

Iran's Economic Outlook- Spring 2016

The latest [MENA Economic Monitor Report - Spring 2016](#), expects Iran's growth to rise to 4.2 % and 4.6 % in 2016 and 2017, as a result of the lifting of the sanctions and a more business-oriented environment.

The lifting of the nuclear-related sanctions in January 2016 and the strong electoral wins from moderates and reformers in Parliament and Assembly of Experts are supporting the reform-oriented Rouhani administration. The successful implementation of the Joint Comprehensive Plan of Action (JCPOA) between Iran and the P5+1 (United States, United Kingdom, France, Russia, China and Germany), that was signed in July 2015, meant Iran reached Implementation Day on January 16, 2016, at which point materially all nuclear-related sanctions were lifted. The February 2016 Parliamentary and Assembly of Experts (whose main task is the selection of the Supreme Leader) elections, saw major gains from moderates and reformers as well as losses from prominent conservatives. These developments along with a reform-minded government provide a favorable environment for economic reforms. These also arise in the context of the new five-year development plan starting March 21, 2016, which targets a rate of annual real GDP growth of 8 %.

The dynamism created by the interim Joint Plan of Action (JPOA) between Iran and the P5+1 in November 2013 led to an economic recovery in 2014¹, but this recovery was paused in 2015 by the uncertainty regarding the timing of the lifting of sanctions and the viability of the JCPOA. Following a severe sanction-related recession in 2012 and 2013, real GDP increased by 3 % in 2014; this recovery was driven by the rise in consumer and business confidence supported by the partial lifting of sanctions under the interim JPOA. In 2015, the Iranian economy is estimated to have advanced at a growth rate of 0.5 %. Inflationary pressures on the economy continued to abate under the less accommodative monetary policy stance, with the Consumer Price Index falling to 12.6 % per annum in January 2016, from a peak of 45.1 % in October 2012. Yet, the pace of job creation has remained weak and the unemployment rate rose to 11.7 % in 2015, up from 10.6 % in 2014. The fiscal deficit also widened due to low oil prices, from 1.2 % of GDP in 2014 to 2.7 % of GDP in 2015. Similarly, the current account surplus is estimated to have dropped from 3.8 % of GDP in 2014 to 0.6 % of GDP in 2015.

The lifting of the sanctions and a more business-oriented environment are projected to increase real GDP growth to 4.2 % and 4.6 % in 2016 and 2017, respectively. On the production side, growth will be mainly driven by higher hydrocarbon production. On the expenditure side, consumption, investment and exports are expected to be the main drivers. Inflation is forecast to remain moderate, by Iran's standards. The lifting of sanctions, and in particular the positive impact these will have on the banking system will significantly reduce international transaction costs. Strong capital inflows, including FDI and the repatriation of part of the frozen assets, could put upward pressure on the Iranian rial, which will help contain imported inflation. The fiscal deficit is projected to narrow to 1.8 and 1 % in 2016 and 2017, respectively, mostly on account of improved oil revenues. The current account balance is projected to turn into a surplus in 2017, also primarily driven by rising oil exports. Risks to the outlook include lower oil prices, slower global growth, and the possibility that the country idiosyncratic risk stays elevated because of the residual uncertainty that non-nuclear-related sanctions create for foreign businesses. A key challenge relates to the prospect of undertaking structural reforms that can move the country toward the sustained and inclusive growth envisaged in its sixth five-year plan.

Key Economic Indicators

	2014	2015e	2016p	2017p
Real GDP Growth (using factor prices, %)	3.0	0.5	4.2	4.6
Inflation Rate (%)	15.6	14.2	13.1	11.6
Fiscal Balance (% of GDP)	-1.2	-2.7	-1.8	-1.0
Current Account Balance (% of GDP)	3.8	0.6	-0.4	1.2

¹The Iranian calendar year runs from March 21 to March 20 of the following year.