

IRAN, ISLAMIC REPUBLIC

Economic activity has been severely disrupted by conflict, economic sanctions, and social unrest. The rising cost of the conflict and potential disruption to oil exports could add severe fiscal pressures. Disruptions to imports of essential goods add inflationary pressures and raise food security risks. The outlook is subject to significant downside risks given the high uncertainty surrounding conflict scope and duration.

Key conditions and challenges

Economic activity was significantly disrupted in 2025, following the military escalation in June of that year, along with widespread protests and strikes, and a country-wide internet and telecommunications blackout. The disruption to economic activity jolted the stock market and led to a sharp currency depreciation. Industrial production and agriculture production have further been impacted by energy and water shortages. To ease fiscal and foreign exchange (FX) pressures and to address overconsumption of gasoline, in November 2025 the government reduced the monthly consumption quota of gasoline at existing subsidized prices and introduced a higher price tier for any additional demand. In December 2025, amid social grievances, the subsidized exchange rate allocated for the import of essential goods was significantly scaled back and resources were redirected to households as quasi-universal e-vouchers for purchase of essential goods.

The more recent conflict in the Middle East has created compound and unprecedented challenges. In addition to the human toll,

Population ¹ million	Poverty ² millions living on less than \$8.30/day
86.6	32.7
Life expectancy at birth ³ years	School enrollment ⁴ primary (% gross)
77.7	104.7
GDP ⁵ current US\$, billion	GDP per capita ⁶ current US\$
375.2	4331.8

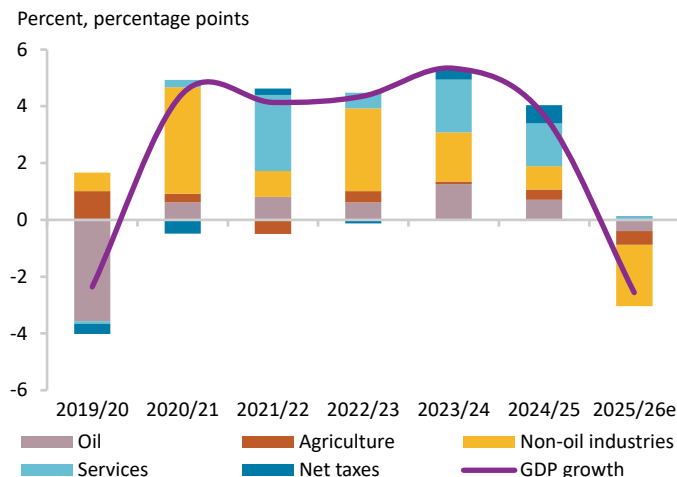
Sources: WDI, MFM, and official data. 1/ 2025. 2/ 2023 (2021 PPPs). 3/ 2023. 4/ 2020. 5/ 2025. 6/ 2025.

the closure of banks, bazaars, businesses, and airspace have brought economic activity to a halt. The previously resilient oil production and exports through the Persian Gulf have been impacted, significantly exacerbating fiscal pressures and straining limited accessible FX reserves. Disruption to trade routes, internet outages, and heightened economic uncertainty have significantly weakened non-oil sector activity. Dependence on imported foodstuffs has also raised food security risks due to shipping disruptions through the Strait of Hormuz and the depletion of strategic reserves.

Recent developments

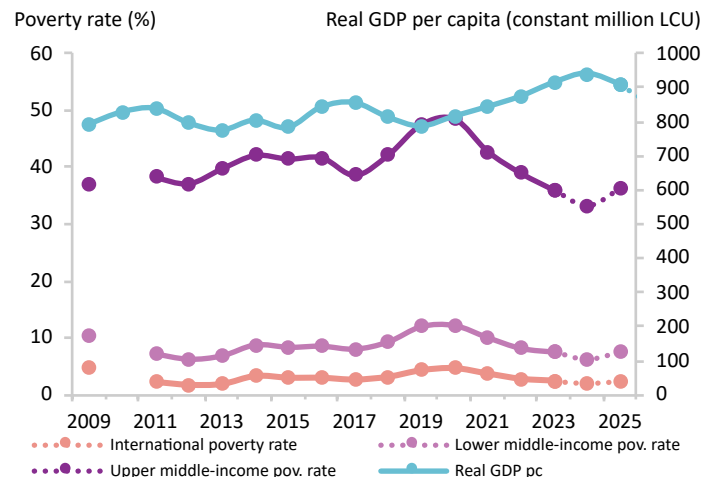
Even prior to the latest conflict, GDP in April–September 2025 (first half of the Iranian year) contracted by 0.7 percent year-on-year (y-o-y), despite oil GDP growing modestly by 1.1 percent y-o-y. The contraction coincided with the military escalation in June 2025, which led non-oil GDP to contract by 0.8 percent y-o-y. The slowdown was most pronounced in the agriculture sector (2.9 percent) as the country also faced severe water shortages. Non-oil industrial production was further weighed down by gas and

FIGURE 1 / Real GDP growth and supply-side contributions to real GDP growth



Sources: Central Bank of Iran and World Bank.

