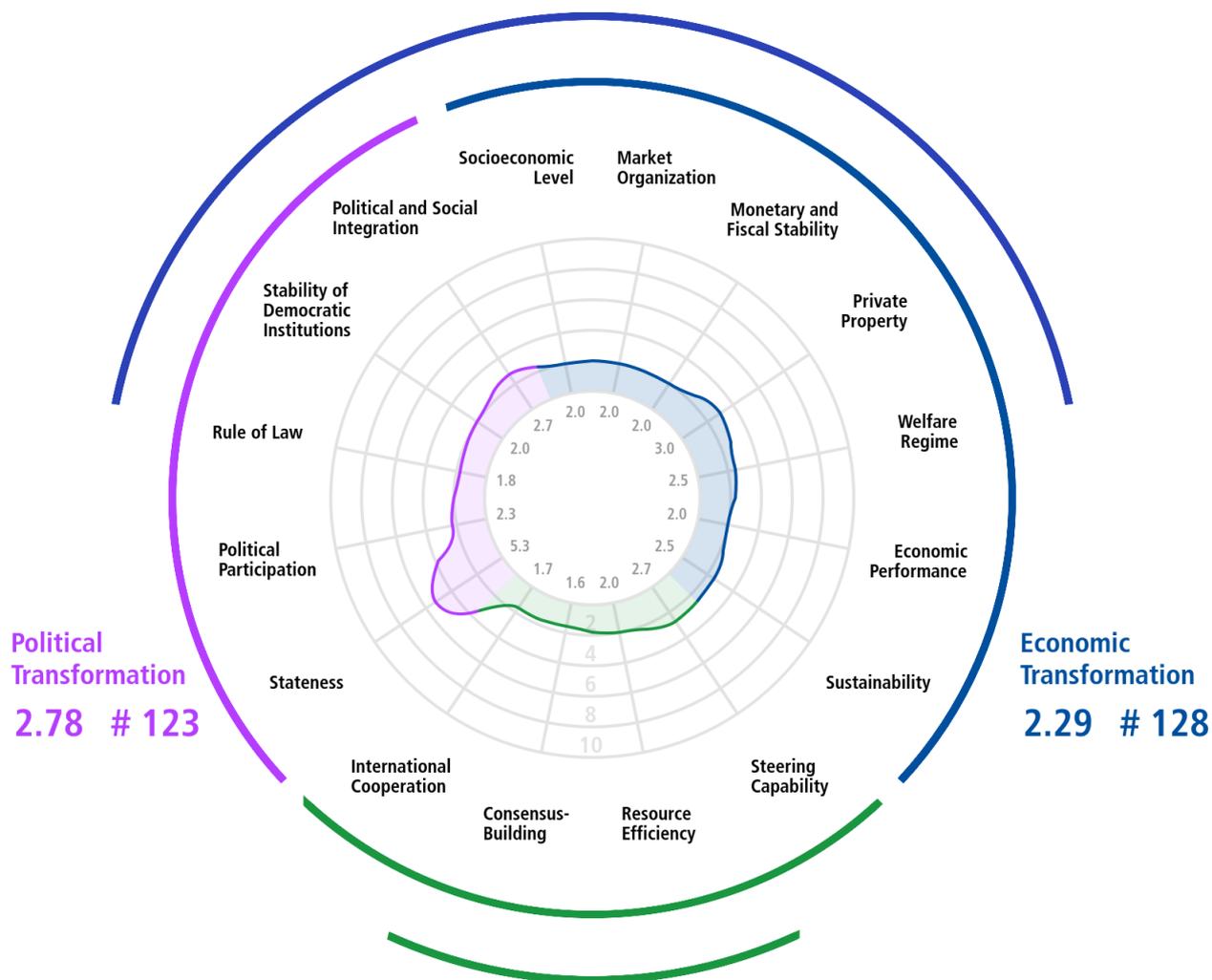


# Iran

## Status Index

**2.53 # 126**

on 1-10 scale out of 137



**Political Transformation**  
**2.78 # 123**

**Economic Transformation**  
**2.29 # 128**

## Governance Index

**1.79 # 131**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>91.6</b>	HDI	<b>0.799</b>	GDP p.c., PPP \$	<b>18442</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 193	<b>75</b>	Gini Index	<b>35.9</b>
Life expectancy	years	<b>77.7</b>	UN Education Index	<b>0.750</b>	Poverty <sup>3</sup>	% <b>3.8</b>
Urban population	%	<b>77.7</b>	Gender inequality <sup>2</sup>	<b>0.482</b>	Aid per capita \$	<b>2.7</b>

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

## Executive Summary

For Iran, the years between 2023 and 2025 were characterized by continued political repression and economic decline, with little prospect for positive change. The nationwide uprising in 2022 gave way to a temporary period of domestic calm, but that came at the cost of increased repression and an intensified crackdown on civil liberties. Despite this, many Iranians remain profoundly dissatisfied with the political and economic status quo, as evidenced by the sporadic protests that have periodically flared up across the country.

Iran's population has endured worsening living conditions. Inflation rates remain extraordinarily high, and the country's economic outlook continues to deteriorate. Poverty has deepened, and the government's ability to alleviate socioeconomic issues has become increasingly constrained. In the winter of 2024/25, widespread energy shortages led to severe blackouts for months, further exacerbating the already dire situation. The government's ability to address these challenges has been stymied by systemic inefficiencies, corruption and an inability to deal with the ongoing budget crisis.

After then-President Ebrahim Raisi died in a helicopter crash in May 2024, snap elections brought Masoud Pezeshkian to the presidency. Nominally a reformist, Pezeshkian wields little influence because his power is constrained by the Islamic Republic's institutional structure and by his lack of an independent political base.

Under his leadership, Iran continues to face political repression, economic decline and widespread public dissatisfaction. Inflation and poverty have worsened, and the severe energy shortages in the winter of 2024/25 deepened economic hardship within the population.

In recent years, the supreme leader, in concert with hard-line factions, has further diminished the already limited role of both the presidency and parliament, consolidating power at the top. His elimination of any meaningful competition between loyalist factions within the Islamic Republic – a key feature of the political system for a long time – has reduced the potential for reform.

This has led to a political deadlock in which protests and dissent continue to simmer, but the regime's firm grip on power and its ability to suppress opposition remain formidable.

Internationally, Iran remains under stringent sanctions, a direct consequence of its ideological hostility toward the West, particularly Israel and the United States. Escalating conflicts have worsened its geopolitical position, particularly because of the collapse of the Bashar Assad regime in Syria and due to direct attacks by Israel. Despite tactical diplomatic efforts, the regime's foreign policy has remained largely unchanged, further deepening Iran's economic isolation.

At the regional level, Iran suffered a significant geopolitical setback with the collapse of the Assad regime in December 2024, which substantially undermined Iran's strategic influence in the Middle East. That year also saw a dramatic escalation in Iran's conflict with Israel, culminating in the first direct attack on Iranian territory by another state since the end of the Iran-Iraq War in 1988. Meanwhile, tensions with Israel and the United States under the Trump administration remained high.

## History and Characteristics of Transformation

The constitution of the Islamic Republic of Iran, established after the 1979 revolution, combines republican and theocratic elements. However, the theocratic elements largely overshadow and undermine the republican principles. The supreme leader, guided by the Islamic principle of guardianship of the jurist (*velayat-e Faqih*), holds a dominant role in governing the state, eclipsing the constitution's republican aspects. The Assembly of Experts, elected directly by the people, is responsible for electing and removing the supreme leader, but candidates must first gain approval from the Guardian Council. This council comprises six clerical members appointed directly by the supreme leader and six jurists confirmed by the Iranian parliament, proposed by a chief justice who is also appointed by the supreme leader.

The Guardian Council ensures that laws passed by parliament align with Islamic law (Shariah) and rules on the eligibility of parliamentary and presidential candidates. Any constitutional amendment requires the approval of the supreme leader, a requirement that consolidates power in his hands and in those of the Guardian Council, without democratic accountability. Consequently, making changes to the constitution is virtually impossible without his consent.

In 1979, the Islamic Republic undertook an economic restructuring aimed at protecting the interests of the poor. This involved centralizing and nationalizing previously private banks and industries and establishing "charitable foundations" to manage investments and distribute resources for the benefit of society. However, this system proved highly vulnerable to corruption.

Despite the economic sanctions the United States imposed in the early 1980s after the U.S. embassy hostage crisis in Tehran, the Iranian economy grew consistently during periods of pragmatism under President Akbar Hashemi Rafsanjani (1989 – 1997) and reform under President Mohammad Khatami (1997 – 2005). This growth was largely driven by revenue from Iran's oil

and gas exports; the country possesses the world's second-largest natural gas reserves after Russia. The revenue from these exports funded 60% of the Iranian budget and represented 80% of the country's overall export revenue. However, despite record-high oil revenues, Iran suffered a severe economic setback during President Mahmoud Ahmadinejad's tenure (2005 – 2013).

In 2009, following manipulated presidential elections, frustrated Iranians took to the streets in mass demonstrations known as the "Green Movement," only to face widespread police brutality and arbitrary arrests.

Under President Ahmadinejad's administration, Iran's foreign policy, especially the acceleration of its nuclear program, was seen as provocative and led to exceptionally severe international sanctions. However, the government managed to quell domestic unrest by using record-high levels of oil income to import consumer goods to meet basic needs.

In 2013, President Hassan Rouhani was elected as a "ray of hope" and successfully negotiated the Joint Comprehensive Plan of Action (JCPOA) with the P5+1 group of nations, which led to initiatives to revive Iran's economy. During this period, high-level trade delegations from the West and other countries visited Iran.

