IRAN

WORLD RANK: **155**

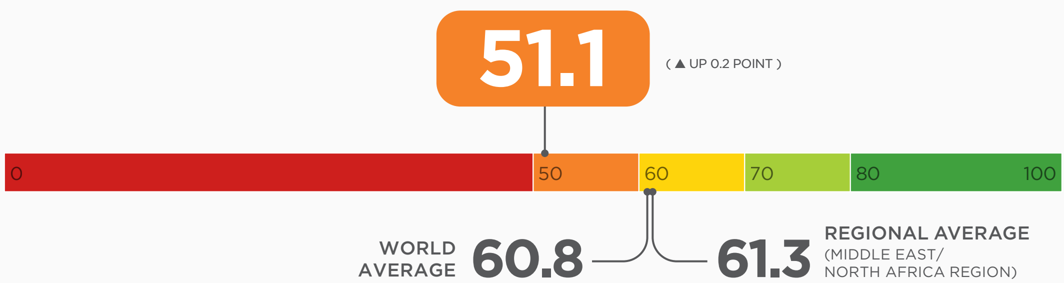
REGIONAL RANK: **13**

ECONOMIC FREEDOM STATUS: **MOSTLY UNFREE**

Iran's economic freedom score is 51.1, making its economy the 155th freest in the 2019 *Index*. Its overall score has increased by 0.2 point, with higher scores for **judicial effectiveness** and **investment freedom** exceeding declines in **labor freedom** and **business freedom**. Iran is ranked 13th among 14 countries in the Middle East and North Africa region, and its overall score is below the regional and world averages.

U.S. decertification of the JCPOA nuclear deal in 2017 and reimposition of U.S. economic sanctions in 2018 caused inflation to soar and led to rapid currency depreciation. The sanctions will also hamper much-needed investment flows into the country. Powerful interest groups, mostly linked to the security and religious establishments, are opposed to the pursuit of economic liberalization and reengagement with the global economy. Given Iran's excessive reliance on the oil sector, sustainable economic growth will remain a long-term rather than short-term objective.

ECONOMIC FREEDOM SCORE

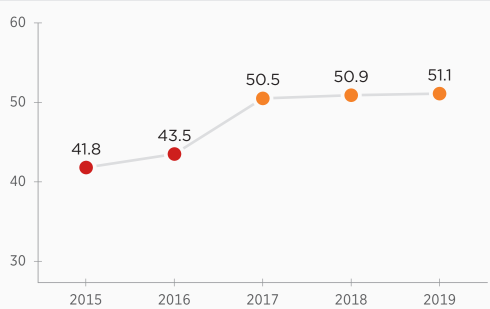


RELATIVE STRENGTHS:
Government Spending and Fiscal Health

HISTORICAL *INDEX* SCORE CHANGE (SINCE 1996):
+15.0

CONCERNS:
Investment Freedom and Financial Freedom

FREEDOM TREND



QUICK FACTS

POPULATION:
81.4 million

GDP (PPP):
$1.6 trillion
4.3% growth in 2017
5-year compound annual growth 3.6%
$20,200 per capita

UNEMPLOYMENT:
12.5%

INFLATION (CPI):
9.9%

FDI INFLOW:
$5.0 billion

PUBLIC DEBT:
40.9% of GDP

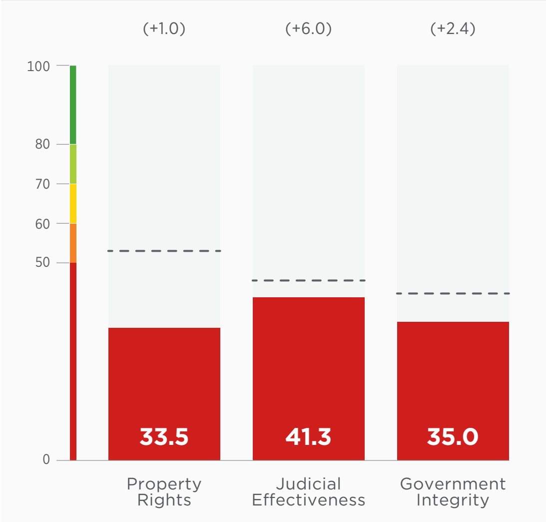
2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Iran's economy, one of the Middle East's most advanced before 1979, has been plagued by mismanagement, international sanctions, and systematic graft. The repressive Islamic government is dominated by Shiite religious authorities. President Hassan Rouhani, reelected in 2017, has reportedly tried to steer a more pragmatic path, but Supreme Leader Ayatollah Ali Khamenei continues to promote radical policies. Iran has the world's second-largest reserves of natural gas and fourth-largest reserves of crude oil. Although the 2015 nuclear agreement briefly allowed Tehran to expand its oil exports, attract greater foreign investment, and increase trade, that economic boost did not help many Iranians. Falling living standards, high unemployment, lack of freedom, and outrage over pervasive corruption have prompted widespread ongoing protests.

