GDP growth improves in 2011

- Being a net exporter of oil, the Islamic Republic of Iran has been benefiting from high oil prices. GDP growth improved to 4% in fiscal year 2011 from 3.2% in the previous year. The better performance of the agriculture sector also supported the higher growth in 2011.

- The hydrocarbon industry, however, continues to suffer from a lack of foreign investment, which is adversely affecting prospects for a sustainable increase in the output of oil and gas over the long term.

- The economy of the Islamic Republic of Iran is expected to experience a lower growth rate of 3% in 2012 on the back of a global slowdown and volatile oil prices. Further tightening of economic sanctions related to the country’s nuclear programme pose a major downside risk.

- The Fifth Five Year Development Plan (2010/2011–2015/2016) of the country aims for further diversification of the economy and a substantial reduction in the government’s dependence on oil and gas revenues, an enhanced role of the private sector, the elimination of subsidies, rapid employment generation and more equal distribution of income.

Inflation remains stubbornly high

- The Islamic Republic of Iran has been experiencing double digit inflation over the past several years. Inflation is estimated at 23% in 2011 as compared to 12.4% in 2010. The estimated upsurge was partly due to the withdrawal of huge subsidies on energy products and to the expansionary fiscal policy stance taken by the Government.

- Consumers were provided cash transfers to compensate them for losses resulting from the withdrawal of the subsidies. Inflation is expected to ease in 2012 with the effects of the withdrawal of subsidies being absorbed in the economy, but still remain double digit. Consequently, authorities need to set tight credit and fiscal policies to contain inflation.


**Major reforms on the fiscal side**

- Due to large oil revenues, the Government of the Islamic Republic of Iran has been enjoying a budget surplus for many years.

- The Fifth Five-Year Development Plan (2010/2011–2015/2016) of the country envisages a complete elimination of subsidies within five years, with domestic prices of energy and other commodities to be linked to their market prices.

- Also, several measures in the Plan are expected to contribute to increasing non-oil revenues, including an increase of the VAT rate by one percentage point per year over the next five years and the elimination of tax exemptions. In the area of external trade, customs tariffs and taxes would be lowered and streamlined in the medium-term, and the number of imports exempt from customs would be reduced to a minimum.

**Country enjoys large current account surplus on the balance of payments**

- The Islamic Republic of Iran recorded a large current account surplus in 2011, which was even larger than surplus recorded for 2011, due to higher value of exports given elevated oil prices.

**Regional cooperation to tackle severe energy shortages in several South Asian countries**

- On the physical infrastructure side, several countries in South Asia, such as Bangladesh, Nepal and Pakistan, are facing severe electricity shortages.

- To address energy shortages, the following measures must be undertaken urgently: setting up viable new power projects; minimizing transmission and distribution losses, including theft of electricity; and incentivizing the development of renewable energy resources.

- Moreover, potential of countries within the subregion to provide cheap electricity and natural gas should be utilized and infrastructure should be set up to import energy from them.

- Due to limited public resources, involvement of the private sector should be enhanced and public-private partnerships should be encouraged.