Despite these developments, Iran's military involvement in other countries such as Syria and Yemen, along with missile tests that violated U.N. Security Council Resolution 2231, shifted U.S. policy toward Iran. The Donald Trump administration departed from predecessor Barack Obama's approach, leading to the U.S. withdrawal from the JCPOA in May 2018 and the reimposition of crippling sanctions on Iran, coinciding with a period of low oil prices and rising domestic public discontent with all factions of the regime, including the reformists.

The Rouhani administration's shortcomings contributed to the consolidation of power by the rival conservative camp, which manipulated the 2020 parliamentary and 2021 presidential elections.

Since Ebrahim Raisi assumed the presidency in August 2021, the Islamic Republic has faced the most serious internal and external pressures in decades. Internally, economic decline has led to growing socioeconomic hardship that is affecting a significant portion of society. In combination with unabated authoritarianism and the regime's resistance to meaningful reform in all pertinent areas, economic decline has sparked a sociocultural crisis pitting a relatively young, modernized, secular and globalized society against an octogenarian, patriarchal and exclusively Islamist elite that monopolizes economic and political power. This crisis has fueled the nation's most severe and sustained wave of protests, beginning in mid-September 2022 and involving various social classes and groups.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

Iran maintains a strong, centralized government that exerts power over its multiethnic population, with minimal provincial autonomy. However, tensions persist between the state and ethnic minorities – particularly Ahvazi Arabs, Baluchis and Kurds – leading to occasional violent clashes.

The Islamic Republic relies on multiple security agencies that compete for influence, with the Islamic Revolutionary Guard Corps (IRGC) and affiliated bodies holding the greatest power. Repeated protests (2017 – 2018, 2019, 2022) reflect widespread public dissatisfaction with the Islamic Republic, but harsh repression has to date prevented any meaningful challenge to the state’s monopoly on force. The state’s use of violence varies: Riot police are deployed in central cities, while military units and heavy weaponry are used in minority-populated regions such as Baluchestan and Kurdistan.

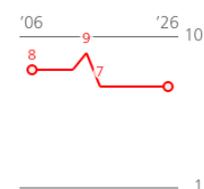
Iran has long maintained its territorial integrity in a volatile region, but that integrity came under pressure in 2024, when Israel launched its first direct military strikes on Iranian soil since the Iran-Iraq War. Together with Hezbollah’s weakening in Lebanon and Bashar Assad’s fall in Syria, these developments have called Iran’s defense doctrine into question, and Tehran is considering the risk of further attacks. Since the Taliban’s return, border clashes with Afghanistan have also taken place, alongside a long-running albeit nonviolent territorial dispute with the United Arab Emirates over three Persian Gulf islands.

Looking ahead, the monopoly of violence could also be challenged by rifts within the IRGC, the uncertain role of the regular army (Artesh) in the event of further mass protests and infiltration of Iran’s security apparatus by the Israeli intelligence service.

Question  
Score

Monopoly on the  
use of force

7



Iran is a multiethnic and multicultural country, with Persians making up roughly two-thirds of the population. Although 99% of Iranians are Muslim, national identity remains a strong unifying factor. Most Iranians accept the nation-state as legitimate and support a broad definition of citizenship that includes various ethnic and religious groups. While secessionist demands are widely rejected, there is some openness to minority rights, particularly regarding language and cultural practices. However, no concrete federal model exists, as both state suppression of the topic and widespread ethnonationalism among the Persian majority discourage discourse on the matter.

The government frequently accuses ethnic minorities, particularly Ahvazi Arabs, Baluchis and Kurds, of foreign-backed separatism and terrorism in order to justify regular crackdowns on them. While these groups primarily seek equal rights and political autonomy within the state, the central government exaggerates separatist tendencies as a means of legitimizing repression and framing public protests as foreign-instigated threats to territorial integrity.

The Islamic Republic justifies its rule on religious grounds, and its republican-inspired institutions remain subordinate to religious oversight bodies. The system is marked by arbitrariness, as the state doctrine of “Guardianship of the Islamic Jurist” (velayat-e faqih) has no roots in Shi’a tradition and was introduced by the leader of the revolution, Ruhollah Khomeini.

Over the decades, the supreme leader at the top of the political system has vastly expanded his power, dismantling the limited checks and balances built into the Islamic Republic’s political system. Today, he exerts control over all branches of the state through a network of religious, state and state-linked institutions. His representatives are embedded in all relevant institutions, from the public administration and security services to the business and education sectors, ensuring his influence at all levels.

Ultimately, religion serves to preserve the regime, with Islamic law interpreted flexibly to maintain power. Vaguely defined religious offenses, such as “corruption on earth” (efsad-e fel arz) and “enmity against God” (moharebeh), are frequently used against political opponents and protesters and carry the death penalty.

Iran’s administrative structure consists of 31 provinces, as well as cities, divisions, municipalities and villages. Governance remains highly centralized under the state government in Tehran. Governors, the government’s senior representatives, report to the president and the cabinet, particularly the interior minister. There is a modest degree of local autonomy, with elected councils responsible for administering each entity and for selecting mayors and administrative body heads at each level. All candidates are vetted for loyalty to the system and the supreme leader.

The state provides basic services, including electricity, natural gas, education and health care. WHO data for 2022 show high rates of access to basic services: 97.7% of Iranian households have access to basic water sources, 94.2% have access to a

#### State identity

8



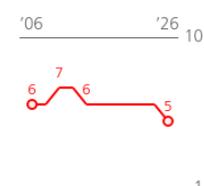
#### No interference of religious dogmas

1



#### Basic administration

5



safely managed water source, and 90.4% have access to at least basic sanitation. Additionally, the International Energy Agency (IEA) reports that in the same year, 100% of the Iranian population had access to electricity.

However, state services and institutions suffer from inefficiency and corruption in addition to the country's deteriorating economic situation. Frequent blackouts, mounting pressure on the water supply, serious air pollution and waste management issues highlight the system's shortcomings.

## 2 | Political Participation

Iran holds regular elections for the presidency, parliament (Majles), the Assembly of Experts and local councils, but none meets democratic standards. Article 99 of the constitution grants the Guardian Council – dominated by hardliners – the power to oversee all elections except for local councils, ensuring candidates' loyalty to the regime.

In the run-up to the 2020 parliamentary election and the 2021 and 2024 presidential elections, the Guardian Council disqualified moderate conservatives and reformists on an unprecedented scale, further shrinking the already narrow space for political competition. The Islamic Republic's limited Islamist pluralism, which has existed since 1979 and has allowed some competition among the regime's loyalists, has been actively eroded in recent years, with hardliners seizing momentum after the moderate camp failed to improve relations with the West following the U.S. withdrawal from the nuclear deal in 2018.

The snap elections of July 2024, following President Ebrahim Raisi's death in a helicopter crash, marked a slight shift. Unlike in 2021, when Raisi faced no real competition, no single candidate had been clearly primed for victory by the supreme leader. Reformist-leaning Masoud Pezeshkian defeated hard-liner Saeed Jalili, whose victory might have led to even more radical policies. However, unlike past reformist presidents Khatami and Rouhani, Pezeshkian lacks his own power base. He has shown no intention of challenging the supreme leader's consolidation of power, and remains extremely loyal to him.

Declining voter turnout rates reflect the diminishing relevance of elections. In the second round of the 2024 presidential election, the turnout rate was 49.7%, similar to the record low of 48.5% in 2021 and far below the 85% turnout in 2009.

Free and fair elections

4

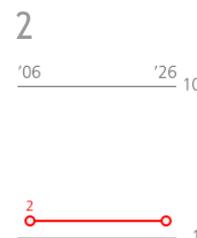
'06 '26 10



1

Iran's Supreme Leader Ali Khamenei holds ultimate authority and has the final say in all decision-making. Traditionally, he has acted as a final arbiter, balancing factions within the Islamic Republic. However, over the years, his role has shifted toward more direct and unilateral decision-making. The historical tension between the supreme leader and the president – in which the supreme leader has always maintained the upper hand but faced some degree of pushback – has largely disappeared. While the Assembly of Experts is nominally tasked with overseeing the supreme leader, it exercises no real control in practice.

Effective power to govern

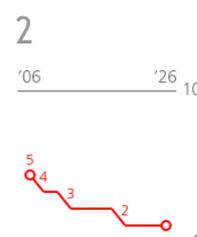


Since the 1979 revolution, republican-inspired institutions – particularly the parliament and government – have remained subordinate to religious oversight bodies such as the Guardian Council and the Expediency Discernment Council. As Khamenei has consolidated power in recent years, republican-inspired institutions have been marginalized further. While the president can introduce policy initiatives, their implementation ultimately depends on approval by institutions controlled by the supreme leader. This reflects the limits of presidential power.

Until the 2020 parliamentary elections, the parliament was a forum for loyalist factions of the Islamic Republic to express dissent, including criticism of the government. With the widespread exclusion of reformist and moderate-leaning candidates from the 2020 and 2024 parliamentary elections, the parliament has largely become an echo chamber for the supreme leader's most hard-line supporters.

The Islamic Republic of Iran's constitution formally grants the right of association and assembly under Articles 26 and 27, provided such activities do not violate Islamic principles. In practice, however, these rights are routinely denied, as the Interior Ministry generally prohibits protests and mass gatherings. Meanwhile, security forces actively promote and protect pro-regime demonstrations.

