP. Public debt is equivalent to 67.1 percent of GDP.

Not all trades in Finland require a license; some require only notification or registration with the authorities. Labor laws are rigid and excessive. The aging of the population and the shrinking working-age demographic threaten future economic growth. According to government statistics, direct business subsidies amounted to €1.75 billion in 2020, up 268 percent from 2019.

As a member of the EU, Finland 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. Finland has an additional 13 country-specific nontariff barriers. In general, government policies do not interfere significantly with foreign investment. The competitive financial sector provides a wide range of services.