INTERNATIONAL MONETARY FUND

PRESS RELEASE NO. 17/499

IMF Staff Completes 2017 Article IV Mission to Islamic Republic of Iran

December 18, 2017

- Real GDP growth is forecast to reach 4.2 percent in 2017/18.
- Iran is urged to advance financial sector reform.
- The IMF welcomes the reform of the universal cash transfer system to target income support to the poor in the proposed 2018/19 budget.

An International Monetary Fund (IMF) team led by Ms. Catriona Purfield held discussions December 2–13 on the 2017 Article IV Consultation with Iran. At the end of the mission, Ms. Purfield made the following statement:

"Growth has begun to broaden to the non-oil sector. Real GDP growth is projected to reach 4.2 percent in 2017/18 and is expected to be sustained or even rise toward 4.5 percent over the medium-term if financial sector reform takes hold. Inflation is projected to pick-up temporarily in 2018/19 from 9.9 percent in 2017/18 if a fuel price increase is approved, and returns to single digits in the medium-term aided by prudent policies.

"Notwithstanding the recovery, the economy faces near-term challenges. Rising financial vulnerabilities and external uncertainty argue for the urgent implementation of the planned financial sector reform. A coordinated reform package that also sees the government take additional fiscal measures to reduce debt, unify the exchange rate, and transition to a market-based monetary policy framework would send a strong signal of the authorities' commitment to stability. Faster implementation of structural reforms, completion of Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) reforms and removal of obstacles to private sector development would allow growth to become more diversified, resilient and job intensive.

"Credit institutions and banks need urgent restructuring and recapitalization. The conversion of unlicensed financial institutions into credit institutions helped curb excessive interest rate competition that eroded bank's margins. An asset quality review, related-party lending assessment, and a time-bound action plan to recapitalize bank and address Non-Performing Loans (NPLs) should start immediately. Recapitalization costs can be met through new long-term government bonds bearing market interest rates. The CBI should be empowered with stronger supervisory and resolution powers to support the process."

"The CBI has intervened in Foreign Exchange (FX) markets to stabilize the exchange rate amid high import demand and increased uncertainty. Unifying the dual exchange rate and allowing more exchange rate flexibility would safeguard FX reserves, remove costly subsidies and promote competitiveness. Moving to a market-based monetary policy framework where the CBI has greater independence and control over liquidity is essential to underpin low inflation and the credibility of the new exchange rate regime.

"The amendments to the AML/CFT framework are welcome and should be passed before the end-January 2018 FATF action plan deadline. Continued progress on these fronts will facilitate re-integration into the global financial system by enhancing transparency and governance.

"The reform of the universal cash transfer scheme to target the poor secures much needed fiscal space. Nonetheless, the financial sector reform will cause government debt and interest outlays to rise substantially. Staff recommends gradual fiscal adjustment—through measures to dedicate a share of oil revenue to cover interest costs on bank recapitalization bonds, further expand tax revenue by removing tax exemptions, and implement pension reform—within a comprehensive fiscal framework that brings debt to prudent levels.

"Faster implementation of structural reforms that unshackle the non-oil private sector would lift growth potential and help address job challenges. Despite recent improvements in the business environment, Iran needs to reduce red tape, reform state-owned enterprises and improve transparency about corporate beneficial ownership to attract investment and develop the private sector. Staff welcomes the amendments to the Customs Law that should lower the cost of trade and help exports to grow. A review of labor regulation could improve incentives for firms to hire.

"Iran's highly educated women are an untapped source of growth and productivity. Reducing legal and, social barriers and pay gaps; subsidizing child care to low income women; and tackling informality would create job opportunities for women and ultimately boost GDP.

"More timely and comprehensive data would enhance transparency, inform policy design and support the reform program.

"We wish to thank the authorities for their excellent collaboration and generous hospitality."

MEDIA RELATIONS

PRESS OFFICER: WAFA AMR

PHONE: +1 202 623-7100 | **EMAIL:** MEDIA@IMF.ORG