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The economy of Iran: economic policy challenges

Presentation at the Bruegel seminar on 'New perspectives for economic cooperation with Iran', Brussels, June 2, 2016

Economic potential –factsheet (2015)

- 18th largest economy in the world (GDP = close to 1.4 trillions international \$ in PPP terms); just behind Canada, Spain and Turkey
- 1.2% of the world's GDP
- Upper-middle-income status
- GDP per capita in PPP current international \$17,251
- Similar size and development level with Turkey but huge differences in terms of economic structure, economic system and openness

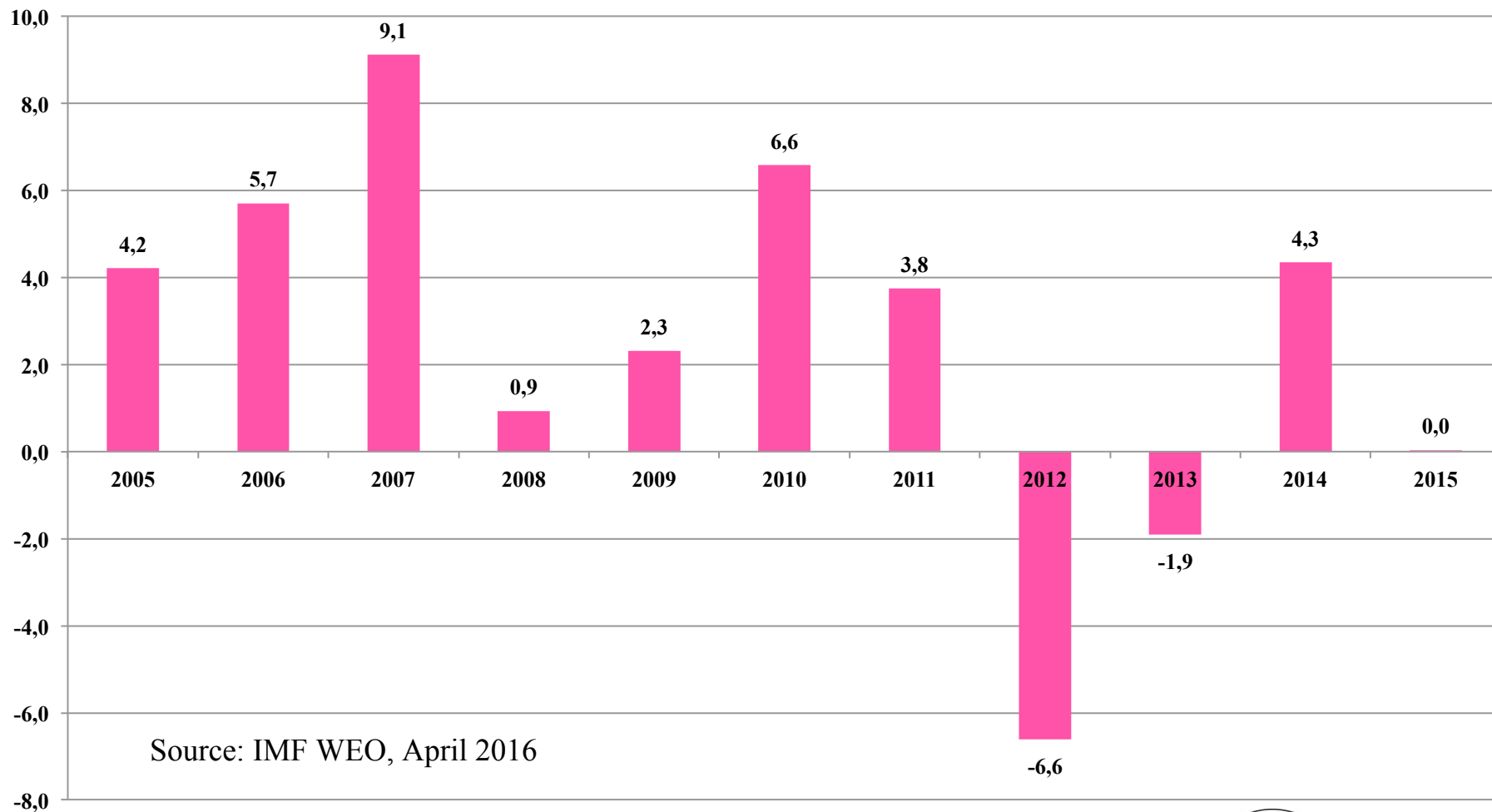


Major economic policy challenges

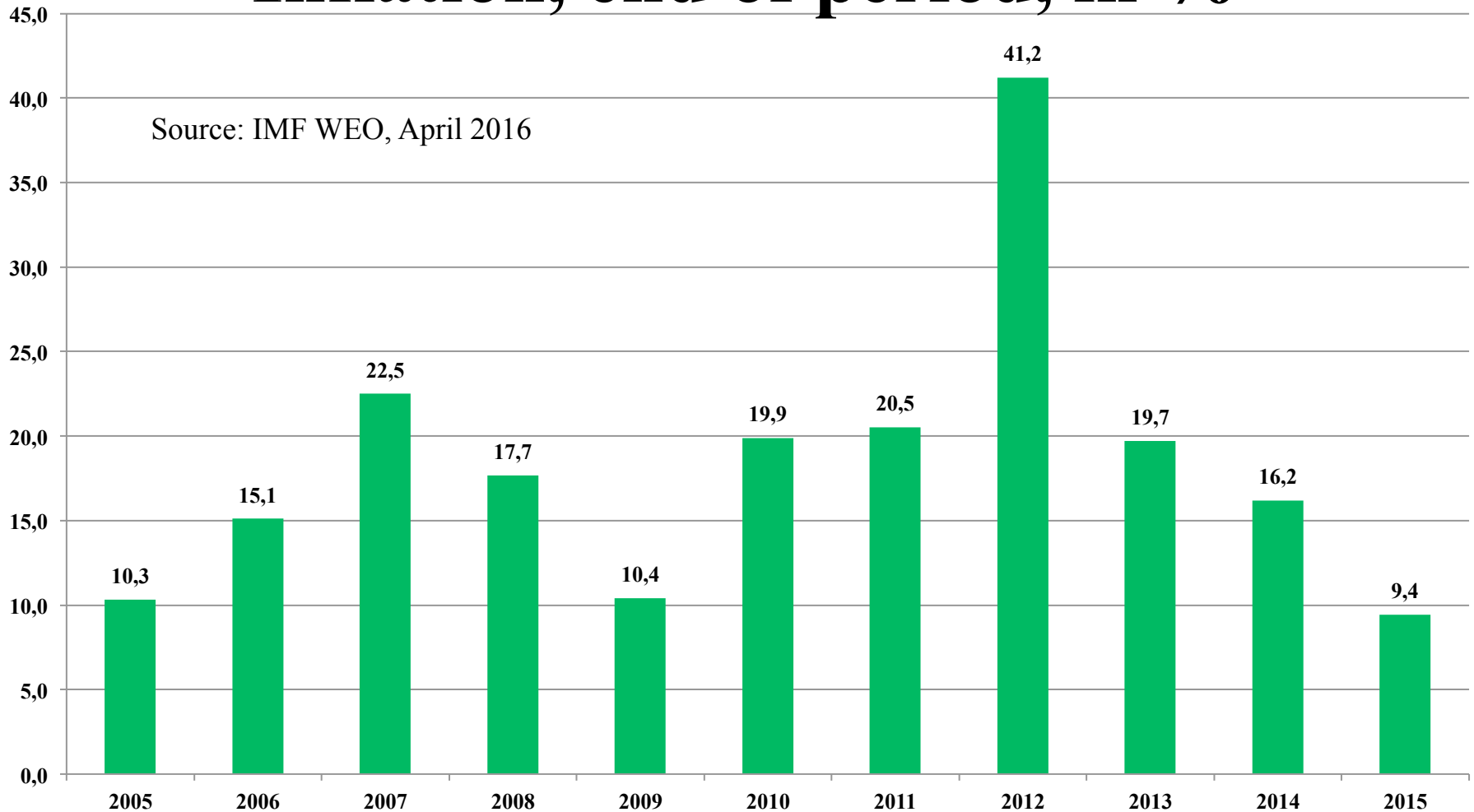
- GDP stagnation
- High inflation
- Fiscal and quasi-fiscal imbalances
- Administrative price controls
- Energy and other subsidies
- Multiple exchange rates
- Insufficient external openness and legacy of import-substitution industrialization