Association / assembly rights



Despite these restrictions, Iran has a resilient civil society that continues to operate, often clandestinely. Much of this activism is local and focuses on specific communities, allowing limited engagement but hindering broader cross-community or nationwide mobilization. Key areas of activism include women's and human rights, political liberties, workers' rights, and environmental issues. Beyond the effects of direct state repression, civil society faces immense challenges because of Iran's economic crisis. Most activism is voluntary, and many activists lack the financial means to sustain their efforts.

There is somewhat more space for professional associations, such as those representing engineers, lawyers and state-recognized unions. However, these organizations are closely monitored by the state, significantly limiting their ability to push for meaningful political change.

The Islamic Republic's constitution formally grants Iranians freedom of belief (Article 23) and freedom of the press (Article 24). However, freedom of the press is explicitly restricted “when it is detrimental to the fundamental principles of Islam or the rights of the public.”

Moreover, these freedoms exist only on paper. There is no genuine free speech or free press in Iran. While limited Islamist pluralism among regime loyalists has allowed for some restricted discourse, these spaces are highly controlled and have been shrinking over time. The state imposes severe restrictions on the personal freedoms of expression and the press – employing widespread censorship, repression, and limitations on academic and cultural freedoms. Draconian penalties – often resulting from politically motivated and arbitrary court rulings – along with torture and executions create a pervasive climate of fear, further suppressing free expression and independent journalism.

### 3 | Rule of Law

Nominally, the Islamic Republic features a complex political system with republican-inspired elements, including a general separation of powers among the government, parliament and judiciary. In both theory and practice, however, this separation is undermined by religious oversight bodies that are nominally elected but de facto selected based on political criteria.

The supreme leader occupies a central position in this structure. He appoints the head of the judiciary and six of the 12 members of the Guardian Council. The remaining six are appointed by the parliament but must first be vetted by the Guardian Council itself. The Guardian Council, in turn, holds significant power, tasked with approving (or rejecting) all parliamentary bills and vetting candidates for presidential and parliamentary elections. Additionally, the supreme leader appoints all members of the Expediency Discernment Council, a body tasked with resolving disputes between the parliament and the Guardian Council. On paper, this setup already grants the supreme leader extensive powers, effectively nullifying any meaningful separation of powers.

In practice, the supreme leader has increasingly exercised his constitutional powers, particularly through the Guardian Council. He frequently blocks government and parliamentary initiatives and increasingly excludes moderate and reformist candidates from elections, all while steering a politically controlled judiciary.

While some rivalries exist among branches of the state – particularly when a reformist or moderate president faces institutions dominated by hardliners – these tensions do not constitute a genuine separation of powers.

Freedom of expression

1

'06 \_\_\_\_\_ '26 10



Separation of powers

2

'06 \_\_\_\_\_ '26 10



More recent institutions, such as the Supreme Council of Economic Coordination, introduced in 2019, formally bring together the three branches of government under the auspices of the supreme leader, further eroding the remaining independence of state institutions.

The Iranian judiciary is not politically independent. Key positions, including the head of the judiciary, the head of the Supreme Court and the attorney general, are appointed by the supreme leader. As a result, there are no independent judges or courts.

Procedurally, the state regularly interferes in politically charged cases, leading to arbitrary verdicts even beyond the realm of trials involving civil society activists, human rights defenders or protesters.

Torture and forced confessions are widespread, and these practices are not limited to politically motivated cases.

The judiciary serves as a tool used to advance political objectives through the legal system. This includes the application of the death penalty, with large numbers of executions frequently used to intimidate potential protesters or undermine diplomatic engagements with the West. It also facilitates the imprisonment of dual nationals as political bargaining chips – a practice often described as “hostage diplomacy” – and allows for the selective prosecution of corruption cases against political targets. Meanwhile, except for occasional symbolic cases, the judicial system does not investigate abuses by the state’s security forces – particularly involving crackdowns on protesters – or other misconduct by public institutions.

During the assessment period, high-profile cases of arbitrary detention included that of Nobel Peace Prize winner Narges Mohammadi, who faced several charges carrying the penalty of prison sentences, including the most recent one in 2024 for “propaganda against the state.”

In non-political cases, there is a greater degree of due process. However, corruption and political connections regularly interfere with legal proceedings.

Corruption and violations of the law are widespread in Iran. Occasionally, cases labeled as being motivated by reasons of “anti-corruption” are pursued against well-known political or business figures. However, these cases are typically politically motivated, using legal proceedings as a tool to weaken political opponents, a practice common in authoritarian states worldwide.

Meanwhile, the politically controlled judiciary makes no genuine effort to hold state officials or state-linked individuals accountable for misconduct. Worse, many individuals and organizations affiliated with the IRGC or one of the so-called foundations (bonyads) operate with complete impunity. These entities effectively function as a state within the state, with no accountability except to the supreme leader.

Independent judiciary

2

'06 \_\_\_\_\_ '26 10



Prosecution of office abuse

2

'06 \_\_\_\_\_ '26 10



The Islamic Republic systematically violates civil rights, both in law and in practice. It imposes an extreme interpretation of Islamic law, including strict dress codes. Alleged violations lead to draconian punishments. The regime denies citizens fundamental freedoms, including the freedoms of assembly, expression and peaceful dissent.

Following the country-wide uprisings in 2022, the regime doubled down on its repression of the population. In this context, the expanded use of public surveillance through cameras and mobile phone tracking stands out.

Women face structural discrimination, including in legal matters such as the provision of legal testimony, marriage and custody laws. Male guardians – typically fathers or husbands – have the authority to restrict a woman’s ability to work or travel. There is no legal protection against marital rape or domestic violence, and women are barred from certain professions, such as serving as judges.

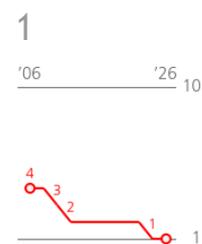
Ethnic and religious minorities face systemic discrimination and often experience even harsher state repression. The regime also actively discriminates against LGBTQI+ individuals.

Iran’s security forces and judiciary regularly engage in physical and psychological torture, including rape. The regime routinely resorts to violence to suppress nationwide protests – as seen in 2017/18, 2019 and 2022.

There is effectively no legal avenue enabling citizens to seek justice. Human rights violators not only enjoy impunity, but are often even encouraged by the political leadership.

On a per capita basis, no country executes more people than Iran. In absolute numbers, it ranks second only to China. In 2024, Iran executed at least 975 people, according to the Norway-based Iran Human Rights (IHR) organization and the France-based Together Against the Death Penalty (ECPM).

#### Civil rights

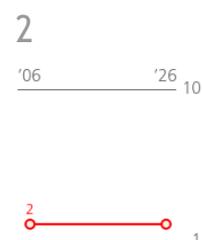


#### 4 | Stability of Democratic Institutions

All republican-inspired institutions in Iran are subject to religious and political oversight by bodies controlled by the supreme leader, who has increasingly interfered in the political process.

Iran’s political landscape has shifted in recent years, as the most radical factions have consolidated power and eliminated what was once a modest degree of Islamist pluralism among regime loyalists. Since 2020, the Guardian Council has systematically sidelined moderate and reformist-leaning political forces by barring their candidates from parliamentary and presidential elections.

#### Performance of democratic institutions



The rise of Masoud Pezeshkian to the presidency – despite his reformist background – does not alter this broader trajectory. Unlike predecessors such as Mohammad Khatami (1997 – 2005) or Hassan Rouhani (2013 – 2021), Pezeshkian lacks both an independent political power base and the will to challenge the supreme leader.

Khatami and Rouhani made limited attempts to reform the political system and/or the country’s policy environment, but ultimately failed because of the supreme leader’s opposition.

There are numerous state and state-linked institutions in the Islamic Republic. Although factionalism and political infighting within the political class are intense, a combination of ideological conviction and cronyism – in varying degrees – serves as a unifying force tying the elite to the system.

In this context, the IRGC, which operates largely beyond the effective control of the state, holds a position of particular power, accumulating both military might and economic influence through its business conglomerates. Hypothetically, this could enable the IRGC to stage a coup d’état, particularly if the existing state – of which it remains a part – were to risk losing its monopoly on violence during large-scale protests. However, the IRGC remains largely loyal to the supreme leader and the system of the Islamic Republic (nezam), benefiting from a status quo that grants it key positions and economic privileges while allowing it to shift responsibility onto the central government.

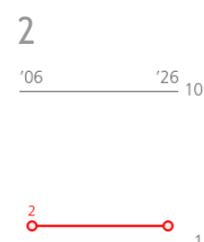
There appears to be a growing disconnect between the state and large segments of the population, as reflected in nationwide protests in 2017/18, 2019 and 2022. In this context, the state’s denial of the freedoms of assembly and protest, combined with brutal crackdowns on demonstrators, has fueled a shift from political discontent to outright opposition to the Islamic Republic itself.

## 5 | Political and Social Integration

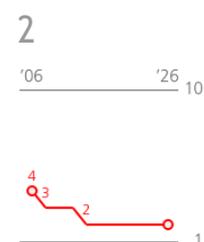
While political parties and formations exist in Iran, they are not central to the political process. They do not function as mechanisms to shape political will, incorporate popular demands, implement policies, control the government or recruit political personnel. Instead, politics in the Islamic Republic is conducted through interpersonal networks among regime elites, which can at times be somewhat fluid.

In any case, only parties loyal to the Islamic Republic’s system are permitted to operate. To some extent, they reflect the Islamist factions that took part in the revolution, but this does not constitute genuine pluralism. Moreover, the funding and administrative structures of parties or factions are typically opaque, lacking transparency and public accountability.

