Part One

Economic Developments of Iran in 2020/21

In the Name of God,

The Compassionate, The Merciful

CHAPTER 1

GLOBAL ECONOMY

Global economy grappled with the shocks of the COVID-19 pandemic and its adverse effects in 2020. The first half of the year was witness to business closures due to social distancing restrictions. Production declined drastically and low demand, coupled with uncertain economic conditions, adversely affected the investment outlook. With the decrease in prices of energy and raw materials in the first half of the year, the inflation rate in many economies started a downward trend and growth in global trade decreased by 9.0 percentage points to -7.8 percent in 2020. To offset the unprecedented declines in economic activities, advanced economies adopted large-scale policy responses to this crisis. With the adoption of expansionary monetary policies by 21 central banks around the world, including the Federal Reserve and the ECB, along with improved conditions in emerging economies like those of Brazil, Russia, and India, the declining trends in global economic growth were lower than expected. Most advanced economies introduced supportive policy packages for households and businesses in the form of tax reductions as well as cash payments and capital injections in the form of stocks, loan payments, and guarantees.

During the second half of the year, with the concession of the World Health Organization on several samples of vaccines and the improvement of the economic outlook, the gradual exit of the global economy from the initial shocks of the pandemic commenced. Upon the lifting of public sanitary restrictions in most of the countries as of the second half of 2020, economic activities started to rebound from the nadir they had fallen into in April 2020, positively affecting the labor markets globally. GDP growth rate, which had registered its record low since World War II in the second quarter of 2020, indicated favorable growth in Q4. This was still far lower, though, than the figures recorded prior to the outbreak of COVID-19 in advanced economies (except for China).

With the increase in consumption levels in most economies, global trade of commodities accelerated and demand for the exports of goods rose in the last months of the year. Therefore, the prices of raw materials increased in the second half of the year. This, coupled with the rise in pressures on the supply side, led to a rise in inflation rate in some economies. Economic growth in China outpaced other large economies. In the last months of 2020 when the statistics pointed to increases in the number of patients, the social distancing measures were put back on track, adversely affecting economic activities in many European economies as well as the United States. The emergence of new variants and rise in the rate of mortality at year-end raised risks to global economic outlook, necessitating the continuation of supportive policies. Overall, the global output (real GDP growth) reached -2.8 percent, indicating a decrease of 5.6 percentage points compared with the growth rate of 2019 (2.8 percent). Advanced economies recorded a GDP growth rate of -4.2 percent, down by 5.9 percentage points compared with 2019. Real GDP growth in emerging market economies declined by 5.4 percentage points to reach -1.8 percent in 2020. World consumer prices topped 3.2 percent, down by 0.3 percentage point. Consumer prices in advanced economies declined by 0.7 percentage point to 0.7 percent, while in emerging economies, they rose by 0.1 percentage point to 5.2 percent.

1.1. Advanced Economies

Advanced economies were majorly affected by the adverse consequences of the COVID-19 pandemic in 2020. Given the sharp decline in the level of domestic demand, limited supply of goods and services, and the weakening of foreign trade, GDP growth in advanced economies notably declined over the first half of 2020. As of mid-2020, however, economic activities improved for a short time, upon the temporary waning of the pandemic, leading in turn to a slight increase in GDP growth. On the other hand, with the re-emergence of the pandemic, which led to the rise in the number of patients in the second half of the year, control measures were back in place. Consequently, investment in economic enterprises experienced notable declines, mainly due to the fall in demand as against the rise in uncertainty regarding macroeconomic indicators. In 2020, service sector activities were at their lowest level due to social distancing requirements. The financial reaction of advanced economies to the initial shocks of the pandemic was rather fast and far larger than that during previous recessions. Coupled with the pandemic modification measures, special policy packages were formulated by the government to support households and businesses adversely affected in advanced countries. Monetary authorities took to strengthening the supportive measures through asset purchase programs (quantitative easing) on a large scale (federal reserve, the European Central Bank, and the Central Bank of Japan), as well as through financing loans (the European Central Bank), and declining policy rates (federal reserve). Thanks to the adoption of robust supportive measures by governments, the impact of the COVID-19 pandemic on both the income and consumption levels of households was low. Overall, the GDP growth rate of advanced economies registered a decrease of 5.9 percentage points to -4.2 percent in 2020. GDP growth rate in the US recorded a decline of 10 percent over the first half of 2020, with the unemployment rate registering a record 14.8 percent in April (the highest since World War II). During the second half of the year when the limitations were relatively lifted and households and companies were rather adapted with the pandemic consequences upon the adoption of supportive policies, most sectors were revived and the unemployment rate started a downward trend. All in all, the GDP growth rate of the US decreased from 2.3 percent in 2019 to -2.8 percent in 2020, indicating a fall of 5.1 percentage points. The Federal Reserve reduced the policy rates to almost zero, starting the policy of the unlimited purchase of government debt and the purchase of mortgage commitments, and corporate bonds and securities on a large basis with the aim of stabilizing the financial system. Other policy measures adopted by the US administration during the pandemic included extension of loans to companies and state governments as well as direct transfers to households in 2020.