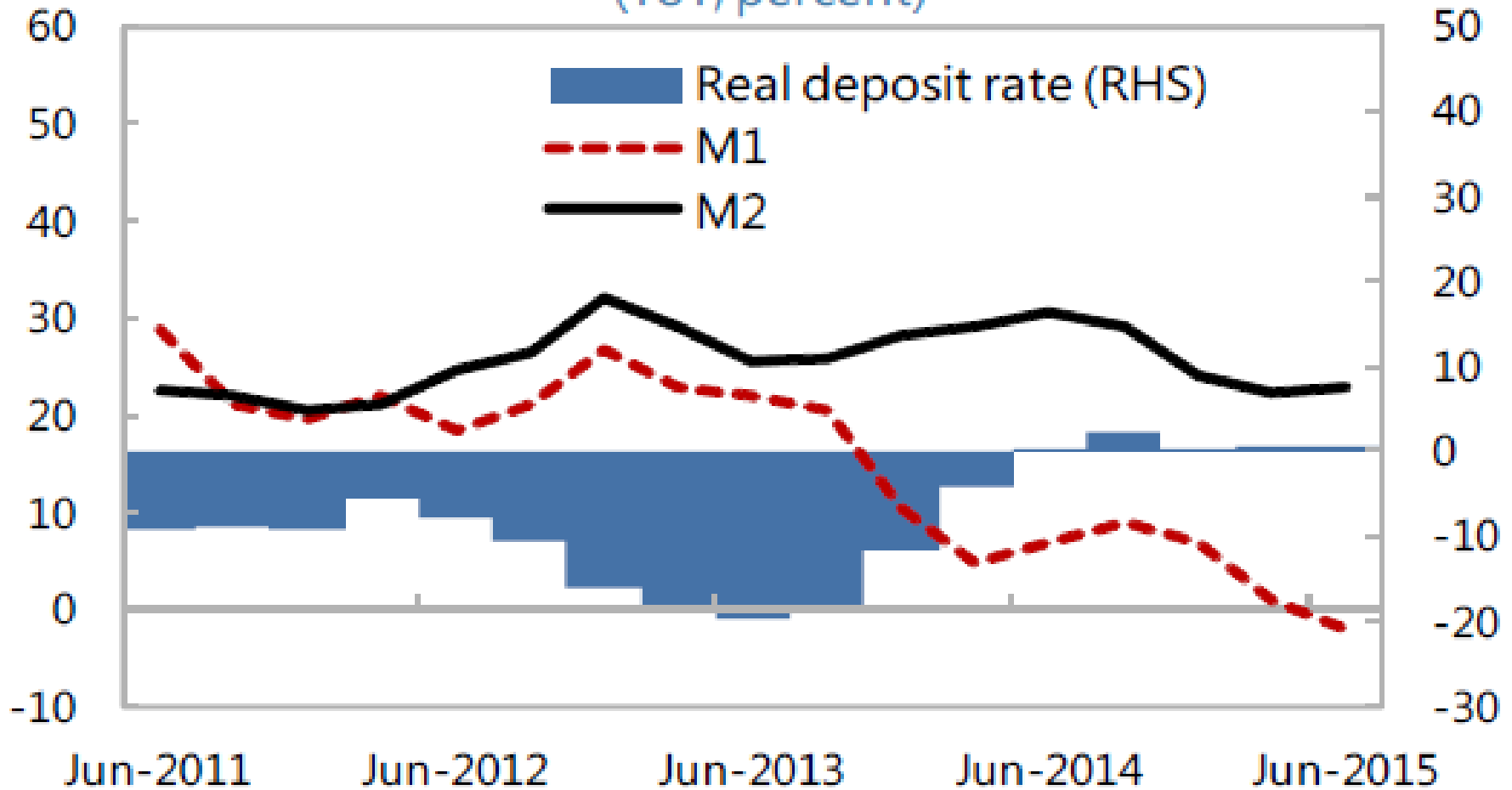
GDP, constant prices, annual change, in %