Commitment to democratic institutions



Party system



There are numerous state-sanctioned professional associations, trade unions, student groups and other such entities in Iran. However, to function as political organizations, they must operate within the narrow confines permitted by the state. While they can, to a limited extent, articulate the demands of their constituencies, they are in no position to meaningfully challenge the status quo. Activists or unionists who step beyond these constraints typically face harsh repression – as reflected in the death sentences handed down to various activists (labor, ethnic minority rights, etc.) during the assessment period.

If mediation between the state and interest groups occurs at all, it typically takes place through opaque interpersonal channels rather than through institutionalized dialogue. As the economic situation has worsened, the regime has had fewer financial resources with which to address public grievances – previously a tool for managing discontent – and increasingly relies on repression alone.

The Islamic Republic faces an enormous legitimacy crisis, which is the result both of brutal repression and a failure to meet the basic needs of the population. By shutting down all avenues for change within the system, however limited, and by eliminating what little Islamist pluralism remained through the late 2010s, the regime has fueled growing public discontent with the system per se. Among growing segments of the population, political grievances have escalated into fundamental opposition and calls to overthrow the Islamic Republic itself.

At the local level, various forms of self-organization emerge through civil society activism and volunteer work. These efforts largely stem from local communities or extended family ties. This factor limits their expansion into broader contexts.

Rhetorically, especially in the wake of the 2022 protests, there has been a growing commitment to cross-country solidarity among affected communities, particularly among ethnic and religious minorities. However, this has yet to translate into meaningful cross-community action.

Decades of pre- and post-revolution authoritarianism have instilled a deep sense of mistrust among Iranians both inside and outside the country. Today, through harsh repression and its information policy (i.e., its propaganda apparatus), the regime actively undermines the formation of any meaningful self-organization at the societal level and seeks to deepen mistrust within the population.

#### Interest groups

2



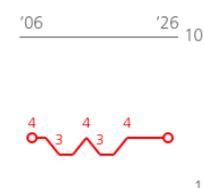
#### Approval of democracy

n/a



#### Social capital

4



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Iran faces rising levels of poverty and inequality. After two decades of relative economic prosperity in the 1990s and 2000s, the middle class has begun to shrink substantially due to a combination of gross domestic mismanagement and international sanctions. Economic misery was either the initial cause of country-wide mass protests (2017 – 2018, 2019) or an important underlying factor compounding general dissatisfaction (2022).

The Iranian population suffers severely from high rates of inflation, which exceeded 40% in 2023, according to the World Bank. For years, prices for essential goods including food, clothing and housing have risen sharply. Inflation affects not only traditionally low-income households but also increasingly large segments of the former middle class, as reflected in the rising poverty rate.

According to a November 2023 report by the World Bank, based on data collected by the Iranian government, the share of Iranians living below the internationally recognized poverty line of \$6.85 per person per day in 2017 (on a purchasing power parity basis) had risen from 20.0% to 28.1%. This reflected an additional 9.5 million Iranians falling into poverty. This development corresponded with a steep decline in real wages across the economy.

Given the ongoing high rates of inflation, it can be assumed that the trend of Iranians falling below the poverty line has continued. Anecdotal evidence supports this assumption. In January 2025, the reformist-leaning newspaper Aftab estimated that some 50% of the population lives below a poverty threshold of \$450 per month.

Long-standing spatial divides between rural and urban areas have intensified, with the rural poverty rate rising faster than its counterpart in urban areas. These effects are compounded by climate change, as water scarcity affects rural regions – whose economies depend on agriculture – much more severely. Moreover, there is a strong correlation between poverty and regions that are home to significant populations of ethnic minorities, especially Baluchis in the southeast and Kurds in the northwest.

Across the country, profound gender disparities leave women at much greater risk of poverty due to lower wages, a higher unemployment risk and other systemic barriers.

On the United Nations' Human Development Index, Iran was ranked at 78th place in 2022, reflecting the country's achievements in education while revealing the difficulties of translating these achievements into meaningful economic gains for all Iranians.

Question  
Score

Socioeconomic  
barriers

2

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Economic indicators		2021	2022	2023	2024
GDP	\$ M	383436.2	394362.6	404625.7	<b>436906.3</b>
GDP growth	%	4.7	3.8	5.0	<b>3.0</b>
Inflation (CPI)	%	43.4	43.5	44.6	<b>32.5</b>
Unemployment	%	9.3	9.1	9.0	<b>9.2</b>
Foreign direct investment	% of GDP	0.4	0.4	0.4	<b>0.3</b>
Export growth	%	5.2	8.2	17.1	<b>6.1</b>
Import growth	%	24.1	7.5	3.0	<b>-1.1</b>
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	39.9	34.5	29.6	<b>34.0</b>
External debt	\$ M	10348.9	9460.0	9900.9	-
Total debt service	\$ M	344.3	176.2	360.7	-
Net lending/borrowing	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	14.2	12.7	12.9	<b>12.9</b>
Public education spending	% of GDP	-	2.7	2.8	-
Public health spending	% of GDP	3.2	2.6	-	-
R&D expenditure	% of GDP	0.7	-	-	-
Military expenditure	% of GDP	2.2	2.1	2.1	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

The constitution of the Islamic Republic prioritizes the “provision of basic necessities for all citizens,” along with job creation (Article 43). It identifies three sectors – state, cooperative and private – and calls for “systematic and sound planning” by the state (Article 44). It also states that “public wealth and property,” including natural resources, should be “at the disposal of the Islamic government” (Article 45). Despite this state-centric framework, the constitution explicitly encourages the right to engage in business and labor as well as private ownership (Articles 46 and 47).

Market organization

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In practice, the state interferes in the economy in multiple ways, including massive subsidies, control of exchange rates and investment policies. The state directly controls key sectors, including the energy and petrochemicals fields that remain the backbone of the economy. Additionally, a plethora of state-owned companies and state-linked entities – such as foundations and businesses affiliated with the IRGC – as well as nominally private enterprises run by regime elites dominates economic life in Iran.

In the 1990s, after the Iran-Iraq War, the centrist-leaning government under Ali Akbar Hashemi Rafsanjani opened the economy to the IRGC, seeking both to leverage its wartime expertise for the purposes of reconstruction and to secure its political support for reintegrating Iran into the global economy. In the 2000s, under President Mahmoud Ahmadinejad, the IRGC was awarded various state contracts, further strengthening its economic role. Finally, the sanctions that forced Western and international businesses to exit Iran provided another boost to the IRGC and its business conglomerates.

Over the decades, Iran has undergone multiple waves of privatization that have primarily benefited state-linked entities, including the IRGC. International sanctions have further empowered state-affiliated actors that control the clandestine export of oil, the repatriation of oil revenue and smuggling routes for sanctions-evading trade. These actors oppose changes to the status quo, and have thus acted to obstruct diplomatic efforts and meaningful economic reforms.

As a result, private businesses in Iran face substantial entry and exit barriers. Iran has also failed to adopt modern international business regulations, in part because sanctions have isolated it from the global economy. The combination of domestic mismanagement, inadequate legislation and far-reaching U.S. sanctions has created extreme barriers to foreign investment and ownership. Moreover, economic opportunities are highly politicized, with access often determined by political alignments rather than market principles.

Iran's Competition Council was established to promote competition and prevent monopolies. It has broad powers, including unlimited time to initiate reviews, and it nominally operates independently. Its 15 members, appointed by the president, oversee investigations into anti-competitive conduct. Iran's 2007 Privatization Act prohibits practices like exclusive dealing and price discrimination across most sectors, and covers government entities. The Council levies fines and orders remedies but lacks transparency. Iran also has a voluntary, non-suspensory merger control regime under which companies are not required to provide notifications when engaged in such transactions. While extreme market concentration is formally prohibited, the criteria for other restrictions remain unclear. Information on public enforcement activities is scarce, with only one known case in 2022, when the Council ordered an online discounter merger to be unwound.

Competition policy

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In practice, the Council's impact is close to zero. State-linked entities – especially those controlled by the supreme leader, including IRGC-affiliated businesses and religious foundations – regularly escape scrutiny. These institutions enjoy numerous privileges, such as tax exemptions, the ability to avoid paying taxes without consequences, and exclusive access to lucrative government contracts. This reflects the broader problem of rampant nepotism, which puts genuinely private companies without political connections at a severe disadvantage.

Iran faces significant trade barriers because of a combination of domestic regulations, market distortions and international sanctions.

The country imposes relatively high tariffs on many imported goods to protect local industries. According to the latest available World Bank data for 2020, Iran's simple average tariff rate was 15.2% – significantly higher than key trading partners such as Türkiye, China and Russia.

Beyond tariffs, complex and opaque customs regulations – along with bureaucratic hurdles, inflation and currency volatility – create further uncertainty for Iran's trading partners.

Externally, sanctions have severely affected Iran's foreign trade. U.S. secondary sanctions, which target Iran's trade with foreign countries, have had particularly harmful effects. Although the Iranian government has stopped publishing trade data amid sanctions, figures from the initial years after the reimposition of U.S. sanctions show a steep decline in annual trade volumes, from \$60.7 billion in 2018 to \$21 billion in 2020.

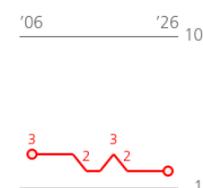
Iran's banking sector is also severely underdeveloped, with weak institutions and inadequate regulation. A key example is Iran's blacklisting by the Financial Action Task Force (FATF) over the issue of money-laundering. U.S. sanctions further compound these challenges, restricting interactions with most Iranian banks and disconnecting the country from the SWIFT network.

