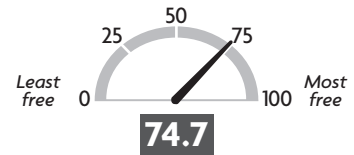


ESTONIA

Economic Freedom Score



World Rank: **16**

Regional Rank: **7**

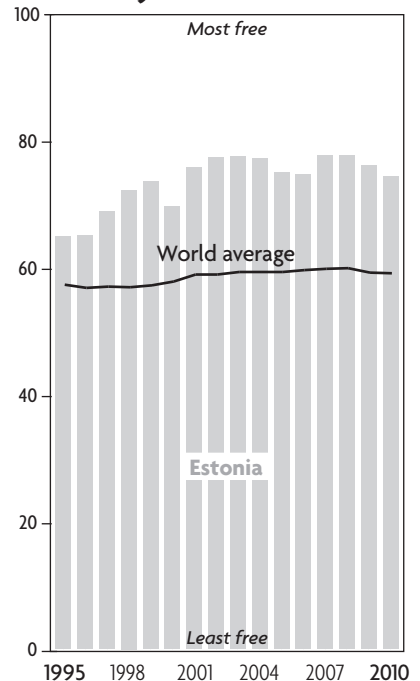
Estonia's economic freedom score is 74.7, making its economy the 16th freest in the 2010 *Index*. Its overall score decreased 1.7 points, as improved business freedom was offset by lower scores in monetary freedom and protection of property rights. Estonia is ranked 7th out of 43 countries in the Europe region, and its overall score is well above the regional and world averages.

Estonia performs well in most of the 10 economic freedoms. A reform bill that facilitates insolvent firms' restructuring and makes overall bankruptcy procedures easier and less costly has enhanced the entrepreneurial environment. The financial sector's efficiency and competitiveness are facilitated by a sound regulatory environment and relatively prudent lending. The overall investment code is simple and transparent, and an independent judiciary protects property rights.

In January 2009, the parliament implemented amendments to the Income and Value Added Tax Act and delayed the planned reduction of the corporate income tax rate to 20 percent by one year. Overall economic freedom has been curbed by relatively high government spending and lingering labor-market rigidity.

BACKGROUND: Since the fall of the Soviet Union, Estonia has been one of the most determined reformers among the former Soviet nations and has transformed itself into one of the world's most dynamic and modern economies. A credit bubble in 2005–2007 ended two decades of strong growth, and the economy contracted significantly in 2009. Estonia has strong trade ties to Finland, Sweden, and Germany and is sensitive to any weakness in those economies. The country became a member of NATO and the European Union in 2004 and aims to join the euro zone in 2010 if it can stick to the Maastricht deficit rules despite its current economic difficulties. A model of stable multi-party democracy, Estonia has experienced seven peaceful changes in leadership since regaining its independence in 1991.

Country's Score Over Time



Quick Facts

Population: 1.3 million

GDP (PPP): \$27.7 billion

–3.6% growth in 2008

5.4% 5-year compound annual growth

\$20,662 per capita

Unemployment: 5.5%

Inflation (CPI): 10.4%

FDI Inflow: \$2.5 billion

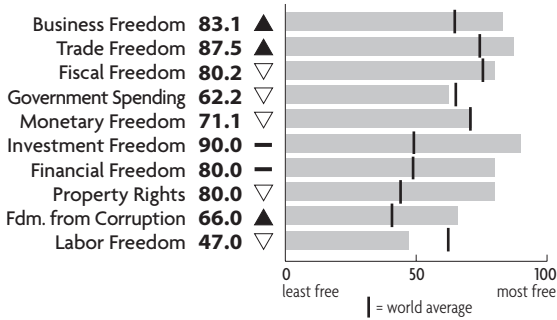
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ESTONIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 83.1

The overall freedom to conduct a business is relatively well protected under Estonia's transparent regulatory environment. Starting a business takes an average of seven days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures and 218 days.

TRADE FREEDOM — 87.5

Estonia's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Estonian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Estonia's trade freedom score to reflect these factors.

FISCAL FREEDOM — 80.2

Estonia has relatively low tax rates. The personal income tax rate is a flat 21 percent. The corporate tax is also 21 percent. Undistributed profits are not subject to taxation. Other taxes include excise taxes and a value-added tax (VAT). In the most recent year, overall tax revenue as a percentage of GDP was 33.2 percent.

GOVERNMENT SPENDING — 62.2

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 35.5 percent of GDP. The private sector generates more than 80 percent of GDP. Privatization of remaining state-owned enterprises in transportation and electricity is under consideration.

MONETARY FREEDOM — 71.1

Inflation has been relatively high, averaging 8.9 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. It also subsidizes fuel and rent. Ten points

were deducted from Estonia's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 90

Foreign and domestic investments are treated equally under the law. Foreigners may invest in all sectors and own real estate, but there are restrictions on land purchases exceeding 10 hectares. Licenses required for investment in banking, mining, gas and water supply, railroads and transport, energy, and communications are allocated in a non-discriminatory manner. The foreign investment code is transparent. The commercial community's small size can encourage favoritism. Residents and non-residents may hold foreign exchange accounts, and payments, transfers, and most capital transactions are not subject to controls.

FINANCIAL FREEDOM — 80

Financial regulatory and supervisory frameworks are efficient and transparent. As of mid-2008, there were more than 50 financial institutions, including six commercial banks and 10 foreign bank branches. The banking sector is highly profitable and provides a wide range of financial services. Four banks still control over 90 percent of assets. The government has no financial stake in any local credit institution. Foreign financial institutions are welcome, and foreign firms dominate the insurance sector. Credit is allocated on market terms, and foreign investors may obtain credit freely. The small but active stock exchange is part of a network of Scandinavian and Baltic exchanges. The financial sector weathered the global financial turmoil relatively well owing to sound regulations and supportive measures. The commercial banks have remained well capitalized, and no extensive state intervention in sustaining financial stability has been carried out. Nonperforming loans have climbed to around 4 percent of total loans.

PROPERTY RIGHTS — 80

Estonia's judiciary is insulated from government influence. Property rights and contracts are enforced, and the commercial code is applied consistently. Estonian law is in compliance with EU directives protecting intellectual property rights. Estonia is ranked 27th out of 115 countries in the 2009 International Property Rights Index.

FREEDOM FROM CORRUPTION — 66

Corruption is perceived as present. Estonia ranks 27th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Estonia has laws, regulations, and penalties to combat corruption, and the corruption that does exist is generally not targeted at foreign investors.

LABOR FREEDOM — 47

Rigid labor regulations impede job creation and productivity growth. The non-salary cost of employing a worker can be high, and dismissing an employee is relatively difficult and costly. Restrictions on the number of work hours remain rigid.