Inflation, end of period, in %



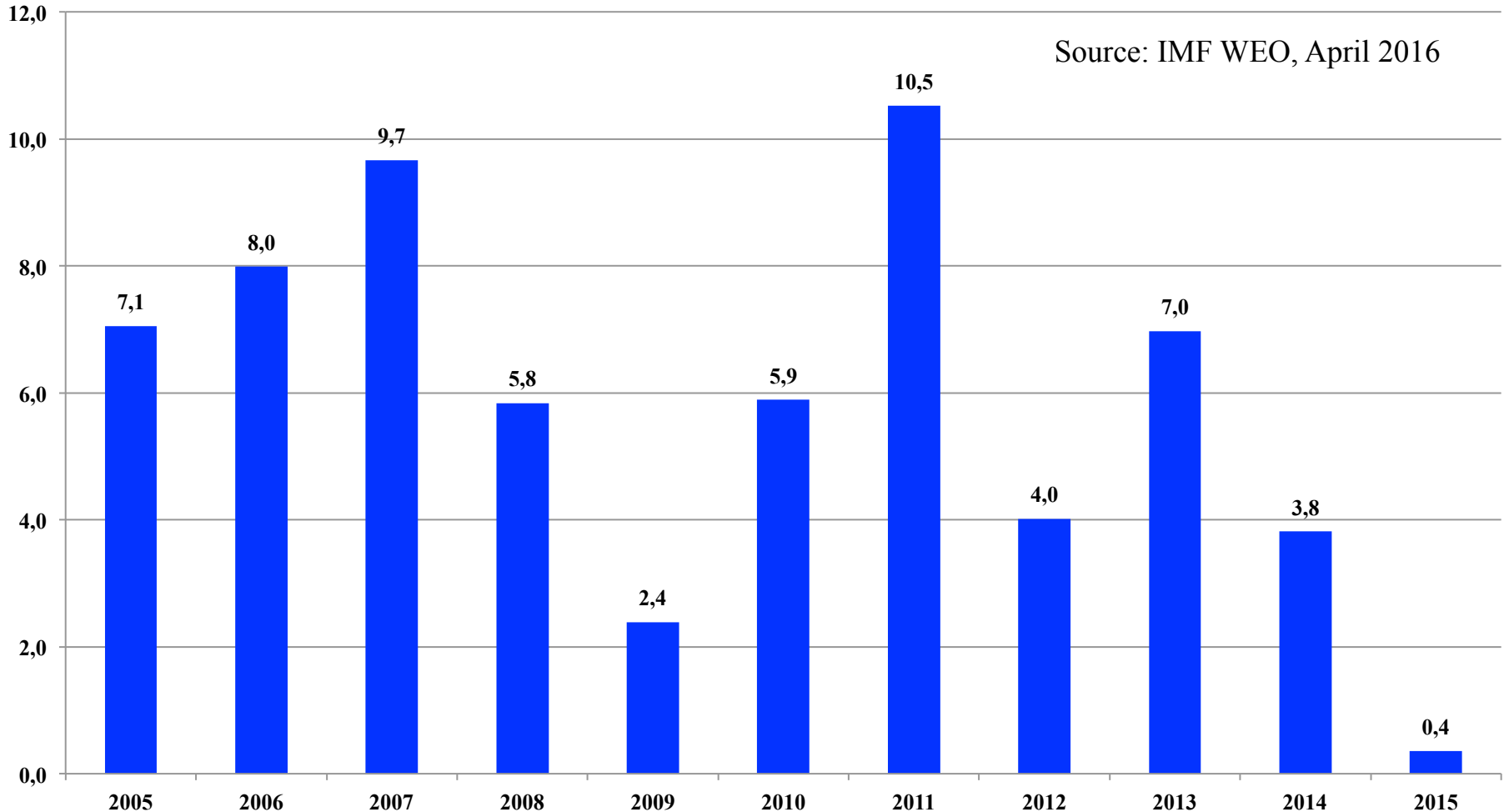
Money and Credit Growth (YoY, percent)



