Country Report

Iran

July 2011

Economist Intelligence Unit
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Economist Intelligence Unit

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Iran

Executive summary

Outlook for 2011-15

Monthly review: July 2011

Data and charts

Country snapshot

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Ilam
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Karand
Sanandaj
Saqqez
Mahabad
Tabriz
Marand
Khvoy
Maku
Orumiyeh
L. Orumiyeh
Main railway
Main road
International boundary
Main airport
Capital
Major town
Other town
0 km 100 200 300 400
0 miles 100 200
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Executive summary

Highlights

July 2011

Outlook for 2011-15

- The supreme leader, Ayatollah Ali Khamenei, will struggle to oversee a power structure that is increasingly beset by sharp rivalries and mounting opposition to the confrontational president, Mahmoud Ahmadinejad.
- The 2012 parliamentary election is shaping up to be a trial of strength between regime factions, and the result could be an indicator of the outcome of the presidential election in 2013.
- The Economist Intelligence Unit does not expect a military confrontation between the US and Iran over the latter's nuclear programme. Multilateral talks are unlikely to make much headway, either.
- The hydrocarbons industry, which provides over 80% of government revenue, will continue to suffer from insufficient investment, as most foreign companies in effect remain excluded from the country.
- Iranian real GDP is forecast to grow by an average of only 2.4% in 2011-15 as private consumption growth slows in response to the severe subsidy cuts announced in 2010 on a range of everyday items.
- The government will take a larger role in the economy as Iran is forced to become more self-reliant in the face of international sanctions. The net fiscal balance will move a surplus of 2.7% of GDP in 2011 to a deficit of 1.2% in 2015.
- Iran's external account will be supported by high oil prices in the forecast period. We expect the current-account surplus to narrow from 6.5% of GDP in 2011 to 0.7% in 2015 as oil prices and production fall.

Monthly review

- The Iranian president, Mahmoud Ahmadinejad, has come under increased pressure from parliament, who have started proceedings to impeach the foreign minister, Ali Akbar Salehi, and forced the resignation of his deputy.
- The US has introduced new sanctions against Iran Air and Tidewater, a port-operating company. Iran has appealed to the UN, arguing that the ever-tightening sanctions "affect the lives of the entire Iranian population".
- A prominent Saudi prince, Turki al-Faisal, has warned that Saudi Arabia is prepared to use military, diplomatic and economic measures against Iran's nuclear programme.
- The Iranian rial has recovered strongly after a one-off 11% devaluation in early June.
- The IMF has issued an upbeat statement following the completion of its Article IV mission, adjusting its estimates for 2009/10 GDP growth to 3.5%, up from 0.1% in its previous estimation.

Outlook for 2011-15

Political outlook

Political stability

The Economist Intelligence Unit expects the two heads of the Iranian regime, the supreme leader (and ultimate religious and political authority), Ayatollah Ali Khamenei, and the hardline and confrontational president, Mahmoud Ahmadinejad, to retain their posts (although Mr Ahmadinejad will be required to step down at the end of his second term in 2013). However, the ties between the two will become increasingly frayed, as the supreme leader struggles to manage the political fallout from the actions and statements of the erratic and interventionist president. Equally, although the outpouring of dissent that followed the president's disputed electoral victory in June 2009 has now largely been stemmed, the country remains highly polarised, and these tensions will periodically rise to the surface during the forecast period, especially in the run-up to the 2012 parliamentary election.

There is little doubt that the supreme leader's legitimacy has been compromised in the wake of the protests in 2009, and his closeness to the president has done him considerable damage. This will prove a particular liability as the removal of subsidies on a host of basic goods and services pushes up the cost of living sharply. However, removing Ayatollah Khamenei could potentially lead to the whole theological doctrine of *velayat-e-faqih* (the rule of the supreme Islamic jurisprudent) being called into question. This is likely to deter the key regime stakeholders—ranging from members of parliament to the Revolutionary Guards and the heads of the *bonyad* (powerful Islamic charities with widespread business interests)—from taking such a radical course of action.

