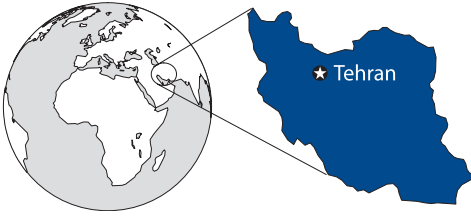
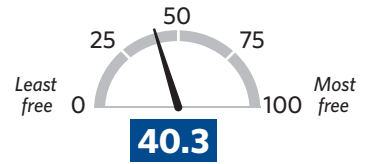


IRAN



World Rank: **173** Regional Rank: **15**

Economic Freedom Score



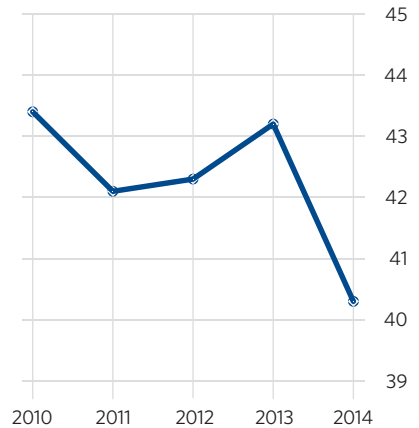
Iran's economic freedom score is 40.3, making its economy the 173rd freest in the 2014 *Index*. Its score has decreased by 2.9 points from last year, reflecting deteriorations in six of the 10 economic freedoms including labor freedom, monetary freedom, trade freedom, and freedom from corruption. Iran is ranked last out of 15 countries in the Middle East/North Africa region, and its overall score is well below the world and regional averages.

Over the 19 years during which Iran has been graded in the *Index*, its economic freedom has advanced by about 4 points. Score improvements have occurred in just three of the 10 economic freedoms, most notably in fiscal freedom and freedom from corruption. A large drop in labor freedom, compounded by deterioration in most measures of market openness, has undermined overall progress and kept the country generally in the ranks of the "repressed" economies rated in the *Index*.

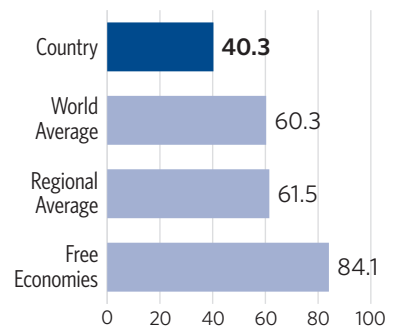
Heavy state interference in many aspects of private economic activity has resulted in economic stagnation in Iran's non-oil sector and a serious lack of overall economic dynamism. A restrictive business and investment environment continues to hamper development of a viable private sector. Private firms, largely marginalized by the burdensome regulatory environment, are further undermined by government inefficiency and mismanagement.

BACKGROUND: Iran had one of the Middle East's most advanced economies before the 1979 Islamic revolution. Today, the economy is in shambles thanks to a policy agenda characterized by large subsidies to favored sectors, a bloated public sector, and high inflation. Corruption is also a serious problem. The effects of sanctions imposed by the U.S. and European Union in 2012 in response to Iran's illicit nuclear weapons program have been devastating. Petroleum exports, which provide about 85 percent of government revenues, declined to about 1.5 million barrels per day in 2012 from about 2.5 million barrels per day in 2011. President Hassan Rowhani, elected in June 2013, faces a difficult task in reviving Iran's faltering economy.

Freedom Trend



Country Comparisons



Quick Facts

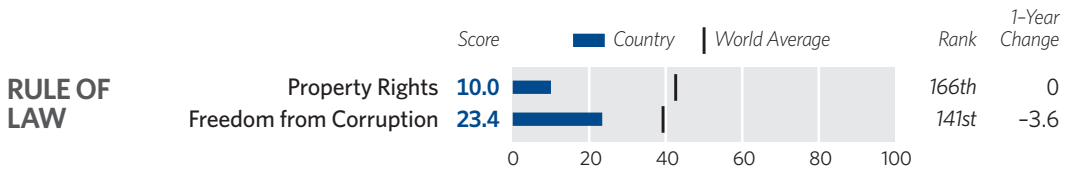
- Population:** 76.1 million
- GDP (PPP):** \$999.2 billion
- 1.9% growth in 2012
- 5-year compound annual growth 2.3%
- \$13,127 per capita
- Unemployment:** 12.5%
- Inflation (CPI):** 30.6%
- FDI Inflow:** \$4.9 billion
- Public Debt:** 10.7% of GDP

2012 data unless otherwise noted.
Data compiled as of September 2013.

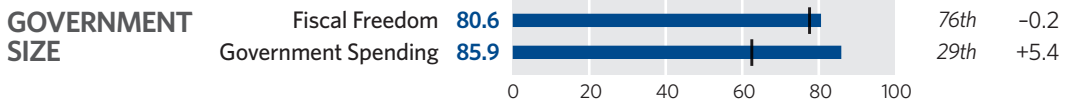
How Do We Measure Economic Freedom?

See page 471 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

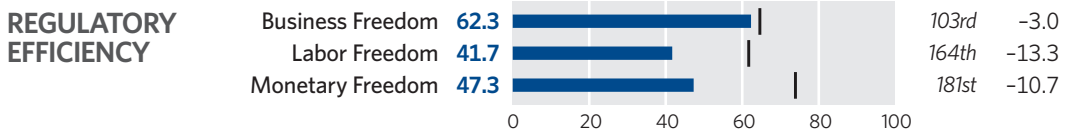
THE TEN ECONOMIC FREEDOMS



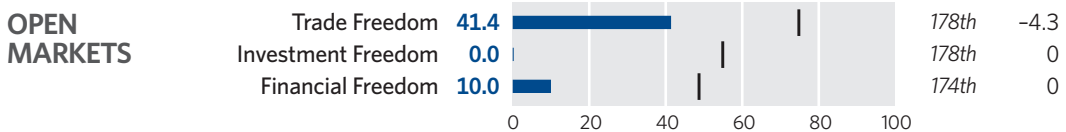
Corruption is pervasive. The hard-line clerical establishment has gained great wealth through control of tax-exempt foundations that dominate many economic sectors. The government long ago abolished independent financial watchdogs. The judicial system is not independent; the supreme leader directly appoints the head of the judiciary, who appoints the senior judges. The government has confiscated property belonging to religious minorities.



The top individual income tax rate is 35 percent, and the top corporate tax rate is 25 percent. A standard tax applies to all property transfers. Other taxes include a value-added tax (VAT). The overall tax burden equals 9.3 percent of GDP. Government expenditures remain around 22 percent of gross domestic output, and public debt has fallen to about 11 percent of GDP. Sanctions on the oil industry continue to put pressure on public finances.



Obtaining operating permits takes more than 300 days and costs over twice the level of annual average income. Labor market rigidity, exacerbated by state interference, continues to discourage dynamic job growth. Tight government controls distort price levels. In 2011, Iran led the world in power and fuel subsidies, spending over \$80 billion to lower consumer prices.



Iran's average tariff rate is a relatively high 21.8 percent. Foreign investment is screened by the government, and there are restrictions on investment in several sectors of the economy. State-owned commercial banks account for a majority of total banking-sector assets, and credit allocation is directed by the government. Capital markets are not fully developed.

Long-Term Score Change (since 1996)

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+39.1	Business Freedom	+7.3	Trade Freedom	-3.6
Freedom from Corruption	+13.4	Government Spending	-6.2	Labor Freedom	-34.7	Investment Freedom	-10.0
				Monetary Freedom	-4.0	Financial Freedom	0