ESTONIA

Estonia’s economic freedom score is 78.6, making its economy the 6th freest in the 2023 Index. Its score is 1.4 points lower than last year. Estonia is ranked 3rd out of 44 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. An independent and efficient judicial system strongly enforces the rule of law. The debt burden remains quite low and has not undermined long-term economic competitiveness. Flexibility and openness have equipped the economy with an impressive ability to adjust to external shocks.

BACKGROUND: Estonia has been independent since 1991 and 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 when it also became the first former Soviet state to adopt the euro. Prime Minister Kaja Kallas of the center-right, pro-market Reform Party formed a new coalition government with the center-right Isamaa and center-left Social Democratic parties in July 2022 after her first cabinet collapsed. The economy relies on robust electronics and telecommunications sectors and strong regional trade ties. Estonia is the largest per capita supporter of Ukraine.
The overall rule of law is well respected in Estonia. The country’s property rights score is above the world average; its judicial effectiveness score is above the world average; and its government integrity score is above the world average.

The top individual and corporate tax rates are 20 percent. The tax burden equals 34.5 percent of GDP. Three-year government spending and budget balance averages are, respectively, 41.8 percent and –2.5 percent of GDP. Public debt equals 17.6 percent of GDP.

The overall regulatory framework is efficient and competitive and facilitates entrepreneurial dynamism in the private sector. A modern labor market is in place, and enhancing the flexibility of the market has been a key goal. The most recent available inflation rate is 4.5 percent.

The trade-weighted average tariff rate (common among EU members) is 3.2 percent; more than 600 EU-mandated nontariff measures and six country-specific nontariff barriers are in force. The transparent investment regime facilitates openness to foreign investment. The financial sector remains stable.