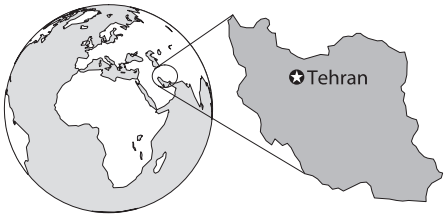
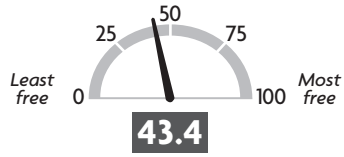
IRAN



World Rank: **168** Regional Rank: **16**

Economic Freedom Score



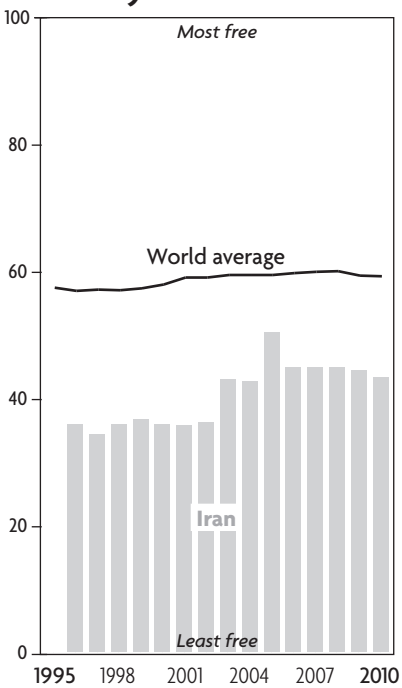
Iran's economic freedom score is 43.4, making its economy the 168th freest in the 2010 *Index*. Its score has decreased by 1.2 points from last year, driven by lower scores in freedom from corruption and monetary freedom. Iran is ranked 16th out of 17 countries in the Middle East/North Africa region, and its overall score is below the world and regional averages.

Protectionism and heavy state involvement in many aspects of economic activity have led to economic stagnation in Iran's non-oil sector and a lack of overall economic dynamism. A restrictive business and investment environment depresses development of a viable private sector. More than 500 companies are state-owned, and privatization has been negligible in the past year.

Business licensing and closure are regulated heavily by an intrusive and inefficient bureaucracy. High tariff rates and non-tariff barriers impede trade and foreign investment. Corruption is rampant, and fair adjudication of property rights cannot be guaranteed. The judicial system is vulnerable to political influence and lacks transparency. The oil sector accounts for nearly 50 percent of the government budget.

BACKGROUND: Iran's economy, once one of the most advanced in the Middle East, has been crippled by the 1979 Islamic revolution, the Iran–Iraq war, chronic economic mismanagement, and corruption. International concern about Iran's nuclear development activities and support for terrorism remains high. The United Nations Security Council has imposed three rounds of economic sanctions against the country. Mahmoud Ahmadinejad, who was re-elected president in June 2009 in an election of questionable legitimacy, has halted tentative efforts to reform the state-dominated economy and has greatly expanded government spending. In 2008, high world oil prices significantly boosted oil export revenues, which provide about 85 percent of government revenues, but Iran's economy remains burdened by high unemployment, rising inflation, corruption, costly subsidies, and an increasingly bloated and inefficient public sector.

Country's Score Over Time



Quick Facts

Population: 72.0 million

GDP (PPP): $839.4 billion
5.6% growth in 2008
5.7% 5-year compound annual growth
$11,666 per capita

Unemployment: 12.5%

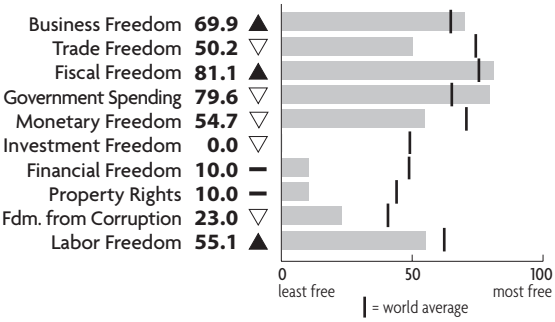
Inflation (CPI): 26.0%

FDI Inflow: $1.5 million

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*.

