

The EURASIA CENTER

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Iran: Economic Overview



From Centrally Planned Economy to Private Enterprise:

Iran's economy, although enjoying the benefits of one of the world's largest oil reserves and a number of religious and cultural landmarks, has struggled over the past years to cope with the inefficiencies of the state-held enterprises that make up the vast majority of Iran's economy. While many attempts have been made to reform and privatize, a variety of roadblocks remain and the country still has limited private enterprise. Additionally, many different political issues, both international and domestic, have surrounded the country and its policies, leading to a number of economic effects including sanctions.

Economic Indicators:

- Iran's real GDP in 2006 was \$610.4 billion, ranking it as 21st in the world in the power purchasing parity index.¹
- GDP per capita stands at \$8,900 leaving Iran at 93rd in the world overall.²

Table

Year	1975	1980	1985	1990	1995	2000	2002
GDP per capita (PPP-dollar)	2 620	2 620	3 640	3 730	4 900	5 950	6 690

Table from Globalis at United Nations University

http://globalis.gvu.unu.edu/indicator_detail.cfm?IndicatorID=19&Country=IR

- Iranian growth in GDP for the fiscal year was 4.3%, showing healthy economic growth.³
- Inflation and unemployment remains high, standing at 15.8% and 15.0% respectively in 2006.⁴

Economic Structure:

¹ CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/rankorder/2001rank.html>

² CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/geos/ir.html>

³ Economist Intelligence Unit Country Profile – Iran:
<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%20Economic%20Data>

⁴ Economist Intelligence Unit Country Profile – Iran:
<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%20Economic%20Data>

- Iran's economy is heavily based on state-owned enterprises, with roughly 70% of its industries including petroleum, owned and operated by the state.⁵
- The economy is based primarily around oil revenues, accounting for nearly 80% of its exports and more than 25% of its industrial sector revenues.
- GDP by sector:
 - Agriculture – 11.2%
 - Industry – 41.7%
 - Services – 47.1%⁶
- In addition to oil, Iran exports a great deal of related petrochemicals, as well as fruits, fertilizers and carpets.
- While Iran is sanctioned by the United States and several other countries, it continues to enjoy a great deal of trade with many other partners including Japan, China and Germany.⁷

Main destination of exports 2005	% of total	Main origins of imports 2005	% of total
Japan	17.3	Germany	14.2
China	11.4	France	6.2
Italy	6.2	Italy	7.5
South Africa	5.5	China	8.3
South Korea	5.2	UAE	6.7

Chart from EIU Country Profile – Iran

- Investment in Iran in 2006 accounted for approximately 30% of its GDP.⁸

Political Considerations:

- Iran is a theocratic republic, with most authority of government invested in the Supreme Leader, Ali Hoseini Khamenei.
- The major political figure for the day-to-day operations of the government is the president, Mahmud Ahmadinejad.⁹
- Certain oversight and appointment powers including the succession of the Supreme Leader, however, belong to the Three Councils, consisting of the Council of Experts, the Council of Expediency, and the Council of Guardians.¹⁰
- Several contentious political policies of Iran make the economy subject to various shocks as the international community continues to react to these policies, including, to name a few,

⁵ Economist Intelligence Unit Country Profile – Iran:

<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%2DEconomic%20Data>

⁶ CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/geos/ir.html>

⁷ Economist Intelligence Unit Country Profile – Iran:

<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%2DEconomic%20Data>

⁸ CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/geos/ir.html>

⁹ The Presidency of the Islamic Republic of Iran: <http://www.president.ir/en/>

¹⁰ CIA World Factbook: <https://www.cia.gov/cia/publications/factbook/geos/ir.html>

the official policy of denying the holocaust, continued funding for nuclear energy and its refusal to recognize Israel.¹¹

- Corporate tax law in Iran has been rather murky since the current government came into power, and taxes have been inconsistent as a result.¹²

Attractions:

- **Tourism – Religious, Historical and Cultural Significance:**

Iran, formerly known as Persia, has a great deal to offer for cultural and religious enthusiasts. From its ancient roots in the old Persian empire to the many holy sites of Zoroastrianism and Shi'a Islam, Iran is home to many religious and cultural landmarks, accounting for its \$500 million in annual tourism revenues.¹³

- **Natural Resources – Oil:** Whatever other economic factors there may be, ultimately Iran still sits on the Persian Gulf, giving it access to one of the world's greatest oil reserves. Currently Iran is ranked 3rd in the world for proven reserves, with roughly 132.5 billion barrels of oil. Oil prices, though recently higher than normal, can be counted upon as a stable source of income for the Iranian economy.¹⁴



Troubled Spots:

- **Centralized Economy:** Despite many different attempts to reform the economy, resistance among conservative hard-liners in the government has made the process excruciatingly slow and ineffective. As a result, much of Iran's economy is still operated by the central government, resulting in inefficiency and an increasing gap between the rich and poor.¹⁵
- **Reliance on Oil:** Iran's economy relies a great deal on its revenues from oil exports. While this is a great boon for a

¹¹ Global Policy Forum: www.globalpolicy.org

¹² Economist Intelligence Unit Country Profile – Iran:

<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%2DEconomic%20Data>

¹³ Iran Travel Source: <http://www.payvand.com/travel/>

¹⁴ The Pars Times: <http://www.parstimes.com/Ioil.html>

¹⁵ Economist Intelligence Unit Country Profile – Iran:

<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%2DEconomic%20Data>

country with few other natural resources, its continued heavy dependence on oil exports makes the economy vulnerable to shocks from drops in oil prices, and in danger of absolute catastrophe should alternative energy sources ever become practical.¹⁶

- **International Pressure:** In the past several years, Iran has come under increasing pressure due to many of its less-than-popular stance on many different international issues. It remains on the official watch-list of both the United States and the European Union as a state-sponsor of terrorism, it has drawn a great deal of criticism for its denial of the holocaust, and its nuclear energy program has created a great deal of unrest in the Security Council. The resulting international pressure has manifested itself economically in many cases, causing many countries including the United States to sanction Iran.¹⁷

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¹⁶ Economist Intelligence Unit Country Profile – Iran:

<http://www.economist.com/countries/Iran/profile.cfm?folder=Profile%20Economic%20Data>

¹⁷ Global Policy Forum: www.globalpolicy.org