In the Euro area, measures such as massive lockdowns, school closures, and border restrictions were adopted, aimed at combating the Coronavirus. With the decline in economic activities, the GDP growth rate in the Euro area decreased by 7.7 percentage points compared with 2019, to reach -6.1 percent in 2020. This was also attributable to the reliance of the euro economies on the tourism industry and the sharp decline in sectoral activities. Spain experienced the sharpest decrease in GDP growth rate by -13.2 percentage points compared with 2019 to reach -11.2 percent in 2020. GDP growth rates in France, Italy, and Germany fell by 9.6, 9.5 and 4.9 percentage points to -7.7, -9.0 and -3.8 percent, respectively. Among the major supportive measures adopted by the European Central Bank during the pandemic, the extension of loans to banks at low interest rates, remarkable increase in asset purchases, and elimination of distribution limitations in the bond purchase programs, which decreased the apprehension regarding default for the EU members, were noteworthy. The member governments of the EU submitted significant policy packages. The German government rendered a policy package worth 4.5 percent of its GDP (twice as much as that rendered in 2009 recession) as well as a supportive package, equal to 20 percent of its GDP in the form of credit allocation guarantees to companies. The Italian government, despite the high level of debt, introduced a package worth more than 4 percent of its GDP. In the UK, GDP growth recorded a notable decline of 12.6 percentage points in February 2020, when this country exited from the EU, and amounted to -11.0 percent in 2020.

In terms of the sharp decline in economic activities in the aftermath of the pandemic in 2020, Japan was no exception. The suspension of 2020 Summer Olympics in Tokyo exacerbated the conditions. Accordingly, the Bank of Japan raised the purchases of securities and bonds, which led to the expansion of its balance sheet to more than 10 percent of the country's GDP. Moreover, on top of the funds resulted from the incentive of December 2019, the government of Japan adopted a policy package worth 40 percent of its GDP. Unprecedented fiscal supportive policies of the Japanese government raised economic activities in the third quarter of 2020, only to fall again with the return of the pandemic, which led to the lowering of the consumption level. GDP growth in Japan was -4.2 percent in 2020, down by 3.8 percentage points compared with 2019. In Canada, GDP growth rate decreased by 7.0 percentage points to -5.1 percent in 2020. The mentioned policy measures majorly impacted advanced economies through lowering the incurred losses. With the commencement of large-scale public vaccination as of early-2021, most economic variables in this region improved remarkably. At the outset of the pandemic, consumer prices declined due to the low level of total demand, the slowdown in the labor market, and cost reductions by enterprises, while they rose in the second half of the year due to supply restrictions. All in all, consumer prices in advanced economies decreased from 1.4 percent in 2019 to 0.7 percent in 2020.