IRAN'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — *69.9*

The overall freedom to start, operate, and close a business remains limited by Iran's regulatory environment. Starting a business takes an average of 9 days, much less than the world average of 35 days, but obtaining a business license takes 322 days, compared to the world average of 218 days.

TRADE FREEDOM — *50.2*

Iran's weighted average tariff rate was 17.4 percent in 2008. Import bans and restrictions, high tariffs and import taxes, export licensing requirements, restrictive sanitary and phytosanitary regulations, burdensome customs procedures, state trading, arbitrary changes in tariff and tax schedules, and weak enforcement of intellectual property rights add to the cost of trade. Fifteen points were deducted from Iran's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — *81.1*

Iran has a relatively high income tax rate and a moderate corporate tax rate. The top income tax rate is 35 percent, and the flat corporate tax rate is 25 percent. All property transfers are subject to a standard tax. A value-added tax (VAT) has been collected and then not collected intermittently since 2005. In the most recent year, overall tax revenue as a percentage of GDP was 6.1 percent.

GOVERNMENT SPENDING — *79.6*

Total government expenditures, including consumption and transfer payments, are relatively low. In the most recent year, government spending equaled 26.1 percent of GDP.

MONETARY FREEDOM — *54.7*

Inflation is very high, averaging 22.9 percent between 2006 and 2008. The government controls the prices of petroleum products, electricity, water, and wheat; provides economic subsidies; and influences prices through regulation of Iran's many state-owned enterprises. Fifteen points were deducted from Iran's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — *0*

Foreign investment faces considerable government hostility and is restricted or banned in many activities, including banking, telecommunications, transport, oil, and gas. All investments must be approved, and the process is not straightforward. The method of calculating the maximum share that foreign-owned entities are allowed can be non-transparent. The parliament can veto projects in which foreign investors have a majority stake. Political unrest and uncertainty over international sanctions further deter investment. Most payments, transfers, credit operations, and capital transactions are subject to restrictions or approval requirements. Only legal permanent residents of Iran may purchase land. Foreign companies may own property in Iran only if they are registered both in Iran and in their respective countries and make the purchase using their Iranian business identity.

FINANCIAL FREEDOM — *10*

Iran's financial sector remains heavily influenced by the government. All banks were nationalized following the 1979 revolution, but six private banks have come into operation since then. These small private banks operate under strict restrictions regarding de facto interest rates and capital requirements. Stringent government controls have kept the banks' lending scope from expanding, limiting access to financing for businesses. State-owned commercial banks and specialized financial institutions account for a majority of the banking sector's total assets. The government directs credit allocation, though credit is often supplied by traditional money lenders in the bazaar in support of small cash-based businesses. The non-banking financial sector remains dominated by state-owned companies. Capital markets are not fully developed.

PROPERTY RIGHTS — *10*

The constitution allows the government to confiscate property acquired either illicitly or in a manner not in conformance with Islamic law. Resorting to the courts is often counterproductive; finding an influential local business partner with substantial political patronage is a more effective way to protect contracts. Few laws protect intellectual property; computer software piracy is extensive; and infringement of industrial designs, trademarks, and copyrights is widespread.

FREEDOM FROM CORRUPTION — *23*

Corruption is perceived as pervasive. Iran ranks 141st out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, a decline from 2007. The law provides criminal penalties for official corruption, but it is not implemented effectively, and official corruption is found in all three branches of government. Graft is extensive, and the anti-corruption agency has fewer than 1,000 inspectors to monitor the 2.3 million full-time civil servants and numerous government contractors who control most of Iran's economy.

LABOR FREEDOM — *55.1*

Labor regulations are restrictive. The non-salary cost of employing a worker is high, and firing a worker requires approval of the Islamic Labor Council or the Labor Discretionary Board.