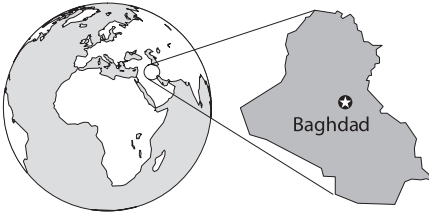


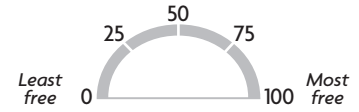
IRAQ



World Rank: Not ranked

Regional Rank: Not ranked

Economic Freedom Score



The economy is not graded

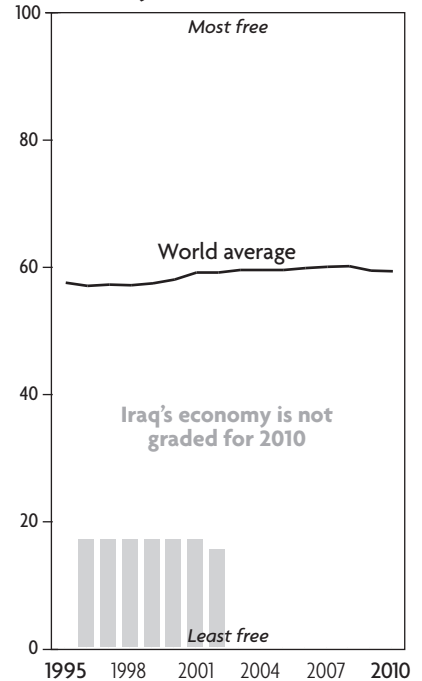
The level of economic freedom in Iraq remains unrated in the 2010 *Index* because of the lack of sufficiently reliable data for the economy. The Iraqi economy has slowly recovered from the hostilities that began in 2003. However, progress has been uneven, and the country faces continuing tension among different ethnic and religious factions. Iraq was last graded in the 2002 *Index*, when it received an overall score of 15.6.

The Iraqi economy has adopted institutional reforms that have been put in place since 2003, including tax reforms, simple and low tariffs, new investment laws, microfinance initiatives, and a significantly liberalized and modernized banking system.

However, the absence of the rule of law is impeding the development of a vibrant private sector and hurts overall economic growth, especially by hindering the creation of a stable investment and entrepreneurial climate. Economic progress rests on a fragile foundation, undermined continuously by weak physical security and persistent corruption.

BACKGROUND: A U.S.-led coalition removed Saddam Hussein's dictatorship in 2003, and an elected government led by Prime Minister Nuri al-Maliki took office in May 2006. Iraq's oil industry provides more than 90 percent of hard-currency earnings but has been hurt by pipeline sabotage, electricity outages, and years of neglect and postponed maintenance. Economic recovery, though helped by relatively high oil prices and aid from the United States and other donors, is hampered by ongoing insurgency and instability. Improved security and the gradual restoration of oil exports have increased the prospects for steady economic growth. The oil industry, still in government hands, is both the glue that holds Iraq's disparate factions together and a source of ongoing tension among them. Successful provincial elections in January 2009 weakened extremist political parties and encouraged an atmosphere of political compromise.

Country's Score Over Time



Quick Facts

Population: 29.6 million

GDP (PPP): \$105.7 billion

9.5% growth in 2008

4.1% 5-year compound annual growth

\$3,570 per capita

Unemployment: 18.2% (unofficial estimates as high as 30%)

Inflation (CPI): 3.5%

FDI Inflow: \$20.2 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.

BUSINESS FREEDOM — NOT GRADED

Despite some progress in establishing an investment-friendly business environment, significant problems remain to be addressed as Iraq tries to deal with challenges to its security and stability.

TRADE FREEDOM — NOT GRADED

Iraq is trying to re-establish more broad-based trade. According to the U.S. Department of Commerce, Iraq applied a flat tariff rate of 5 percent in 2004. Non-tariff barriers include inadequate infrastructure and trade capacity, significant customs delays, security concerns, and some import and export bans.

FISCAL FREEDOM — NOT GRADED

Individual and corporate income tax rates are capped at 15 percent. Tax revenue as a percentage of GDP is negligible. Further modernization of the tax system and introduction of a sales tax as a precursor to a value-added tax (VAT) are under consideration, but the weakness of the central government limits effective reform.

GOVERNMENT SPENDING — NOT GRADED

Total government expenditures in Iraq, including consumption and transfer payments, are very high. It is estimated that government spending equals about 70 percent of GDP. The oil sector accounts for over 95 percent of exports and government revenue, and attempts to sell state-owned oil fields in the past year were not successful.

MONETARY FREEDOM — NOT GRADED

Inflation in Iraq has been high, averaging 14.6 percent between 2006 and 2008. Consumer price growth has slowed from its peaks (inflation reached 65 percent at the end of 2006), in large part because of improvement in the supply of basic items, especially fuel, as the security situation has stabilized. The government maintains a large public sector, provides a number of subsidies, and imposes a number of price controls.

INVESTMENT FREEDOM — NOT GRADED

Iraq is open to foreign capital in principle, but inadequate regulatory capacity, policy uncertainty, security concerns, and corruption deter investment. There are no restrictions on current and capital transactions involving currency exchange as long as underlying transactions are supported by valid documentation. The National Investment Law, which is not yet implemented, would allow investors to bank and transfer capital inside or outside of Iraq. Foreigners may not own land, but foreign investors are permitted renewable leases for up to 50 years.

FINANCIAL FREEDOM — NOT GRADED

Iraq's financial system remains poorly developed, and the legal and institutional framework is not conducive to deepening financial intermediation. A March 2004 law liberalized and modernized the banking system, allowing allocation of credit on market terms and making the central bank independent. There are seven state-owned banks, 32 private banks, and six Islamic banks. The two largest state-owned banks (Al-Rafidain and Al-Rasheed) account for over 90 percent of assets. Four specialized state-owned banks serve the agricultural, industrial, real estate, and social sectors. The major activity of private banks is financial transfers from the government to local authorities or individuals. The insurance sector and the new stock exchange are very small.

PROPERTY RIGHTS — NOT GRADED

There is very little protection of property in Iraq. Foreigners may only rent or lease land for up to 50 years, but leases are renewable. Foreign investors may own investment portfolios in shares and securities. The Commission for the Resolution of Real Property Disputes is an independent governmental commission established to resolve claims for real property confiscated, forcibly acquired, or otherwise taken for less than fair value by the former regime between 1968 and 2003 for reasons other than land reform or lawfully applied eminent domain. The legal system remains very weak. U.S. forces, working with Iraqi military and police units, have improved the rule of law but still face daunting challenges. Iraq does not have adequate statutory protection for intellectual property rights.

FREEDOM FROM CORRUPTION — NOT GRADED

Corruption is perceived as rampant. Iraq ranks 178th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, unchanged from 2007. Under Hussein, corruption was a fact of life and touched every economic transaction. Undoing this legacy will be a long process, and investors still may have to contend with requests for bribes or kickbacks from government officials at all levels.

LABOR FREEDOM — NOT GRADED

Iraq's formal labor market is not yet fully developed. Most private-sector jobs are informal. It is estimated that unemployment and underemployment combined affect about half of the labor force.