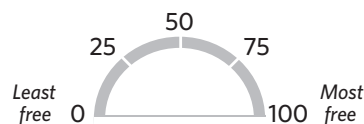


IRAQ

Economic Freedom Score



This economy is not graded

World Rank: **N/A** Regional Rank: **N/A**

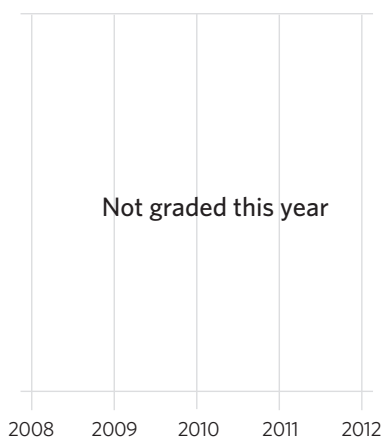
Iraq remains unranked in the 2012 *Index* because of the lack of sufficiently reliable data on economic freedom within the country. The Iraqi economy has slowly recovered from the hostilities that began in 2003, but progress has been uneven, and the country faces continuing tension among different ethnic and religious factions. Iraq was last graded in the 2002 *Index*, when it received an overall score of 15.6.

With its economic growth highly volatile, Iraq's ongoing economic reconstruction, though facilitated by high oil prices and foreign economic aid, has been fragile at best. Political instability and pervasive corruption continue to undermine the limited but measurable progress made over the past years.

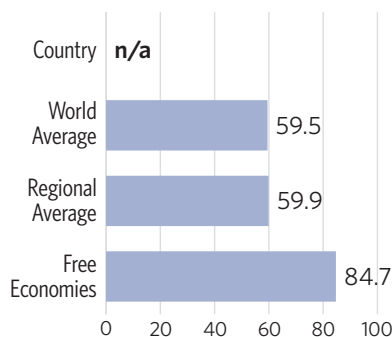
Operating well below potential, the Iraqi economy lacks effective monetary and fiscal policies. The weak state of the financial system, coupled with its limited role within the economy, also makes development of a much-needed dynamic private sector extremely difficult. The country's main challenges are to improve security and fully restore the rule of law.

BACKGROUND: A U.S.-led coalition removed dictator Saddam Hussein from power in 2003, and Prime Minister Nuri al-Maliki's elected government took office in May 2006. Al-Maliki managed to retain his post in the fractious coalition government that emerged after the March 2010 elections. Iraq's oil industry, which provides more than 90 percent of government revenue, has been hurt by pipeline sabotage, electricity outages, and years of neglect. However, improved security, gradual restoration of exports, and higher world oil prices should encourage economic growth. The oil industry, still in government hands, holds Iraq's disparate factions together but is also a source of tension among them. The government seeks to encourage foreign investment, but inadequate infrastructure, bureaucratic red tape, and widespread corruption continue to undermine foreign investment and constrain private-sector growth.

Freedom Trend



Country Comparisons



Quick Facts

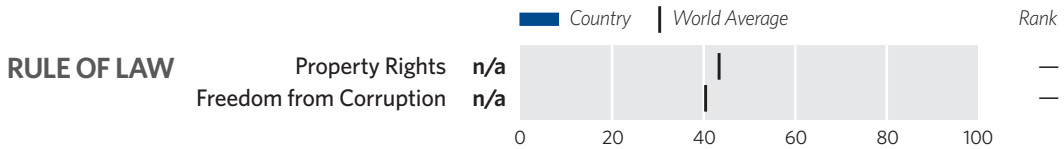
Population: 32.0 million
GDP (PPP): \$113.4 billion
 0.8% growth in 2010
 5-year compound annual growth 4.4%
 \$3,538 per capita
Unemployment: 15.3%
Inflation (CPI): 5.1%
FDI Inflow: \$1.4 billion
Public Debt: 119.6% of GDP

How Do We Measure Economic Freedom?

See page 455 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2010 data unless otherwise noted.
 Data compiled as of September 2011.

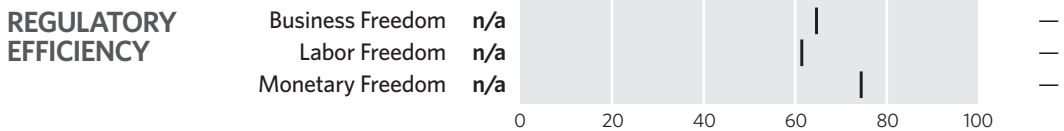
THE TEN ECONOMIC FREEDOMS



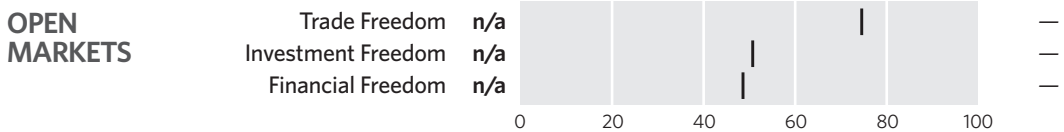
The legal system remains very weak, failing to provide reliable protection for property rights. There are widespread reports of bribery, kickbacks to companies connected to political leaders, and corruption in government payrolls including payments to “ghost” employees, salary skimming, and nepotism. In the absence of effective anti-corruption measures, fraud and mismanagement of public funds are endemic.



Individual and corporate income tax rates are capped at 15 percent. Tax revenue as a percentage of GDP is negligible due to high levels of evasion and lax enforcement. Public spending is estimated to be equivalent to 37.7 percent of total domestic output, and the budget records consistent surpluses because of oil revenue, which funds more than 90 percent of government expenses. Public debt has declined but still equals about 120 percent of GDP.



Despite some progress in enhancing the business environment, significant impediments to entrepreneurial activity persist. Weighed down by bureaucracy, enforcement of existing commercial regulations is inconsistent. Completing licensing requirements costs almost four times the level of annual average income. With a formal labor market not fully developed, most private-sector jobs are short-term and informal. Monetary stability is weak.



Trade flows remain far below potential as broad-based commercial activity is still suppressed. Numerous non-tariff barriers add to the cost of trade. Iraq is open to foreign investment in principle, but bureaucratic inertia, policy uncertainty, and security concerns deter investment growth. State banks dominate credit markets, and the largely cash-based economy lacks the infrastructure of a fully functioning modern financial system.

Score Changes

RULE OF LAW		LIMITED GOVERNMENT		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	n/a	Fiscal Freedom	n/a	Business Freedom	n/a	Trade Freedom	n/a
Freedom from Corruption	n/a	Government Spending	n/a	Labor Freedom	n/a	Investment Freedom	n/a
				Monetary Freedom	n/a	Financial Freedom	n/a