FIGURE 2 / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: See footnotes in table on the next page.

electricity outages. Overall, GDP is estimated to have contracted by 2.7 percent in 2025/26 (Iranian year ending March 20, 2026), also reflecting the additional impact of protests and intensified hostilities in the final quarter, as well as trade disruptions in March 2026 amid growing tensions in the Strait of Hormuz.

The contraction in exports and limited access to FX reserves, due to the intensification of sanctions and conflict, contributed to a 44 percent y-o-y currency depreciation in early March 2026. Inflationary expectations coupled with the pass-through from phasing out the subsidized exchange rate, pushed inflation to 62.2 percent y-o-y in February 2026, with food price inflation reaching a historical high of 99 percent y-o-y. In response, the government announced an electronic voucher program providing IRR10 million (US\$7) per person to 80 million citizens, for the purchase of selected food staples. These credits are expected to only partially offset the effect of price pressures on household welfare. According to the latest estimates from 2023/24, 36 percent of Iranians subsist on less than US\$8.30 a day (2021 PPP), which is the poverty line for upper-middle-income countries.

Outlook

The ongoing conflict in the Middle East has placed the Iranian economy on a pronounced downward trajectory, with exceptionally high uncertainty surrounding the outlook. Growth prospects depend critically on the duration and intensity of the conflict, the extent of infrastructure damage, and disruptions to oil exports and trade routes. Oil sector performance is expected to be constrained

by disruptions to shipping through the Strait of Hormuz, at least in the near term, while non-oil growth is projected to be limited by damaged infrastructure, persistent water and energy shortages, and weakened investment sentiment amid heightened uncertainty. High inflation and declining real incomes are projected to suppress domestic demand, while international trade is likely to remain constrained by financial sanctions and challenges in securing international transport and insurance services. Poverty is expected to increase, driven by high food inflation, import shortages and other conflict-related shocks.

Fiscal pressures are projected to remain elevated as lower oil revenues and a weaker tax base coincide with higher social spending. The deficit is expected to be financed through a combination of domestic bond issuance, withdrawals from the sovereign wealth fund, and monetary financing, contributing to continued inflationary pressures.

Risks to the outlook remain firmly tilted to the downside. More extensive damage to transport and logistics infrastructure could further curb oil exports to China and degrade industrial production. A permanent curtailment of trade relations with traditional partners such as the United Arab Emirates and Oman in the aftermath of the conflict could exacerbate shortage of essential consumer goods and inputs for industrial production. Further rounds of conflict and civil unrest could keep Iran in a protracted cycle of fragility and lead to mass emigration, as socio-economic conditions deteriorate. Conversely, a fast cessation of conflict and the re-establishment of economic ties could help moderate these shocks.

Recent history and projections

	2023/24	2024/25	2025/26e
Real GDP growth, at constant market prices	5.3	3.7	-2.7
Private consumption	1.6	3.5	0.9
Government consumption	-0.6	3.8	0.6
Gross fixed capital investment	6.3	3.8	-11.9
Exports, goods and services	13.2	6.0	-5.3
Imports, goods and services	1.5	2.7	-14.8
Real GDP growth, at constant factor prices	5.0	3.1	-2.7
Agriculture	0.8	3.6	-4.7
Industry	7.3	2.8	-5.4
Services	4.0	3.3	0.3
Employment rate (% of working-age population, 15 years+)	37.9	37.9	37.5
Inflation (consumer price index)	41.0	40.2	49.1
Current account balance (% of GDP)	1.9	2.8	0.2
Net foreign direct investment inflow (% of GDP)	0.0	0.0	0.2
Fiscal balance (% of GDP)	-2.7	-3.8	-4.4
Revenues (% of GDP)	9.6	9.4	9.3
Debt (% of GDP)	26.1	25.4	31.3
Primary balance (% of GDP)	-2.4	-3.3	-3.8
International poverty rate (\$3.00 in 2021 PPP)^{1,2}	2.5	2.0	2.5
Lower middle-income poverty rate (\$4.20 in 2021 PPP)^{1,2}	7.5	6.3	7.5
Upper middle-income poverty rate (\$8.30 in 2021 PPP)^{1,2}	36.0	33.2	36.2
GHG emissions growth (mtCO₂e)	1.2	2.6	-2.5

Source: World Bank, Fiscal Policy & Growth Department. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

1/ Calculations based on 2017-HEIS, 2019-HEIS, and 2023-HEIS. Actual data: 2023. Nowcast: 2024-2025.

2/ Projection using annualized elasticity (2017-2019) with pass-through = 1 based on GDP per capita in constant LCU.