Figure 1.1. Major Economic Variables in Advanced Economies

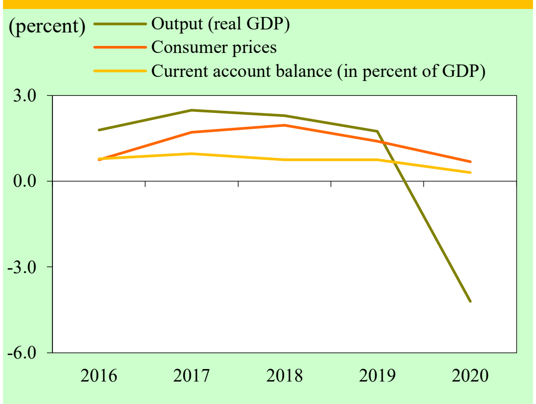

Table 1.1. Major Economic Variables in Advanced Economies (percent)

	Output (real GDP) (annual percent change)		Consumer prices (annual percent change)		Current account balance (in percent of GDP)	
	2019	2020	2019	2020	2019	2020
World	**2.8**	**-2.8**	**3.5**	**3.2**	**-**	**-**
Advanced economies	**1.7**	**-4.2**	**1.4**	**0.7**	**0.7**	**0.3**
United States	**2.3**	**-2.8**	**1.8**	**1.3**	**-2.1**	**-2.8**
Euro Area	**1.6**	**-6.1**	**1.2**	**0.3**	**2.4**	**1.8**
Germany	1.1	-3.8	1.4	0.4	8.2	7.1
France	1.9	-7.7	1.3	0.5	0.5	-1.6
Italy	0.5	-9.0	0.6	-0.1	3.3	3.9
Spain	2.0	-11.2	0.8	-0.3	2.1	0.6
Japan	**-0.4**	**-4.2**	**0.5**	**0.0**	**3.4**	**3.0**
United Kingdom	**1.6**	**-11.0**	**1.8**	**0.9**	**-2.8**	**-3.2**
Canada	**1.9**	**-5.1**	**1.9**	**0.7**	**-2.0**	**-2.2**

Source: IMF, World Economic Outlook, October 2023

1.2. Emerging Market and Developing Economies

In 2020, emerging market and developing economies were adversely impacted by the outbreak of COVID-19. GDP growth figures point to economic slowdown in 80 percent of the countries in the region (except for China). Economies mostly reliant on services and tourism industries (Argentina and India) and those encountering sharp reductions in the exports of raw materials, due in turn to the decline in external demand (Latin America and the Middle East), were the hardest hit. In 2020, income inequalities in emerging economies increased, with dire consequences for women, non-resident workers, and low-skilled employees or employees in non-official positions. As of mid-2020, the pandemic started to calm down and the economic outlook improved for developing economies. GDP growth figures were still far lower than the expected levels, though. Labor markets in the region were experiencing a slowdown, leading to a rise in the unemployment rate. Some economies faced sharp declines in participation rate as well. The factor preventing growth for emerging economies, especially the oil and gas producers, was the fall in the global prices of raw materials. Overall, the GDP growth rate in emerging economies decreased by 5.4 percentage points to -1.8 percent in 2020; the lowest in 60 years.

GDP growth rate in China reached 2.2 percent in 2020, down by 3.8 percentage points compared with 2019, which was the lowest since 1976. This rate was, however, larger than the expected levels, thanks to effective control measures and incentives for investment in the public sector. The economic activities accelerated in China as of mid-2020, attributable to the policy packages of the government. On the other hand, expansionary monetary and financial policies adopted with the aim of stabilizing the economy and raising public investment, led to a sharp increase in the government fiscal deficit and the government debt. The government debt, which was at a high level even before the pandemic, further surged in 2020, offsetting the favorable outcomes of the adoption of debt-reducing policies adopted as of 2016. Countries in southeast