Nevertheless, Ayatollah Khamenei will be unable to re-establish a more settled *modus vivendi* with the president, and reformists as well as pragmatic conservatives will continue to oppose much of Mr Ahmadinejad's agenda. Pragmatic conservatives are especially concerned that the president has exceeded his powers—a view that religious conservatives are also becoming increasingly sympathetic to. These concerns were widely aired by conservative public figures and media outlets after Mr Ahmadinejad sacked the foreign minister in December and announced the merger of eight ministries into four in the spring of 2011. The supreme leader has taken a more prominent public role in recent months after rescinding, in effect, the president's dismissal of a minister. However, Ayatollah Khamenei will stop short of condoning the removal of the president to avoid any debilitating displays of disunity. This divisiveness at the centre of the Iranian polity, as well as the country's clerical class, will hinder policy implementation and slow the decision-making process. However, it is unlikely to produce any substantive changes in Iran's nuclear programme. Mr Ahmadinejad had, in early 2010, hinted at a more flexible stance towards international demands for Iran to suspend uranium enrichment, but was quickly vetoed by his political rivals. Since then, there has been no sign of any internal policy differences on the nuclear issue.

The political and social unrest that has erupted across much of the Arab world in 2011 could spread to Iran. Street protests in February were seemingly inspired by events in Tunisia, Egypt and elsewhere. However, the opposition movement appears to have been largely neutralised by the regime.

Election watch

A parliamentary election is due in 2012, and the next presidential election is scheduled for 2013. These will no doubt be closely watched given the protests that followed the disputed presidential election of June 2009. However, keen to prevent another repetition of those protests, the organs of the state, in particular the Guardian Council (which is responsible for vetting candidates), will ensure that the parliamentary election passes off with as little disruption as possible—and with only minimal debate and competition. Nevertheless, the elections may be a trial of strength between several competing regime factions. There may be subtle pressure from Iran's supreme leader to strengthen parliament as a counterweight to the presidency, with some of Mr Ahmadinejad's political foes receiving a boost. The reformist Green Movement appears to have lost much of its momentum in the wake of the 2009 presidential election and small-scale social unrest early in 2011.

Mr Ahmadinejad is in his second and constitutionally mandated final term, and those factions that have been sidelined during his divisive presidency—ranging from reformists to even fellow principlist conservatives, such as the parliamentary speaker, Ali Larijani—will be keen to regain the ascendancy once more. An apparent bid by the president to skew the election in favour of an ally, such as his former chief of staff, Esfandiar Rahim Mashaei, now appears to have been decisively checked. The active and even-handed intervention of the supreme leader will be crucial to avoid a repeat of the bitter 2009 election campaign (and the subsequent street protests).

International relations

Iran has had an exceptionally difficult relationship with the US since the 1979 Islamic revolution. Following the election of Barack Obama as US president, Iran was initially receptive to the idea of direct diplomatic talks with the US. However, despite Mr Obama's stated willingness to engage with and reach out to the Iranian leadership and people, the depth of animosity between the two countries and the growing domestic tensions in Iran mean that rapprochement will be an extremely difficult task.

The US administration has since toned down its overtures to Iran and from 2010 has worked hard to strengthen UN sanctions against the Islamic Republic, introducing a fourth round in June 2010. In response, Iran's approach has been to stress repeatedly its "rights" under the Nuclear Non-Proliferation Treaty, while seeking to win the sympathy of non-aligned countries. This tactic has enjoyed mixed success: Turkey and Brazil voted against the fourth round of sanctions, but China and Russia supported the resolution. We expect Iran's courting of non-aligned states to yield ever-decreasing returns over the forecast period, as Iran struggles to match the economic and diplomatic clout of the major powers.

Iran's ties with its regional Arab neighbours are already fractious, given mutual distrust and rivalry, and Arab fears of Iran's nuclear weapons programme. The Islamic Republic will also be on the receiving end of allegations that it is behind some of the regional unrest, particularly in the Gulf. Iran has made overtures to the caretaker military regime in Egypt in an attempt to mend relations after a 30-year period of hostility, following Egypt's sheltering of the shah after the Islamic revolution. Iran will continue to support Syria's president, Bashar al-Assad, as maintaining an alliance with Syria means that Iran will be able to continue to support Hizbullah, an armed Lebanese Shia group, and extend assistance to Palestinian groups that use Syria as a base.

With UN and bilateral sanctions beginning to bite, Iran will intermittently seek to restart talks, and two meetings with the P5+1 (the permanent members of the UN Security Council plus Germany) were held in December and January, although no substantive progress on the nuclear issue was reported. The appointment of Ali Akbar Salehi as foreign minister would appear to bode well for future talks (he is a nuclear expert and studied in the US), but foreign ministers have typically played a secondary role in the country's nuclear negotiations. In any case, there is seemingly little political will in either Iran or the US to compromise on the issue.