Iran's banking system and capital market are constrained by structural weaknesses, international sanctions and frequent government intervention. State-owned banks dominate the sector, while private banks play only a marginal role. Iran struggles with high levels of non-performing loans, extreme inflation rates and politically driven or potentially corrupt lending. The Central Bank of Iran (CBI) regulates the system, but enforcement of international banking standards such as Basel III remains limited.

The Financial Action Task Force (FATF) has placed Iran on its blacklist, and has repeatedly urged the country's banking system to comply with global standards against money-laundering and terrorist financing. Iran also remains disconnected from the SWIFT network, further isolating its financial sector.

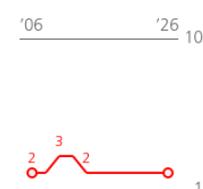
Liberalization of foreign trade

2



Banking system

2



International sanctions exacerbate these challenges by restricting access to global financial networks, limiting foreign investment and preventing Iran from participating in international banking forums. This isolation undermines Iran's ability to adopt modern financial regulations.

The Tehran Stock Exchange (TSE) and Iran Fara Bourse (IFB), the country's main financial trading platforms, have grown somewhat but remain highly volatile and subject to government interference. State-owned and state-linked businesses distort competition and undermine transparency, further weakening investor confidence.

## 8 | Monetary and fiscal stability

The Central Bank of Iran (CBI) is responsible for monetary stabilization, a task that is severely hindered by structural weaknesses and external pressures.

Most critically, the CBI lacks independence and faces constant government interference. To ease immediate economic pressures, the state frequently expands the money supply – a short-term fix that fuels inflation. In 2023, the consumer price inflation rate stood at 44.6% (after rates of 43.5% and 43.4% respectively in 2022 and 2021). This represents a marked increase over the 18.4% average during the previous decade (IMF data).

Given Iran's volatile socioeconomic climate – marked by nationwide protests in recent years – policymakers have avoided difficult but necessary long-term reforms.

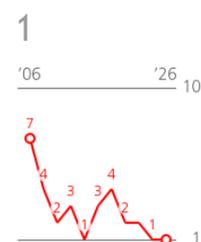
To counter chronic inflation and the persistent depreciation of the rial, the CBI routinely imposes currency controls and manages multiple exchange rates, often via subsidies. However, these systems primarily benefit regime insiders, who exploit arbitrage opportunities for personal gain rather than in pursuit of economic stability. In 2023, the country's real effective exchange rate stood at 476.8 (100 = 2010), representing an almost threefold increase since 2020 (167.3; World Bank data).

U.S. sanctions further exacerbate these challenges by restricting Iran's international banking ties and, crucially, blocking access to key foreign currency reserves.

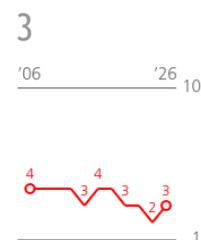
Fiscal stability has been a priority for various Iranian governments, but is rarely achieved in practice. Despite regulations meant to prevent such actions, authorities have repeatedly drawn on the National Development Fund, originally intended to support long-term investments, to cover budget shortfalls.

Chronic deficits remain a hallmark of Iran's fiscal policy. No budget in recent years has been balanced. For 2024, the International Monetary Fund (IMF) projected Iran's fiscal deficit to be -3.1% of GDP. Government budgets often rely on overly optimistic assumptions about GDP growth, oil prices and tax revenues, with these projections often being more a product of political considerations than of realistic economic forecasting.

### Monetary stability



### Fiscal stability



Persistent deficits have led to a steady rise in the public debt, albeit with fluctuations. Total gross government debt was 34% of GDP in 2023, an improvement from 42.4% in 2021. However, this improved fiscal situation is largely a result of increased oil export revenue (amid weaker enforcement of sanctions by the United States).

Although Iran has reduced its dependence on oil revenue to some extent, sanctions and ongoing fiscal shortfalls mean that government funding is critically dependent on oil exports. This reliance results in an exceptionally high break-even oil price, which the IMF estimates at \$122 per barrel.

## 9 | Private Property

While Iran's constitution formally protects private ownership, the state-controlled judiciary in practice frequently violates property rights, targeting political dissidents and ethnic and religious minorities. Given the judiciary's lack of independence, affected individuals and entities have little or no ability to appeal judgments.

Iran's regulatory framework for property ownership and transactions is opaque and inconsistent. There is no stable legal environment. Private individuals can own land and businesses, but bureaucratic hurdles, corruption and arbitrary enforcement of regulations create significant uncertainty, favoring those with political connections.

Foreign ownership is heavily restricted, and foreign investors typically rely on partnerships with regime insiders, further entrenching economic favoritism.

Iran's constitution guarantees the protection of private property and of private actors in the economy. In practice, however, the private sector faces profound challenges.

State and state-linked enterprises benefit from informal preferential access to government contracts, financing and tax exemptions. Private companies therefore operate in a highly distorted competitive environment.

Politically connected firms also withstand economic crises much better, while the private sector receives little protection from extreme inflation or other economic shocks. Corruption and clientelism are widespread, further disadvantaging private businesses.

Regulatory uncertainty and arbitrary policy implementation, often influenced by political alignments, create an unpredictable business environment. Legal protections are unreliable, and there are no effective means to challenge state actions.

The most lucrative sectors – energy, petrochemicals and heavy industry – are dominated by state-controlled and state-linked enterprises, which act as gatekeepers and severely constrain private sector growth.

### Property rights

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### Private enterprise

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Since the 1990s, Iran has engaged in numerous attempted privatization campaigns. Instead of creating a level playing field, these efforts have primarily benefited state-linked enterprises, particularly those affiliated with the IRGC. As a result, the influence of state-linked entities has expanded, to the detriment of both the private sector and the state, as these enterprises largely escape public scrutiny.

## 10 | Welfare Regime

Iran's constitution guarantees social security as a "universal human right" (Article 29). The system is meant to address retirement, unemployment, disability and health care, but in practice faces severe challenges.

The Social Security Organization (SSO), which is situated under the Ministry of Cooperatives, Labor and Social Welfare, administers most welfare programs. It is funded by contributions from the insured, employers and the state. Anecdotal evidence suggests SSO coverage reaches about 70% of the urban population and 45% of the total population, including dependents. Various public and private organizations also operate independent pension funds.

Iran has an extensive public health care system, complemented by private hospitals, clinics and voluntary health care work. An estimated 90% of the population has health insurance, provided mainly by SSO and the Iran Health Insurance Organization (IHIO). However, health care costs are rising, and particularly in the case of medications are often not adequately covered, leaving many unable to afford essential treatments.

Beyond conventional social safety measures, the state intervenes through subsidies and cash handouts. Since 1979, essential goods such as bread, water, electricity and fuel have been heavily subsidized. Attempts to reform these subsidies, which have been criticized for their high cost and disproportionate benefits for wealthier consumers, have triggered nationwide protests. To offset subsidy reductions, the government has introduced income-dependent cash handouts, which also aim to mitigate the effects of inflation.

Iran's broader economic crisis is straining the welfare system. Inflationary pressures are driving up pension and health care costs, while rising poverty is increasing demand for social support. Demographic shifts, including an aging population, are further adding to financial pressures.

Political mismanagement is exacerbating these problems. For example, the government often taps the pension funds to cover budget deficits, which leads to delayed pension payments and protests by retirees. Iran's pension fund system is already in crisis today, with pensioners often facing delays in the payment of their pensions. This has led to various protests.

Social safety nets

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Social security funds often struggle to meet their obligations, which contributes to a decline in living standards for pensioners and low-income households.

As a result, Iran's social protection system is insufficient to address the needs generated by poverty, health care requirements and unemployment. Coverage gaps leave vulnerable groups without reliable assistance, while financial constraints limit the state's ability to implement meaningful reforms. Without structural changes, the system is likely to deteriorate further, fanning social discontent.

Iran has a deeply entrenched system of discrimination in which legal structures and societal norms shape access to education, employment and political representation based on gender, religion, ethnicity, political beliefs and sexual orientation.

Despite constitutional provisions that claim to guarantee equal rights, those rights are conditional on "conformity with Islamic criteria" (Article 20) – a vague and arbitrarily interpreted standard that enables systematic discrimination.

Women face extensive legal and social restrictions. While the constitution calls for the protection of women's rights (Article 21), Iran's Islamic legal framework imposes strict limitations – compulsory dress codes, gender segregation in public spaces, and restrictions on personal and reproductive freedoms. The Female-to-male enrollment levels are approximately equal across all three educational levels (with a ratio of 1.1 at the primary education level, even slightly in favor of girls). However, in 2022, a lower share of women (84.9%) were literate than was true of men (93.0%), with an overall literacy rate of 89.0%. Gross enrollment rates were 104.5% (primary), 87.1% (secondary) and 60.7% (tertiary education).

Women make up only 16.5% of Iran's workforce (2024 World Bank data). They are also starkly under-represented in leadership positions, and face structural barriers to education and employment. Proposed legislation, such as the "hijab law," seeks to further tighten control. Harsher punishments for dress code violations include imprisonment and even the death penalty.

Religious discrimination is widespread. Iran does not grant freedom of religion, and Muslims are forbidden to change or abandon their faith. Religious minorities, including Baha'is, Christians, Sunni Muslims, Dervishes and Jews, are systematically excluded from high-ranking positions and face daily discrimination. This includes arbitrary arrests, business closures and restrictions on worship. Baha'is, in particular, experience severe persecution. State-run screening mechanisms institutionalize systematic discrimination across the board.