Asia, especially India, faced massive decreases in economic activities. The GDP growth in India, already suffering from imbalances in its non-bank credit institutions sector, was -5.8 percent in 2020. Due to the outbreak of Coronavirus and the high rate of mortality, GDP growth rate in Latin America and the Caribbean decreased by 7.2 percentage points compared with 2019 to reach -7.0 percent in 2020, indicating a much sharper fall compared with that during the 2008 financial crisis. This was mainly attributable to the restrictions imposed to control COVID-19, unfavorable financing conditions, and the decrease in the prices of raw materials in the first half of 2020. The tourism industry was also negatively affected in this area. Moreover, rise in global risk aversion led to major capital outflows. All in all, real GDP growth in Argentina, Brazil, and Mexico decreased by respectively 7.9, 4.5 and 8.4 percentage points to -9.9, -3.3 and -8.7 percent, respectively. Among the economies of the emerging Europe and Central Asia, those with stronger financial ties with the Euro Area and countries reliant on tourism and service sectors suffered the most during the outbreak. Real GDP growth of the emerging Europe reached -1.6 percent, indicating a decline of 4.1 percentage points. The adverse impact of the pandemic on sub-Saharan Africa made it difficult for the region to achieve its development goals. Real GDP growth in this area decreased by 4.8 percentage points to -1.6 percent. In order to offset economic turbulence and inflationary pressures in 2020, central banks in emerging economies turned to expansionary monetary policies on an unprecedented basis, with some noticeably reducing policy rates and some other adopting unconventional policies such as asset purchase programs (countries like Chile, Colombia, Hungary, India, Indonesia, the Philippines, Poland, Romania, Thailand, Turkey, and South Africa). These purchases were mainly related to government bonds and the private sector's securities, leading to stabilization of return on securities with long maturities. Other policy measures in emerging economies included provision of liquidity, reduction in reserve requirement ratios, and establishment of temporary swap lines with other central banks, aimed at liquidity provision and market intervention. Financial incentives including social assistance, support for small enterprises through extending tax maturities, loan suspensions, and payment of extra expenses in the health sector were rendered. Upon the waning of the pandemic, inflationary pressures in the developing countries declined over the first half of 2020. During the rest of the year, consumer prices surged, however, with the rise in supply limitations. The PPI soared, mainly due to the gradual increase in the prices of raw materials in the aftermath of the sharp decline at the outset of the outbreak in some economies including China. Consumer prices in emerging economies slightly increased by 0.1 percentage point to 5.2 percent. In some countries in this group, consumer prices rose due to the depreciation of their national currencies or the increase in food prices. Supply imbalances and rise in food prices raised consumer prices in India from 4.8 percent in 2019 to 6.2 percent in 2020.

Figure 1.2. Major Economic Variables in Emerging Market and Developing Economies

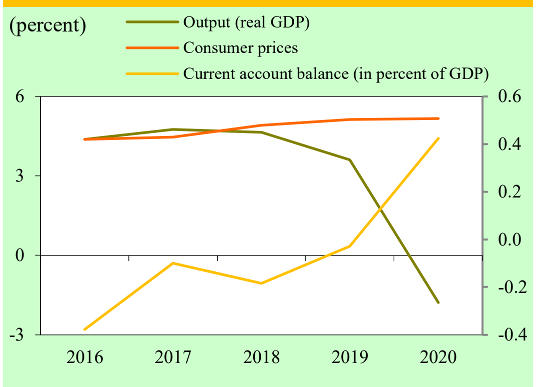

Table 1.2. Major Economic Variables in Emerging Market and Developing Economies

(percent)

	Output (real GDP) (annual percent change)		Consumer prices (annual percent change)		Current account balance (in percent of GDP)	
	2019	2020	2019	2020	2019	2020
World	**2.8**	**-2.8**	**3.5**	**3.2**	**-**	**-**
Emerging Market and Developing Economies	**3.6**	**-1.8**	**5.1**	**5.2**	**0.0**	**0.4**
Emerging and Developing Asia	**5.2**	**-0.5**	**3.3**	**3.2**	**0.5**	**1.5**
China	6.0	2.2	2.9	2.5	0.7	1.7
India	3.9	-5.8	4.8	6.2	-0.9	0.9
ASEAN[1]	4.3	-4.4	1.9	1.0	2.8	3.8
Emerging and Developing Europe	**2.5**	**-1.6**	**6.7**	**5.4**	**1.3**	**0.1**
Russia	2.2	-2.7	4.5	3.4	3.9	2.4
Turkey	0.8	1.9	15.2	12.3	1.4	-4.4
Middle East and Central Asia	**1.6**	**-2.6**	**7.6**	**10.4**	**0.4**	**-3.4**
Latin America and the Caribbean	**0.2**	**-7.0**	**7.6**	**6.4**	**-2.2**	**-0.4**
Brazil	1.2	-3.3	3.7	3.2	-3.6	-1.9
Mexico	-0.3	-8.7	3.6	3.4	-0.4	2.0
Argentina	-2.0	-9.9	53.5	42.0	-0.8	0.7
Sub-Saharan Africa	**3.2**	**-1.6**	**8.1**	**10.1**	**-3.2**	**-2.7**

