IRAN, ISLAMIC REPUBLIC

Table 1	2023
Population, million	89.2
GDP, current US$ billion	478.4
GDP per capita, current US$	5364.7
Upper middle-income poverty rate ($6.85)[a]	21.9
Gini index[a]	34.8
School enrollment, primary (% gross)[b]	104.5
Life expectancy at birth, years[b]	74.6
Total GHG emissions (mtCO2e)	991.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2022).

Economic growth is moderating after the rebound in the oil sector in 2023, but recent growth in the non-oil sector has reduced unemployment to a record low and tighter monetary policy has aided a deceleration in inflation. The outlook remains subject to significant risks, including a potential expansion of the conflict in the Middle East, global oil demand weakening, and the impact of climate change.

Key conditions and challenges

Iran's economy is on track to grow for the fifth consecutive year, buoyed by the recovery in the oil sector and the positive spillover to the rest of the economy. However, oil GDP growth has started to slow in 2024/25 (the Iranian calendar year ending March 20) with easing global demand. Despite a recent acceleration, non-oil growth also remains constrained in the medium term due to economic sanctions and consecutive years of stagnating capital stock. The labor market is recovering, but challenges persist, with only 37.9 percent of the working-age population employed and just 12.1 percent of women in the workforce in 2023/24. A gradually aging population and human capital flight pose additional constraints to economic growth and fiscal stability.

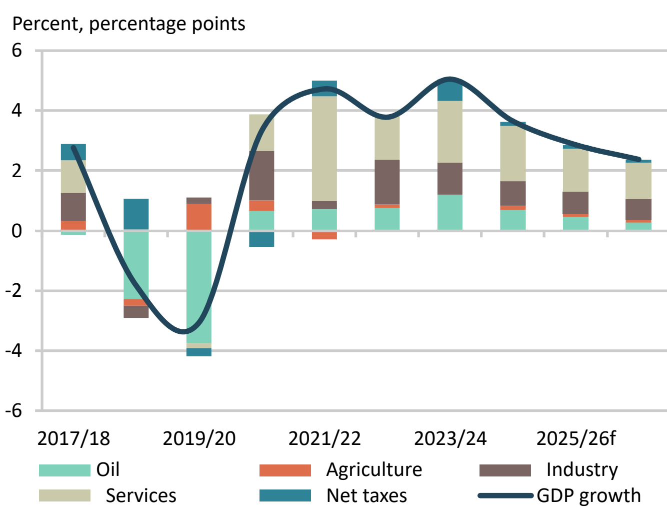
Discretionary fiscal policy, including via cash transfers, has supported vulnerable households and a consumption-led growth but has also added to the budget deficit and exacerbated inflation and procyclical fiscal policy. These fiscal pressures have prompted plans for a contractionary budget in 2024/25.

A comprehensive and well-sequenced package of reforms is needed to put the economy on a more sustainable path. Reforms need to prioritize the urgent challenge of energy and water shortages through a combination of demand and supply management such as upgrading to energy-efficient machinery and transportation vehicles, reducing electricity loss in the distribution network, water-efficient irrigation, and transition to a more resilient crop mix. Energy and water price rationalization, complemented by adequate social protection measures would also help reduce wasteful consumption and moderate the growing supply-demand mismatch. Reducing the structural fiscal deficit through rightsizing and improved targeting of transfers can help reverse the inflationary cycle and free up fiscal space for pro-growth expenditures. In the medium term, structural reforms aimed at improving the business environment by minimizing price interventions and other market distortions can help foster private sector growth, incentivize investment, and create jobs.

Recent developments

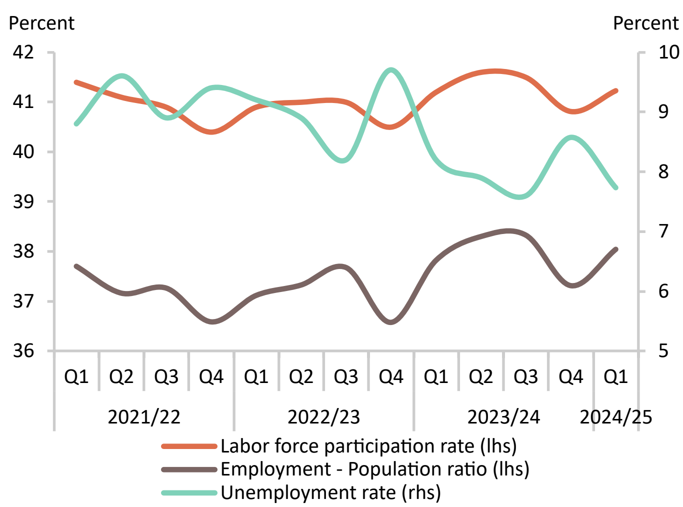
In 2023/24, GDP growth accelerated to 5 percent, driven by the oil sector and services. Oil GDP surged by 14.7 percent due to tighter global oil markets and improved crude oil export volumes, partly facilitated through price discounts. The non-oil sector grew by 3.6 percent, led by services. Economic activity has continued upward in 2024/25 with employment increasing by 1.8 percent in Q1-24/25 (April-June) year-over-year (Y-o-Y). While employment growth helped reduce unemployment to 7.7 percent, more jobs are needed to boost labor force participation, which remained low at 41.2 percent, with only 14.3 percent of working age women participating in the workforce.

FIGURE 1 Islamic Republic of Iran / Real GDP growth and supply-side contributions to real GDP growth



Sources: Central Bank of Iran and World Bank staff calculations.