Ethnic minorities such as Azeris, Kurds, Arabs and Baluchis are often marginalized, facing restrictions on cultural rights, limits on language use and unequal access to resources. Many report land confiscation, forced displacement and arbitrary arrests. Ethnic minorities are also disproportionately affected by the death penalty.

Equal opportunity

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LGBTQ+ individuals face severe repression. Homosexuality is criminalized and may be punishable by death. Social stigma and legal persecution force many into hiding. Transgender individuals also encounter significant barriers to accessing health care, legal recognition and social acceptance.

Non-nationals, particularly Afghan migrants, face structural discrimination. They have limited access to public services such as health care and education. Many are barred from legal employment, which pushes them into informal labor markets where they are often exploited without legal protections.

Beyond the issue of state-driven discrimination, societal norms further entrench exclusionary practices. For example, deep-seated prejudices against women, religious minorities and marginalized communities contribute to everyday discrimination in social and professional life. In recent years, these discriminatory policies and attitudes have hardened, and equal opportunity in Iran has become increasingly less a reality.

## 11 | Economic Performance

After contracting due to the United States' withdrawal from the nuclear deal, as well as the effects of the COVID-19 pandemic, Iran's economy has experienced relatively strong growth. From 2021 to 2023, GDP expanded by an average of 4.5% per year, and was projected to grow by 3.7% in 2024. Non-oil GDP grew at a slower pace, averaging 3.7% growth in the same period, and was forecast to grow by 3.6% in 2024. By contrast, the oil sector expanded rapidly, averaging 11.6% growth in the period from 2021 to 2023, but was expected to slow to a rate of 3.1% in 2024 (IMF data). Per capita GDP growth was 4.2% in 2023, and the officially reported unemployment rate was 9.1% (though in reality, it was likely substantially higher).

Overall, these figures highlight the continued dominance of the hydrocarbon sector in Iran's economy. Despite some progress with regard to diversification, oil remains central not only as a key source of export revenue but also as a provider of energy and feedstock for other industries.

At the same time, the Iranian economy – and particularly its people – continues to struggle with extremely high rates of inflation. From 2021 to 2023, the inflation rate averaged 42.2% and was projected to be 31.7% in 2024 (IMF data).

Foreign direct investment remains negligible, projected at 0% of GDP throughout the decade (World Bank data). This reflects the far-reaching impact of sanctions as well as Iran's weak legal framework, which, compounded by corruption and nepotism, deters investment.

Output strength



## 12 | Sustainability

Iran has set ambitious environmental targets, but they stand in stark contrast to the realities on the ground.

Under its Intended Nationally Determined Contribution (INDC) to the 2015 Paris Agreement, Iran pledged to cut greenhouse gas emissions by at least 4% – and as much as 12% – by 2030. By 2050, it aims to reach a point of net-zero emissions, with an intermediate goal of a 50% cut by 2035. Reducing energy waste, improving efficiency and expanding the use of renewable energy are seen as the key mechanisms for achieving this.

In practice, however, Iran has yet to ratify its INDC under domestic law, citing international sanctions as justification for this lack of implementation.

Environmental policies face multiple obstacles. The hydrocarbon sector remains the backbone of the economy, generating crucial export revenues and also sustaining broader economic activity. Strong commercial interests tied to the state and state-linked businesses further hinder reform, because these actors are unwilling to relinquish their privileged, highly profitable positions.

Regulatory challenges also play a role. Fossil fuel subsidies remain extensive and politically sensitive, leading to massive overconsumption. There are no legal incentives that promote energy efficiency or the development of renewable energy sources, and Iran lacks a skilled workforce in these sectors. Moreover, sanctions severely limit access to advanced energy-efficient and renewable technologies.

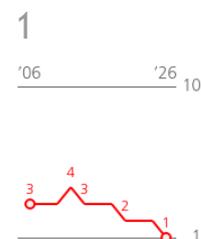
Mismanagement among various responsible government ministries and bodies further hinders climate action.

At the same time, Iran faces mounting environmental crises. Air pollution, desertification, biodiversity loss, droughts, water shortages and sandstorms are all becoming increasingly severe. Climate change is exacerbating these challenges, as rising temperatures and their adverse consequences put additional pressure on the country.

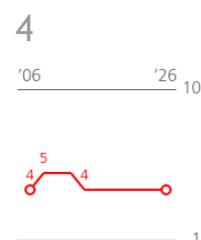
By regional standards, Iran has a comprehensive education system. It covers basic, secondary and tertiary education levels, and is complemented by various R&D facilities.

Key indicators of the system's performance include an adult literacy rate of 89% in 2022 and school enrollment rates of 104% at the level of primary education (2020), 87% at the secondary level (2020) and 61% at the tertiary level (2022). Government spending on education amounted to 2.9% of GDP in 2023 – a significant figure, though a decline from its 4.7% peak in 2007 (all data from the World Bank).

Environmental policy



Education policy / R&D



Despite these achievements, about 11% of Iranian adults, or about 9.8 million people, remain illiterate. Elderly and rural populations fall disproportionately within this category.

Judged by regional standards, Iran's research and development system produces robust output in STEM fields, while government interference and societal norms force the arts and social sciences to underperform.

However, educational progress has not translated into broader economic benefits. Anecdotal evidence suggests that a growing number of university graduates are either unemployed or are working in jobs below their qualifications. Their dissatisfaction has contributed to nationwide protests in 2017/18, 2019 and 2022.

Another indication of this disconnect is Iran's significant brain drain. A 2020 Stanford University study found that one-third of Iranian and Iranian-origin researchers work abroad.

## Governance

### I. Level of Difficulty

Iran faces various challenges outside its immediate control. In many cases, however, it is difficult to draw a clear line between the impact of external factors and the state's role in exacerbating these issues. On nearly all fronts, government actions have deepened these challenges and worsened the situation.

On the issue of the climate, Iran is experiencing extreme temperatures, droughts, water scarcity, soil erosion and biodiversity loss. The country is also highly earthquake-prone. The most severe impacts are in the areas of agriculture and food security, forcing Iran to import more agricultural products and reducing employment opportunities for low-skilled workers, given the sector's labor-intensive nature.

Ongoing instability in Afghanistan and to a lesser extent in Pakistan presents further challenges. Iran hosts more than 2.5 million registered Afghan migrants, adding pressure on public services and labor markets.

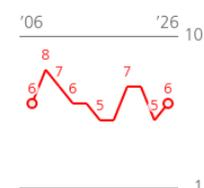
With regard to demography, Iran's young and growing population requires significant public spending on education and health care. However, because of the struggling economy, the expanding youth labor force cannot be adequately absorbed into the job market, which increases unemployment and pressure on public spending.

Geopolitical tensions are further weighing on Iran's economy, particularly by deterring much-needed foreign direct investment. U.S. secondary sanctions have had a stronger impact than general geopolitical tensions. In this context, the decimation of Tehran's ally Hezbollah in Lebanon and the fall of its sole longtime state ally, the Bashar Assad regime in Syria, have worsened the security outlook for the Islamic Republic. The prospect of a further escalation of tensions with Israel weighs on the country's stability.

Despite decades of repression both before and after the revolution, Iran has a long history of civil society activism. Although always operating under state pressure, civil society activism gained momentum in the 1990s and early 2000s and, to a lesser extent, during the Rouhani presidency (2013 – 2021). Reformist-leaning factions within the Islamic Republic sought to enhance its legitimacy by fostering a more open public sphere, allowing limited space for civic engagement. However, the security apparatus has consistently viewed civil society with suspicion, leading to crackdowns. Since the late 2010s, repression has intensified, resulting in the closure of many NGOs and high-profile court cases against activists.

Structural constraints

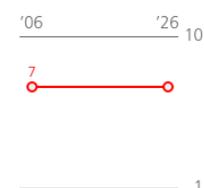
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Civil society traditions

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Civil society activism in Iran spans a broad range of areas, including environmental protection, social justice, legal reform, labor rights, student movements, professional organizations, ethnic minority rights and women's rights. Activists working on issues of LGBTQ+ or internet freedom must operate clandestinely, while others must at least partially operate in hiding due to state repression.

Activism in Iran often occurs at the local level within small communities. Widespread mistrust and government crackdowns have prevented the emergence of truly independent nationwide movements. Most civil society efforts remain voluntary, with few professionalized organizations.

The economic crisis has further weakened activism as individuals, increasingly preoccupied with their own financial survival, have fewer resources for civic engagement.

Iran faces deep societal cleavages that threaten its stability.

Politically, the Islamic Republic is characterized by intense competition within its political class. Since the revolution, opposition outside this narrow spectrum has been met with harsh repression – a trend that has intensified in recent years, widening the gap between the regime and large segments of society. The state's widespread human rights abuses have further deepened this divide.

Ethnic and religious discrimination is another major fault line, with groups such as Baha'is, Christians, Baluchis and Kurds being particularly affected. While some efforts exist within Iranian society to bridge these divides, many in the Persian majority engage in discriminatory practices.

Socioeconomic disparities and gender discrimination exacerbate instability.

As part of its broader strategy of control, the regime not only tolerates these divisions, but also actively exploits and aggravates them as a means of maintaining its grip on power. The regime regularly responds to social protests with great violence. After the crackdown on the 2022 uprising, tensions have declined somewhat, but the possibility of further protests and violence remains strong.