Source: IMF, World Economic Outlook, October 2023

[1] Includes Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

1.3. Middle East, North Africa, Afghanistan, and Pakistan (MENAP)

Real GDP growth in MENAP region was -2.7 percent in 2020, down by 4.0 percentage points compared with 2019. The negative impacts of the pandemic, along with sharp reductions in oil demand and prices, exacerbated the economic slowdown in the region, further reducing the in-capita income. In 2020, most months were witness to declines in industrial production and exports in the region, leading to sharp decreases in employment levels. The fall in oil production and prices reduced oil income in some countries, including Iraq, by 50 percent during the first half of 2020. Given the counteractive measures during the COVID-19 pandemic and oil price fluctuations, the governments in the region experienced sharp fiscal imbalances over the first half, due to income level reductions in the aftermath of the fall in the level of domestic demand as well as oil prices, and the governments' supportive policies to offset the adverse impacts of the Coronavirus pandemic.

Oil exporting countries in the region faced sharper imbalances in terms of financing when compared with their oil importing counterparts. Consequently, the budget deficit in the MENA region increased from about 3.8 percent of GDP in 2019 to almost 10.1 percent of GDP in 2020. However, in some other countries including Pakistan and Tunisia, the trade balance improved due to restricted economic activities and import reductions. Capital outflows, which were on a soaring trend during the first half of 2020, were later stabilized at approximately 2 billion dollars. With the reduction in oil prices in March and April to their lowest level of the past 20 years, the OPEC and OPEC+ signed an agreement in April, specifying reductions in production which led to the stabilization of oil prices.

To offset the adverse impacts of the pandemic on the economy, various incentive packages were rendered for the MENAP region during the first half of 2020. For some oil exporting countries, support budget rises were put on the agenda in line with raising sanitation measures and improving health systems. In the area of monetary policy, most central banks in this group took action to reduce policy rates and reserve requirement ratios.

Despite the decline in demand and energy costs, inflation in all the countries in the region, except for Jordan, Morocco, and members of the Gulf Cooperation Council (GCC), increased from 7.8 percent in 2019 to 10.8 percent in 2020. Rise in food prices, fall in policy rates, and depreciation of national currencies were among factors behind the rise in inflation. The COVID-19 pandemic and widespread lockdowns led to the waning of social tensions and geo-political risks. Uncertainties were, however, still high in Afghanistan, Libya, Somalia, Syria, and Yemen due to political conflicts.

Figure 1.3. Major Economic Variables in Middle East and Central Asia

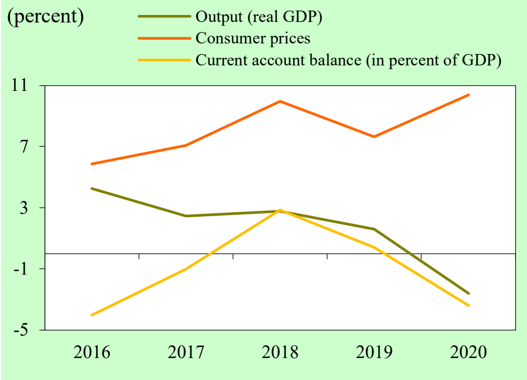

Table 1.3. Major Economic Variables in MENAP Region (percent)

	Real GDP (annual percent change)		Inflation (year average, percent)		Current account balance (in percent of GDP)	
	2019	2020	2019	2020	2019	2020
World	**2.8**	**-2.8**	**3.5**	**3.2**	**-**	**-**
Middle East, North Africa, Afghanistan, and Pakistan (MENAP)	**1.3**	**-2.7**	**7.8**	**10.8**	**0.7**	**-3.3**
Middle East and North Africa (MENA)	**1.0**	**-3.0**	**8.1**	**10.8**	**1.1**	**-3.6**
Oil exporters	0.1	-3.8	6.3	9.0	2.8	-3.3
Members of GCC	1.0	-4.7	-1.5	1.3	5.5	-1.1
Average-income emerging economies	3.9	-0.5	9.6	6.9	-5.9	-3.7
Low-income developing economies	-0.6	-4.2	33.4	89.7	-9.6	-13.1