FIGURE 2 Islamic Republic of Iran / Selected labor market indicators



Sources: Statistical Center of Iran and World Bank staff calculations.

Inflation decelerated in the first five months of 2024/25 (5M-24/25) with headline and core inflation reaching 31.6 percent and 34.7 percent (Y-o-Y) in August 2024, respectively, down by 23.9 and 12.2 percentage points from the recent peak in April 2023. Price pressures eased due to lower global commodity prices, moderating inflationary expectations, and tighter monetary policy, including restrictions on the growth in banks' balance sheets, stricter reserve requirements for riskier banks, and higher interbank interest rates.

Government finances in 2023/24 were constrained as oil revenues fell short of planned targets. Despite the realization of planned tax revenues, the budget deficit increased by 0.6 percentage points (Y-o-Y) to an estimated 3.4 percent of GDP. This deficit was further exacerbated by significant off-budget expenditures, including cash transfers from the Targeted Subsidies Program. The 2024/25 budget law adopts a more prudent fiscal stance with restrained expenditure growth and conservative revenue projections. As budget expenditures are expected to grow by 21 percent in nominal terms, which is below the anticipated inflation rate, this seems to signal contractionary policy.

Lower export prices and rising imports led to an almost halving of the current account surplus to US$6.3 billion or 1.6 percent of GDP in 9M-23/24. External account pressures were further exacerbated by a capital account deficit of US$15.3 billion, marking the seventh consecutive year of net capital outflows. Trade dynamics improved in 5M-24/25 (April-August 2024), with non-oil exports and imports growing by 10 percent and 5.5 percent (Y-o-Y), respectively, leading to a 13 percent reduction in the non-oil trade deficit.

Outlook

GDP growth is projected to moderate in the medium term. Growth in 2024/25 is expected to ease due to tighter fiscal and monetary policy and the transitory effect of the oil-based rebound in 2023/24, influenced by global demand slowdown. Non-oil growth is forecast to be constrained by ongoing sanctions, energy shortages, and economic uncertainty. Extreme weather events and water scarcity will impact the agriculture sector, disproportionately affecting the poor. The current account balance is forecast to moderate in line with a projected decline in oil prices in 2025/26 and 2026/27. Inflation is expected to decelerate but remain elevated, adversely impacting low-income households. Tighter monetary policy is also expected to weigh on real sector growth, given that 90 percent of firms rely on the banking system for financing.

Several downside risks to the economic outlook are present, including geopolitical tensions. More severe water and energy shortages, in part due to climate change, would weigh on growth and livelihoods. Further sanctions and their stricter enforcement could disrupt trade and reignite inflationary pressures. A global slowdown, notably in China—Iran's key trading partner—would also negatively impact trade and growth. On the upside, significant sanctions relief or a favorable interim agreement as part of the nuclear negotiations could spur a new growth momentum and curtail economic uncertainties.

The pace of poverty reduction is projected to slow considerably as the bottom 20 percent of households are expected to benefit the least from the recent economic expansion. Poverty is projected to decrease only slightly, from 21.9 percent in 2022/23 to 20 percent in 2023/24 and 19 percent in 2024/25. Poor households are disproportionally rural, un-educated and female-headed, and historically have not benefited from periods of economic expansion. More narrowly targeted assistance, coupled with measures to reduce their vulnerability, would help accelerate poverty reduction.

TABLE 2 Islamic Republic of Iran / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021/22	2022/23	2023/24	2024/25e	2025/26f	2026/27f
Real GDP growth, at constant market prices	4.7	3.8	5.0	3.7	2.9	2.4
Private consumption	3.9	8.7	4.1	3.1	2.5	2.1
Government consumption	8.3	-3.6	-1.7	-0.2	1.7	2.0
Gross fixed capital investment	0.0	6.7	7.2	5.8	5.0	4.2
Exports, goods and services	5.2	8.2	17.1	7.9	4.2	3.1
Imports, goods and services	24.1	7.5	3.0	2.8	3.0	3.0
Real GDP growth, at constant factor prices	4.4	4.0	4.5	3.7	2.9	2.4
Agriculture	-2.6	1.1	0.2	1.3	1.1	0.8
Industry	3.2	7.4	7.1	4.7	3.7	3.0
Services	6.5	2.7	3.8	3.4	2.7	2.3
Inflation (consumer price index)	46.2	46.5	52.3	31.9	30.0	28.0
Current account balance (% of GDP)	3.1	3.4	2.0	1.2	1.0	0.8
Fiscal balance (% of GDP)	-3.2	-2.8	-3.4	-2.1	-2.5	-2.6
Revenues (% of GDP)	11.0	11.0	10.4	10.7	10.7	10.8
Gross public debt (% of GDP)	42.4	30.1	29.5	30.1	31.5	33.6
Primary balance (% of GDP)	-2.6	-2.4	-3.0	-1.7	-2.1	-2.1
International poverty rate ($2.15 in 2017 PPP)[a,b]	0.7	0.5	0.4	0.4	0.4	0.3
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	5.0	3.8	3.3	3.1	2.9	2.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	24.8	21.9	20.0	19.0	18.2	17.6
GHG emissions growth (mtCO2e)	4.8	1.7	2.5	1.9	1.7	1.7
Energy related GHG emissions (% of total)	68.0	67.8	67.9	67.6	67.2	66.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2019-HEIS and 2022-HEIS. Actual data: 2022. Nowcast: 2023. Forecasts are from 2024 to 2026.
b/ Projection using annualized elasticity (2019-2022) with pass-through = 0.7 based on GDP per capita in constant LCU.