Conflict intensity

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## II. Governance Performance

### 14 | Steering Capability

The Iranian government prioritizes regime survival, shaping its politics and policies accordingly. As a result, it often fails to meet the objectives laid out in key strategy documents.

Policy planning draws on communist and socialist models, reflecting the integration of leftist ideas into Islamist thought after the 1979 revolution. It occurs primarily through five-year development plans, which set the government's priorities and objectives. For example, the current five-year development plan, adopted in 2023, aims to reduce government debt and promote economic growth by strengthening the National Development Fund.

The five-year development plans are drafted by the Plan and Budget Organization (PBO), an institution situated under the presidency that also prepares the annual government budget, which is intended, in theory, to be a yearly reflection of the medium-term plans.

In practice, successive Iranian governments have consistently failed to meet these development goals. The plans outline broad trajectories rather than detailed action plans, and policymaking is often reactive, shaped by immediate challenges and intense political infighting. Additionally, the government's limited power further weakens policy implementation because the supreme leader and other bodies frequently intervene in decision-making.

The Iranian state's capacity to implement policies is severely constrained.

Institutionally, a persistent power struggle remains ongoing between the government and other entities controlled by the supreme leader. This significantly limits the government's room to maneuver. The supreme leader also seeks to avoid responsibility for unpopular reforms, shifting the burden to the government while at the same time restricting the government's ability to act.

Additionally, various state and state-linked institutions operate outside government oversight, further weakening executive authority.

Moreover, international sanctions have created powerful interest groups within the state that profit from maintaining the status quo (e.g., by controlling clandestine oil exports, smuggling routes and other shadow economies), and thereby resist reforms. Widespread corruption and clientelism further erode policy effectiveness. In Iran's state institutions, political loyalty often outweighs technocratic expertise.

Question  
Score

Prioritization

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Implementation

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As a result, Iran struggles to implement structural reforms in key areas such as subsidies, foreign trade and financial policy. As such, the government has failed to realize key objectives under the current five-year development plan. It has neither meaningfully reduced government debt nor stopped tapping into the National Development Fund to fund its government budget.

Theoretically, Iran has a robust institutional framework designed to evaluate and advance policies. The Statistical Center tracks a broad range of economic, societal and political indicators, while the parliament's research service produces scientific reports on relevant issues. Additionally, various government ministries and institutions typically have affiliated think tanks or research institutes. This setup, in principle, should enable the incorporation of both internal and external expert opinions into policymaking.

In practice, however, policy learning is severely hampered by the politicization of academic and scientific endeavors, persistent political infighting, and the influence of entrenched interests within Iran's political class. Furthermore, because of ongoing sanctions and the state's confrontational policies, Iran is under-represented in relevant international forums for expert exchanges, which exacerbates the problem.

As a result, a significant gap exists between Iran's policies and global best practices. Although reliable information is scarce, Iran has expanded international exchanges with other authoritarian regimes to share "best practices" for consolidating power, including instruments and strategies aimed at maintaining authoritarian rule.

## 15 | Resource Efficiency

Iran's public administration is heavily influenced by political considerations, a fact that significantly affects its efficiency and effectiveness. Government appointments are often based on loyalty to the regime rather than qualifications. As a result, incoming governments typically make far-reaching personnel changes, prioritizing political loyalty over expertise. This dynamic has led many highly qualified individuals, particularly university graduates, to seek employment abroad or in the private sector because opportunities within the state apparatus are often limited.

The allocation of government funds is similarly politicized, with resources often distributed on the basis of political patronage. State-linked enterprises, particularly those associated with the Islamic Revolutionary Guard Corps (IRGC) and various foundations, frequently receive government contracts because of their political connections. More troubling, these entities often operate with little or no oversight, evading regulatory and tax-authority scrutiny. This lack of accountability further perpetuates inefficiency and corruption within the public administration.

### Policy learning

3

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### Efficient use of assets

3

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Despite some degree of autonomy at the local level, Iran remains a highly centralized state. The central government maintains substantial control over political and economic affairs, especially in regions with significant ethnic minority populations such as Baluchestan and Kurdistan. In these areas, dominance by the central state limits local governments' ability to address the unique needs of these communities, exacerbating marginalization and inequality.

In addition, there is frequent overlap between the responsibilities of government bodies, leading to competition and undermining the effectiveness of public administration. This fragmentation often produces inefficiency and confusion, as institutions may pursue conflicting agendas or fail to coordinate with one another. As a result, Iran's governance structure lacks coherence and responsiveness, further complicating efforts to implement meaningful reforms or meet the population's needs.

The coordination of government policies in Iran faces significant institutional and political challenges. Although the state has a wide array of institutions designed to facilitate consensus and align policies, the process often lacks coherence and structure in practice. Notable among these institutions is the Expediency Discernment Council, which is tasked with bridging gaps between the parliament and the Guardian Council, as well as with ensuring that policies and laws align with the principles of the Islamic Republic. In addition, various government ministries have coordination groups and frameworks intended to align their policies, which should theoretically streamline the decision-making process.

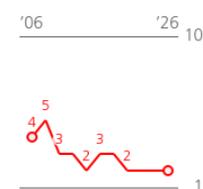
However, the reality of policy coordination in Iran is far from seamless. In practice, the process is often ad hoc, highly personalized and dependent on the individuals involved, their political networks and their relative influence within the system. This results in a policy environment in which decisions are not made systematically or strategically, but instead fluctuate depending on the various participants' political clout.

Institutionally, there is a deliberate lack of clear delineation of responsibilities among the various bodies involved in policymaking. This ambiguity means that duties overlap, thus contributing to inefficiencies, delays and, at times, conflicting policy outcomes. Ministries, commissions and state-linked organizations may compete or fail to coordinate effectively, undermining the overall impact and implementation of policies.

Compounding this issue is the frequent interference by the supreme leader. He and his office hold significant sway over the policy process through their representatives in all relevant public bodies. This creates a duality in which various governments have pursued policies that clash with the ideological priorities or personal interests of the supreme leader and his associated networks. Such tensions contribute to a fragmented policy landscape, in which the lack of alignment and coordination further weakens the state's ability to address policy challenges effectively.

Policy  
coordination

2



Iran's institutional mechanisms to combat corruption are weak and largely ineffective.

The Supreme Audit Court (SAC), which reports to parliament and is officially tasked with overseeing state spending, has extremely limited powers in practice. It regularly fails to investigate the financial activities of the Islamic Revolutionary Guards or of religious-political foundations (bonyads), which control significant portions of the economy. These entities operate with minimal oversight and often escape scrutiny, further entrenching corruption within the system.

Beyond shortcomings in auditing, regulations that require elected officeholders and senior government officials to disclose their finances exist only on paper and are rarely enforced. No systematic mechanism exists to track or verify assets, allowing political elites to amass wealth with impunity.

High-profile corruption cases are often politically motivated and used to discredit or sideline rival factions, rather than being pursued as part of a genuine effort to enforce transparency. Journalists and civil society actors who investigate corruption among the political elite face severe repression, including arrest and harassment, which limits public accountability.

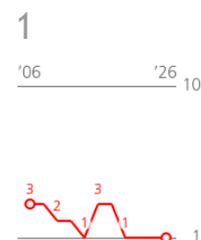
In addition, instead of fostering a competitive private sector, successive rounds of privatization have primarily benefited politically connected individuals. Rather than transferring state-owned assets to independent private owners, these processes have transferred many enterprises to insiders linked to the ruling elite through corrupt practices, cronyism and nepotism. This has further concentrated economic power in the hands of the political establishment, reinforcing the close ties between wealth and political influence in Iran.

## 16 | Consensus-Building

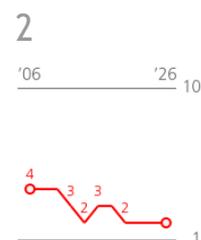
Since the early 2020s, Iran's hardliners have consolidated power in anticipation of the eventual succession to Supreme Leader Khamenei. The sudden death in 2024 of President Raisi, who was poised to become the next supreme leader, disrupted these plans, leading to the election of the nominally reformist Masoud Pezeshkian as Raisi's successor. However, his influence remains limited, as the current supreme leader and hard-line establishment continue to dominate key institutions and are unwilling to cede power. With no clear successor to Khamenei in place, the political system remains in paralysis. A return to the earlier model of controlled but nevertheless genuine competition among the loyalists of the regime – an Islamist pluralism – appears highly unlikely in the foreseeable future.

Iran's hard-line establishment, which rules the country, opposes market-based reforms because it dominates the commanding heights of the economy through the Revolutionary Guards and the religious-political foundations. These entities resist

Anti-corruption policy



Consensus on goals



competition from private and international players. Hardliners also benefit from sanctions, as they profit from smuggling networks, control clandestine oil exports and repatriate oil revenue. The absence of foreign businesses in the domestic market further entrenches their economic influence, reducing incentives for meaningful reform.

Reformers face insurmountable obstacles from unelected institutions controlled by the supreme leader – in particular the Guardian Council, the Expediency Discernment Council and the judiciary – that all heavily interfere in the political process. They exclude candidates (an established practice, applied in even more extreme ways since 2020) and block legislative and executive initiatives, rendering meaningful democratic reform nearly impossible.

The Islamic Republic strategically exploits societal divisions through a divide-and-rule approach. It actively promotes gender discrimination, exacerbating the struggle for women's rights and equality while reinforcing traditional gender roles. Ethnic and religious discrimination remain pervasive, with the regime further entrenching divisions, particularly against minorities such as Kurds, Baluchis and Baha'is. Socially, the regime uses welfare policies to reward its supporters, securing their loyalty and reinforcing existing power structures.