Source: IMF, Regional Economic Outlook (Middle East and North Africa), October 2022 and 2023

Labor markets were unstable, leading to a rise in the rate of unemployment to almost 25 percent in Jordan during the second half of 2020. Unemployment rate for the youth, already at high levels due to structural factors, further increased to about 32 percent in Morocco, 36.5 percent in Tunisia, and 55 percent in Jordan during the fourth quarter of 2020.

1.4. Developments of the Prices of Raw Materials

In 2020, the outbreak of COVID-19 caused an unprecedented negative shock to oil demand, leading to a fall in oil prices. Global business shutdowns and countrywide lockdowns reduced oil demand after 9 years of increasing trends.

Oil price wars between Russia and Saudi Arabia started in March 2020 as the two countries failed to reach an agreement on production levels. The pandemic negatively impacted the oil industry, making US oil prices negative for the first time in its history. The futures contract for the West Texas Intermediate (WTI) in May decreased from 18 dollars to -37 dollars on April 20, 2020. Consequently, oil producers faced an excess amount of crude oil for which they had to find a storage capacity. The Brent crude prices also decreased from almost 70 dollars at the beginning of the year to about 9 dollars on April 21, 2020. In the summer of 2020, oil prices rebounded upon the lifting of lockdown restrictions and the OPEC agreement on major reductions in crude oil production; a trend that continued well into the rest of the year. Positive prospects regarding the planned supply of vaccines improved the outlook for the global oil market. Accordingly, the price of WTI topped 49 dollars and that of the Brent crude amounted to about 51 dollars by the end of the year.

In 2020, global demand for coal recorded its record decline since World War II, falling by 5 percent compared with 2019. This decrease was mainly related to the first months of the year, attributable to mild weather conditions, gas competitive prices, and countrywide lockdowns in China. Factors such as robust economic performance in China, continuation of economic recovery in India, and unprecedented chills in north-eastern Asia in December were among the most important factors raising demand for coal to levels higher than those prior to the pandemic.

Global gas consumption decreased by about 4 percent in 2020, as against a growth rate of more than 2 percent in 2019. This was due to the decline in global energy consumption during the outbreak. On the other hand, low gas prices and global green policies encouraged gas consumption rather than the use of pollutants such as oil and coal.

The price index of basic metals increased by about 30 percent on average during the August 2020-February 2021 period, mainly attributable to improvements in economic activities in China and other advanced economies as well as optimism in terms of financial incentives in the US. During 2020, the prices of copper and iron, as two key ingredients of construction, increased by 30 and 35 percent, respectively.

The price index of valuable metals, which had reached its peak in August 2020, decreased by 6.0 percent at the end of the year. The price index of food products and beverages increased by 20.0 percent on average during 2020, mainly attributable to the increase in the international prices of vegetable oils by 45.0 percent and grains by 40 percent. In the second half of the year, the prices of grains like wheat, corn, soybeans, and palm oil surged.

Figure 1.4. Price Index of Basic Commodities (2016=100)

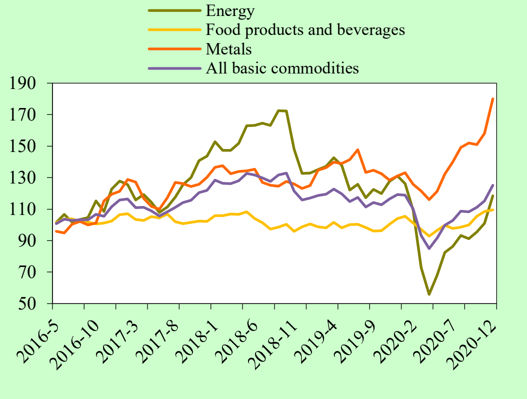

Figure 1.5. Price of Brent Crude (USD)