IRAN, ISLAMIC REPUBLIC

The conflict in the Middle East has placed Iran's already fragile economy under exceptional stress. A sharp contraction in output, rampant inflation, collapsing investment, and deteriorating labor market conditions have compounded deep structural vulnerabilities. The outlook remains bleak and highly uncertain, with risks firmly tilted to the downside.

Population[1]	Poverty[2]
million	millions living on less than $8.30/day
92.4	32.7
Life expectancy at birth[3]	**School enrollment[4]**
years	primary (% gross)
77.9	102.0
GDP[5]	**GDP per capita[6]**
current US$, billion	current US$
440.9	4770.3

Sources: WDI, MFMod, and official data. 1/ 2025. 2/ 2023 (2021 PPPs). 3/ 2024. 4/ 2023. 5/ 2025. 6/ 2025.

Key conditions and challenges

Iran entered the 2026 conflict with deep structural vulnerabilities. Decades of economic mismanagement, chronic underinvestment, and macroeconomic instability had eroded living standards. In 2025/26, real GDP per capita had stagnated at levels seen fifteen years ago and the poverty rate stood at an estimated 35.5 percent, based on the upper-middle-income poverty line (US$8.30/person/day in 2021 PPP). Only 24.8 million of 66.1 million working-age Iranians were employed, with youth unemployment above 20 percent for two decades—leaving the country unable to capitalize on its demographic window of opportunity. A decade-long drought and water mismanagement had compounded these pressures. Persistent energy shortages, rampant inflation, undercapitalized banks, and currency depreciation had constrained investment and production, while declining productivity had further eroded long-term growth potential.

Recent developments

The conflict has amplified these vulnerabilities. Direct damage to energy infrastructure, industrial facilities, and transport networks has reduced productive capacity. Real GDP contracted by over 3.5 percent year-on-year (y-o-y) in Q4 2025/26 (Jan–Mar 2026). Investment fell 12 percent, exports 13 percent, and imports 28 percent, reflecting collapsing confidence, disrupted trade, and compressed purchasing power. External trade continued to contract sharply, with non-oil exports falling 28 percent and imports declining 26 percent y-o-y in the first five months of 2026/27. The sharper contraction in imports, dominated by essential goods and intermediate goods, has compounded food security concerns and domestic production constraints. Labor market conditions deteriorated further in Q1 2026/27, with unemployment rising from 7.3 to 9.1 percent.

Trade disruptions, together with difficulties repatriating export proceeds, have triggered a sharp currency depreciation and intensified fiscal and inflationary pressures, with inflation surging to 84.8 percent on average in April–August 2026. With limited fiscal buffers, a fragile financial system, and no access to international markets, the capacity to cushion the shock is extremely limited.

Outlook

Iran's outlook is exceptionally uncertain, depending on the duration of the conflict and the extent of infrastructure damage. Real GDP is projected to contract in 2026/27. Inflation is projected to remain elevated, and the fiscal deficit is expected to widen, while the current account is projected to shift to a modest deficit, partly contained by compressed imports. A prolonged conflict could deepen the contraction, amplify fiscal and inflationary pressures, and push poverty and food insecurity to record highs. Continued fiscal reliance on the banking system risks destabilizing the already fragile financial sector and entrenching inflation. On the upside, an end to the conflict and normalization of trade and financial relations could accelerate recovery through higher oil exports, improved foreign exchange availability, and restored confidence—though sustained recovery would require structural reforms to address persistent weaknesses in investment, productivity, infrastructure, and the financial sector.

Recent history and projections	2023/24	2024/25	2025/26e	2026/27f
Real GDP growth, at constant market prices	5.3	3.7	-0.9	-7.7
Private consumption	1.6	3.5	0.2	-5.1
Government consumption	-0.6	3.8	0.5	1.6
Gross fixed capital investment	6.3	3.8	-11.9	-17.4
Exports, goods and services	13.2	6.0	-4.9	-18.8
Imports, goods and services	1.5	2.7	-16.6	-19.9
Real GDP growth, at constant factor prices	5.0	3.1	-0.7	-7.7
Agriculture	0.8	3.6	-4.2	1.5
Industry	7.3	2.8	-2.0	-17.1
Services	4.0	3.3	1.2	-1.3
Employment rate (% of working-age population, 15 years+)	37.9	37.9	37.5	36.6
Inflation (consumer price index)	41.0	40.2	49.1	74.2
Current account balance (% of GDP)	1.9	2.8	2.8	-0.6
Fiscal balance (% of GDP)	-2.4	-3.8	-3.2	-5.8
Revenues (% of GDP)	9.8	9.4	8.4	7.2
Debt (% of GDP)	26.1	24.3	27.2	31.9
Primary balance (% of GDP)	-2.1	-3.5	-2.9	-5.6
International poverty rate ($3.00 in 2021 PPP)[1,2]	2.5	2.5	2.6	3.1
Lower middle-income poverty rate ($4.20 in 2021 PPP)[1,2]	7.5	7.5	7.7	9.0
Upper middle-income poverty rate ($8.30 in 2021 PPP)[1,2]	36.0	35.1	35.5	38.4
GHG emissions growth (mtCO2e)	4.1	3.3	-2.2	-3.4

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. Forecasts are from 2026 to 2028.
2/ Projection using annualized elasticity (2017-2019) with pass-through = 1 based on private consumption per capita in constant LCU.