A notable example of even further growth in gender-based discrimination is the Hijab and Chastity Law, adopted by the parliament in December 2024. While as of the time of writing, its implementation had been halted (but not ended) by the government in order to avoid escalating social tensions, the law provides for far-reaching measures to enforce the Islamic dress code for women. In addition to more extensive surveillance, the law includes punitive measures such as detention and travel bans.

At the macro level, the government has achieved limited success in fostering nation-building based on a blend of Islamist and nationalist ideologies. These narratives strengthen the central authority of the Islamic Republic, helping the regime to consolidate its power and maintain control.

The political elite rarely engages with independent civil society groups. When such interaction does take place, it typically involves regime-aligned organizations. While the government occasionally seeks advice from select experts and academics, this engagement is not an inclusive process. On less politically sensitive issues, their input is considered to varying degrees.

Despite occasional protests and acts of civil disobedience, government crackdowns on civil society remain a significant barrier to meaningful public consultation. Political dissidents, human rights activists, journalists and religious minorities continue to face persecution, imprisonment and censorship. During the review period, penalties included lengthy prison terms and death sentences.

Anti-democratic actors

2

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Cleavage / conflict management

2

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Public consultation

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In recent years, the government has also intensified efforts to control the internet and social media platforms, further restricting freedom of expression and access to information. After the 2022 protests, the government increased the intensity of public surveillance, using cameras, cellphone tracking and artificial intelligence tools.

The regime does not seek to effect reconciliation between victims and perpetrators of past injustices. Political repression remains a key feature of governance in the Islamic Republic, with no effort to reconcile or question the regime's actions.

To varying degrees, members of the Islamic Republic's political elite occasionally mention crimes committed by other elite members, typically rivals. To some extent, this keeps public memory of certain injustices alive – although it does not amount to reconciliation.

In the aftermath of the 2022 Woman, Life, Freedom protests, the regime has actively tried to portray protesters as criminals or foreign agents, seeking to delegitimize their demands and suppress future protests through harsh court rulings and repression rather than make an effort at reconciliation.

Civil society in Iran plays an important role in documenting state crimes and advocating for victims. However, the government typically responds with repression rather than support, further hindering prospects for healing or accountability.

## 17 | International Cooperation

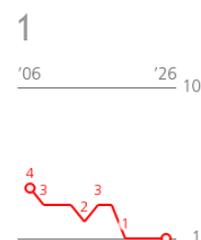
The Islamic Republic's political class has long held diverse geopolitical preferences. Reformists and moderates have tended to favor closer ties with the West, while hardliners have prioritized relationships with non-Western powers, particularly China and Russia. In the 2010s, Iran sought to improve relations with the West and to cooperate across various sectors, including the economy. However, sanctions hindered these efforts and shaped Iran's foreign policy.

The U.S. withdrawal from the nuclear deal in 2018 marginalized reformists and moderates, paving the way for the "Look to the East" policy. Today, with hardliners consolidating power, this orientation faces little opposition within the government despite ongoing concerns about its practical benefits.

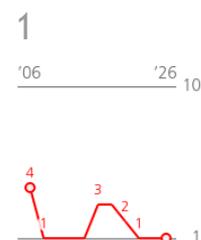
In effect, the "Look to the East" approach prioritizes the consolidation of authoritarian rule over economic development. While trade cooperation has grown, the primary focus remains on military and security matters, including diplomacy, internet control, surveillance and related sectors.

In this context, Iran signed two noteworthy treaties: a 25-year Cooperation Program with China in 2021 and a Treaty on Comprehensive Strategic Partnership with Russia in January 2025. While specific commitments under these treaties remain vague, they symbolize Tehran's growing ties with Beijing and Moscow.

### Reconciliation



### Effective use of support



While Iran is neither a credible nor a reliable partner for the international community, it retains the capacity for tactical cooperation on specific issues. However, Iran remains largely at odds with the institutions of the rules-based multilateral system. This is evident in Tehran's dismal human rights record, which reflects a disregard for international human rights conventions; its blacklisting by the Financial Action Task Force (FATF); and its aggressive foreign policy, particularly in the Middle East (Iraq, Lebanon, Syria, Yemen).

Efforts by the moderate-leaning faction under President Rouhani to improve relations with the international community – culminating in the 2015 nuclear deal – collapsed after the United States unilaterally withdrew in 2018, despite Iranian compliance. This move sidelined reformist and moderate factions in Tehran and paved the way for the rise of the most extreme political factions, which now seek to reduce Western influence and challenge what they perceive as the Western-led multilateral order.

Tactically, Iran maintains the capacity to enter diplomatic agreements, as evidenced by its 2023 rapprochement with Saudi Arabia, its geopolitical rival.

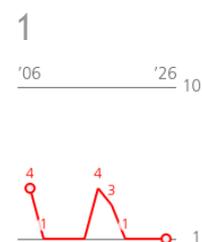
Iran also seeks active participation in “non-Western” multilateral institutions such as the BRICS+ group of states, the Eurasian Economic Union and the Shanghai Cooperation Organization (SCO). These efforts complement Iran's long-standing involvement in organizations such as the Organization of Islamic Cooperation (OIC), the Economic Cooperation Organization (ECO) and the Non-Aligned Movement (NAM). Iran uses these platforms to evade Western efforts to isolate it while also undermining the rules-based multilateral order.

At best, the Islamic Republic engages selectively with international norms when it suits the government's interests. The regime's profound disregard for established, truly multilateral international institutions remains evident.

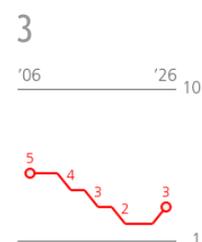
As a legacy of Iran's zeal to export its revolution, Iran has historically had uneasy relations with most of its neighbors, who remain wary of Tehran's intentions. While Iran no longer actively seeks to export its revolution, its regional strategy of “forward defense” effectively amounts to a pursuit of regional hegemony. Through a broad network of militias supported to varying degrees by Tehran, Iran interferes in countries across the region, most notably Iraq, Lebanon, Yemen and Syria (until December 2024).

Iran's regional relations are characterized by pragmatic elements, particularly with the South Caucasus (especially Armenia), Central Asia, Afghanistan and Pakistan. In the cases of Türkiye and the UAE, Iran has compartmentalized its relations, cooperating on areas of mutual interest while managing tensions. Moreover, since the beginning of the decade, Tehran has prioritized good-neighborly relations, culminating in a rapprochement with its longtime rival Saudi Arabia in 2023.

### Credibility



### Regional cooperation



Despite these efforts, most countries in the region remain wary of Tehran's intentions. They have tested the waters for pragmatic cooperation while continuing to fear Iran's long-standing pursuit of regional hegemony.

Finally, the Islamic Republic maintains an existential-ideological animosity toward Israel that nearly brought the two countries to the brink of a larger war in 2024.

## Strategic Outlook

Under current circumstances, Iran's future looks bleak. The Islamic Republic is failing to reconcile most Iranians to its political system and leadership. As its legitimacy declines, the regime is increasingly relying on brute force to maintain control. Eliminating even limited competition among loyalist factions has further restricted avenues for citizens to express grievances. This makes new protests and violent crackdowns a persistent possibility. Meanwhile, entrenched clientelism continues to block meaningful reform across a broad range of policy challenges. Without a sustainable resolution of tensions with the United States that leads to lasting sanctions relief, Iran's economy will continue to operate below its potential, worsening socioeconomic pain.

Beyond these systemic barriers, Iran faces a number of policy challenges that require urgent attention, as noted below.

**Improving the rule of law:** A legal system marked by political interference and a lack of judicial independence undermines both governance and economic stability. Strengthening the rule of law would require judicial reforms that enhance transparency, ensure due process and curb arbitrary prosecutions. This would not only restore a degree of public trust, but also improve the business climate by providing greater legal certainty for domestic and foreign investors.

**Reducing dependence on oil revenues:** While Iran has made some progress in diversifying its economy, oil exports remain the government's financial backbone. Expanding the role of non-oil sectors will require policy measures that encourage innovation, improve infrastructure and facilitate international trade despite ongoing restrictions.

**Economic reform and private sector development:** Sustainable growth depends on empowering the private sector. This requires reforming Iran's financial system to meet international standards, improving access to credit for small and medium-size enterprises and enhancing vocational training to align the workforce with labor market demands. A state-of-the-art regulatory environment is also essential in order to attract foreign investment.

**Tackling corruption and increasing transparency:** Strengthening anti-corruption institutions, enforcing accountability and promoting transparency in public procurement processes are all essential in order to create a more productive economic system.

**Reducing discrimination:** Addressing gender, ethnic and religious discrimination is not only a moral imperative but also an economic necessity. With an aging population, Iran cannot afford to exclude women and marginalized communities from the workforce. Policies aimed at increasing labor force participation among women and ensuring equal opportunities would contribute to economic resilience.

Enhancing climate action: Environmental challenges, particularly water scarcity and desertification, pose existential threats to Iran's future. The government must prioritize sustainable water management, invest in renewable energy and implement climate adaptation strategies. Strengthening environmental regulations and promoting international cooperation will play a critical role in mitigating long-term risks.

Overall, Iran must narrow the widening gap between its current practices and international best practices. After years of economic isolation and destructive authoritarian rule, meaningful progress will require addressing domestic governance failures and external economic constraints alike. Without a strategic shift, the country risks further instability and economic stagnation, deepening the divide between the state and its people.