– – WORLD AVERAGE | ONE-YEAR SCORE CHANGE IN PARENTHESES

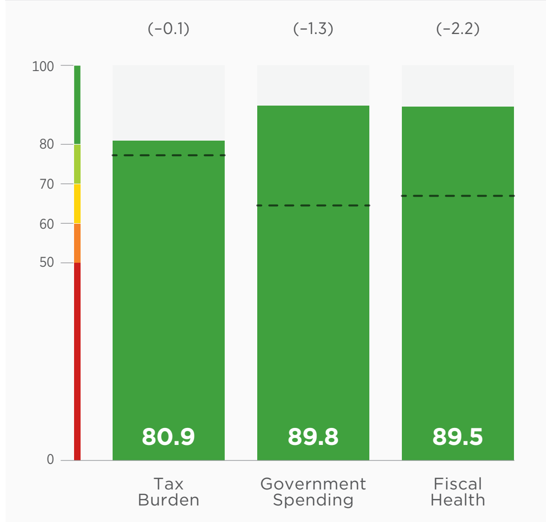
12 ECONOMIC FREEDOMS | IRAN

RULE OF LAW



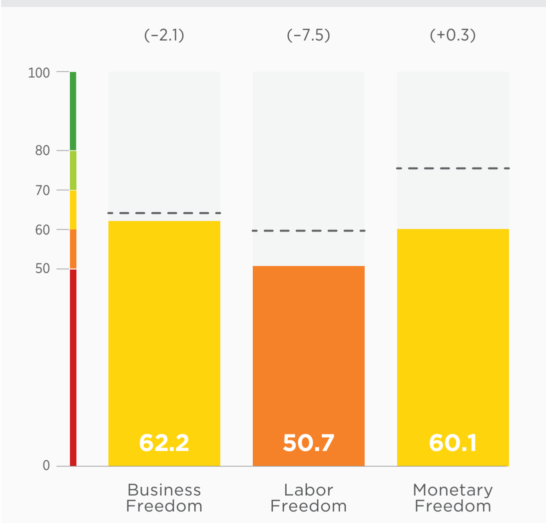
The government has confiscated property belonging to religious minorities. The judicial system is not independent; the supreme leader directly appoints the head of the judiciary, who in turn appoints senior judges. Corruption is pervasive, and the government applies criminal penalties for corruption subjectively, often pursuing religious minorities or political opposition. The government long ago abolished independent financial watchdogs.

GOVERNMENT SIZE



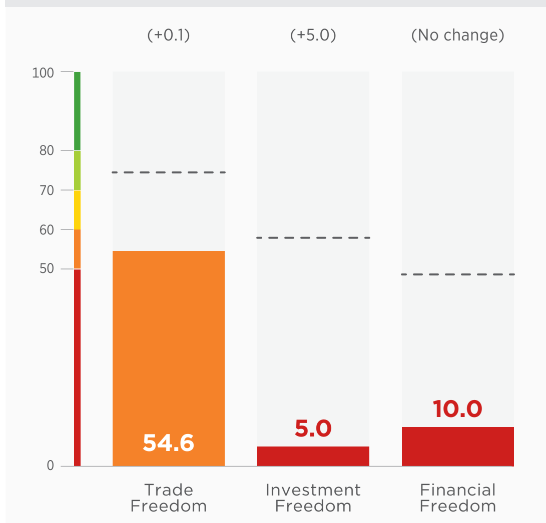
The top personal income tax rate is 35 percent. The top corporate tax rate is 25 percent. All property transfers are subject to a standard tax. The overall tax burden equals 8.0 percent of total domestic income. Over the past three years, government spending has amounted to 18.5 percent of the country's output (GDP), and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 40.9 percent of GDP.

REGULATORY EFFICIENCY



A tight regulatory environment, exacerbated by excessive bureaucracy, continues to impede private investment and production. Labor regulations are restrictive, and the labor market remains stagnant. Iran's government has maintained economically deleterious price controls and applied subsidies since the early years of the Islamic Revolution, although fiscally ruinous fuel subsidies were cut at the end of 2017.

OPEN MARKETS



The combined value of exports and imports is equal to 46.1 percent of GDP. The average applied tariff rate is 15.2 percent. Iran's intrusive state continues to hold back more broadly based economic development, undermining trade and investment flows. Stringent government controls limit access to financing for businesses. State-owned commercial banks and specialized financial institutions account for a majority of banking-sector assets.