Source: IMF CR/15/349

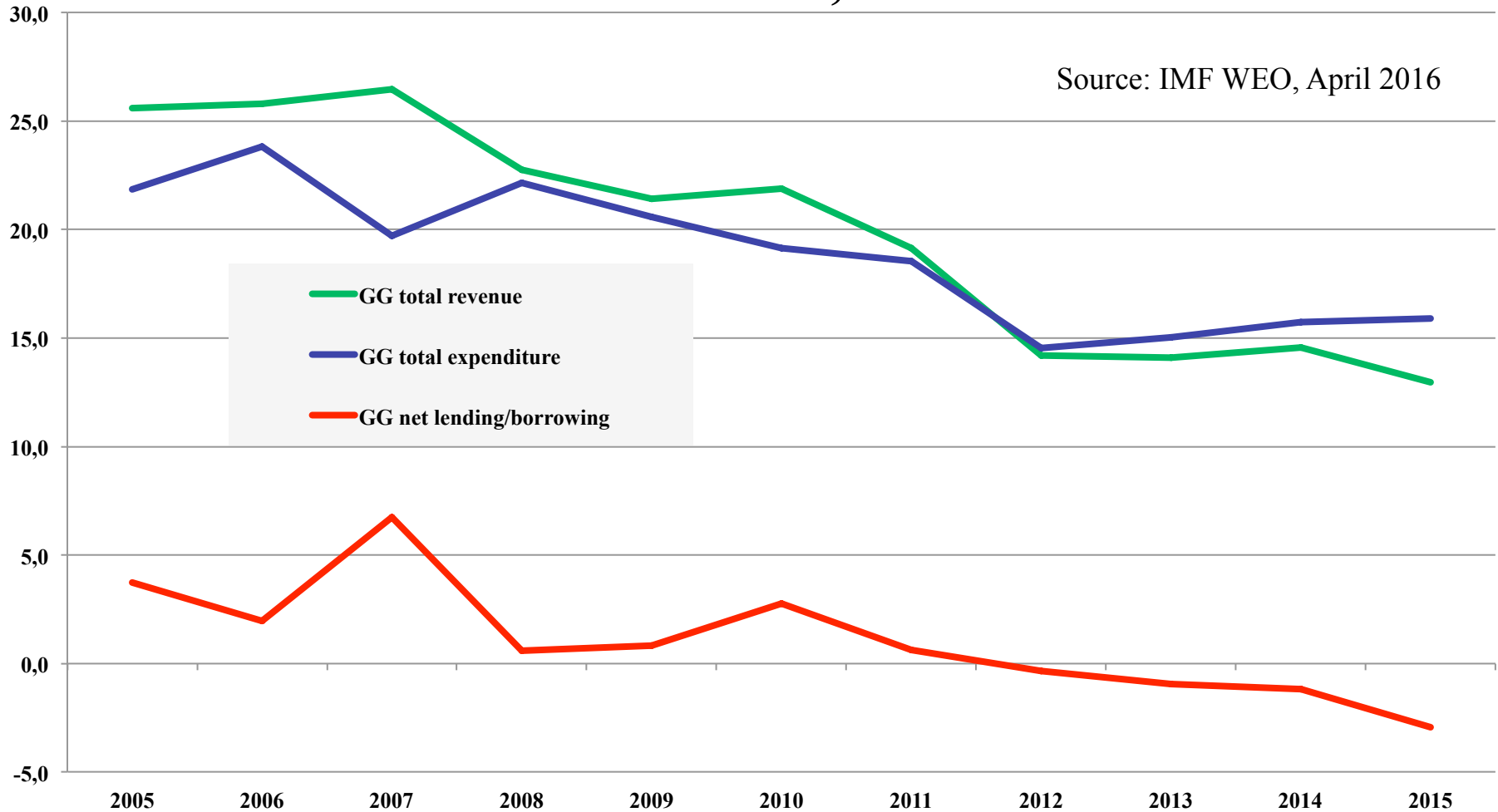


Current account balance, in % of GDP

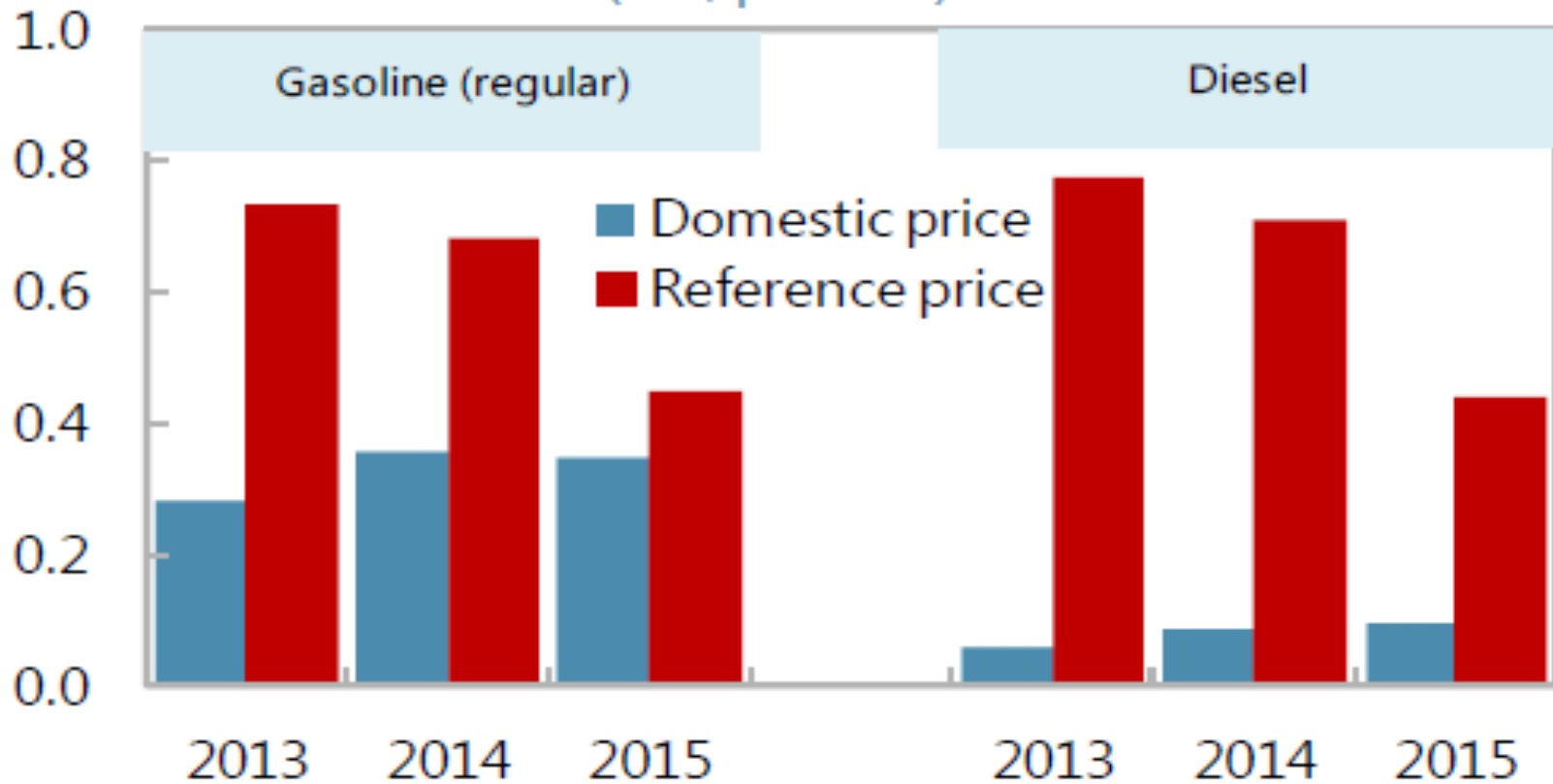


Fiscal indicators, % of GDP

Source: IMF WEO, April 2016



Fuel Prices (US\$ per liter)



Insufficient economic openness

- The biggest economy outside the WTO
- Outside bilateral and multilateral trade agreements
- High tariffs and non-tariff barriers
- Current account inconvertibility
- Numerous restrictions on foreign investment
- Closeness of financial sector



MFN tariff rate, weighted, %, manufactured goods

Country	1990	1995	2000	2005	2010
Argentina	..	12.2	15.3	12.8	13.8
Brazil	28.7	14.1	15.0	10.8	12.6
Chile	..	10.9	9.0	6.0	6.0
China	..	..	13.7	5.4	6.6
Egypt	..	22.4	..	12.1	10.0 ^a
India	76.2	..	..	11.8	7.8 ^a
Iran	..	..	28.6	..	23.4 ^b
Japan	3.3	3.1	2.2	1.8	2.2
South Korea	11.5	7.4	..	..	5.3
Mexico	..	11.8	14.7	11.9	5.0
Russia	—	..	..	8.5	5.9
Saudi Arabia	..	..	11.2	4.7	4.4 ^a
South Africa	11.0	..	..	7.4	7.3
US	4.8	4.3	3.0	2.8	2.9
EU27	7.8	6.5	3.4	3.4	3.4

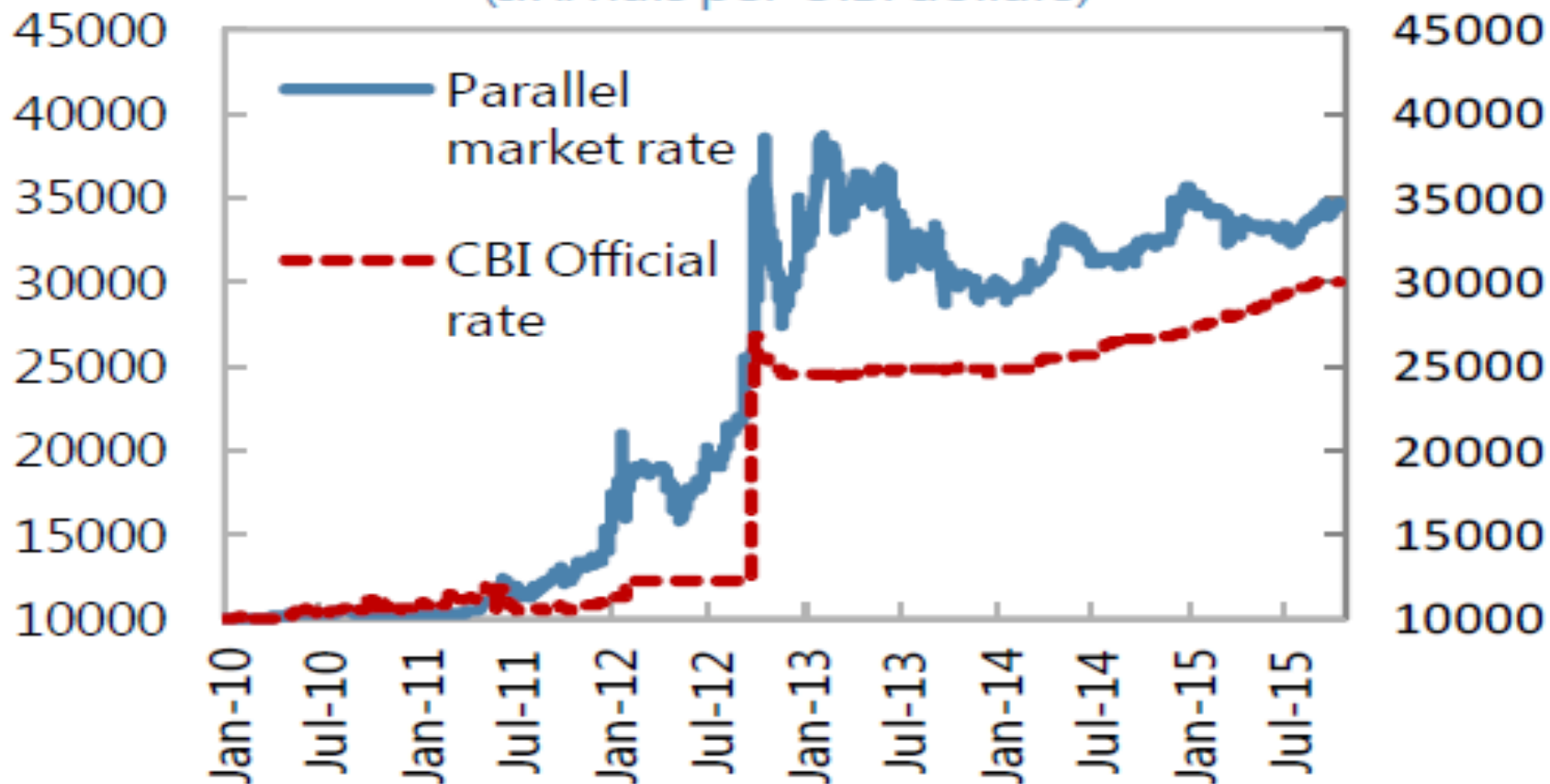
Note: a - 2009, b - 2012; Source: UNCTADstat

Effectively applied import tariff rates, weighted, %, manufactured goods

Country	1990	1995	2000	2005	2010
Argentina	..	9.0	11.3	5.8	7.0
Brazil	28.7	12.8	15.0	9.4	9.8
Chile	..	10.6	9.0	4.4	4.8
China	..	..	13.7	5.4	5.6
Egypt	..	22.4	..	11.7	9.5 ^c
India	76.2	..	..	11.7	7.6 ^c
Iran	..	..	28.6	..	23.4 ^b
Japan	2.3	2.0	1.2	1.5	1.7
South Korea	11.5	7.4	..	..	5.1
Mexico	..	7.5	14.7	3.2	2.4
Russia	—	..	..	8.5	3.9
Saudi Arabia	..	..	11.2	4.5	4.2 ^a
South Africa	11.0	..	..	6.8	5.7
US	4.1	3.1	1.9	1.9	2.0
EU27	6.1	5.4	1.8	2.2	2.4

a - 2011, b - 2012, c – 2009, Source: UNCTADstat

Exchange Rates (I.R. rials per U.S. dollars)



Source: IMF CR/15/349



Business climate

- World Bank Doing Business 2016 – 118th rank (out of 189); worse: protecting minority investors, paying taxes, trading across borders, resolving insolvency
- Transparency International Corruption Perception Index 2015 – 130th rank out of 167
- World Economic Forum Global Competitiveness Index 2015-2016 – 74th rank out of 130
- Excessive administrative regulation and political interference



Factors determining economic prospects

- Declining oil prices
- Easing economic sanctions
- Prudent macroeconomic policies
- Improving domestic business climate
- Trade liberalization and WTO accession
- Openness to FDI
- Easing regional tensions