The US still appears keen to avoid a military escalation, and instead has reverted to its previous policy of isolating the Iranian regime, both militarily and diplomatically. Meanwhile, it will seek to prevent Israel from launching its own air strikes against Iran's nuclear facilities, although it may well consent to Israel taking punitive action against Iran's allies in the region.

Economic policy outlook

Policy trends

With Western companies increasingly avoiding Iran because of the tightening of sanctions and pressure from their governments, the second-term Ahmadinejad government will instead attempt to source much-needed investment (especially into its hydrocarbons sector) from Asia. However, with South Korea and Japan also imposing their own sanctions on the country, Iran's list of potential investment partners is diminishing, although China is likely to maintain a strong interest in its hydrocarbons sector. These trends will only reinforce the government's penchant for economic self-sufficiency, which will lead to increased pressure on domestic banks to provide greater project finance, including by finding buyers for bonds issued by Iranian energy firms. However, with the fiscal position weakening and the government's tendency to favour local over foreign firms where possible, especially in the energy and petrochemical sectors, Iran's oil production capacity target of 5.3m barrels/day (b/d) by 2015, up from around 3.6m b/d at present, will not be met. If the nuclear dispute were to worsen markedly—leading to an eventual embargo on Iranian oil exports or a drastic decline in Iranian output, or worse, military action—the impact on economic policymaking and domestic industry would be severe.

After several years of pursuing an expansionary fiscal policy, the government reined in spending in 2009 as oil revenue declined. However, we believe that this fiscal restraint will prove temporary, given the president's populist agenda. Outlays on public-sector wages and subsidies have risen rapidly, forcing the government to announce plans to phase out all subsidies by 2014 (with households given cash handouts to compensate). Elsewhere, progress on the privatisation programme will continue. The government claims to be meeting its target of privatising some 20% of state-owned firms each year, but many of the sales involve "justice shares" distributed to the public, and others have appeared to entail shifting assets between different parts of the Iranian state. Whatever the case, we expect the privatisation process to slow towards the latter half of the forecast period, as the number of available firms suitable for divestment diminishes.

Fiscal policy

Having been repeatedly delayed, the government's programme of phasing out all subsidies, which it is intending to complete in 2014, began in earnest in December 2010. The budget for fiscal year 2011/12 (March 21st-March 20th) was recently approved by parliament with an allocation of IR1,695trn (US$160bn) for the general budget, comprising current and capital expenditure. There is a much larger component for state-owned banks and enterprises, over which parliament has little scrutiny. The government will extend support for industry and manufacturing, reflecting not only the increasing difficulties many companies will face as electricity, water and gas rates increase, but also the growing importance of self-reliance as sanctions continue to deepen. Nevertheless, we still expect spending growth to slow in the latter half of the forecast period, in part because the deepening political deadlock is likely to delay new spending programmes.

Government oil export revenue should be lifted by the ending of the fuel subsidy, as domestic fuel consumption has begun to fall in response to higher prices. However, plans to boost non-oil revenue by broadening value-added tax (VAT) and raising business taxes will be hindered by widespread opposition, as was evident during strikes in July 2010 by merchants in protest at government plans to increase their rates. We believe that the gross fiscal account will record declining surpluses over the forecast period as lower oil prices and falling production take a toll on revenue.

On a net basis—that is, after money has been set aside for the National Development Fund, which is rumoured to have been depleted by the president to finance his politically motivated spending—we expect a fiscal deficit in 2013-15.

Monetary policy

The ability of Bank Markazi (the central bank) to conduct a proactive monetary policy is likely to be constrained in 2011-15. Monetary decision-making had, until recently, been taken over by Mr Ahmadinejad, who dismissed two central bank governors within a single year for refusing to comply with his unorthodox commands. In November parliament voted to remove the president from the central bank's board, although the decision is unlikely to be approved by the Guardian Council. In any case, Mahmoud Bahmani has been governor for two years and has had some success in reining in money supply growth and inflation, although the devaluation in the rial exchange rate in June highlighted the difficulties Bank Markazi will have in meeting the country's foreign-exchange requirements amid tightening global sanctions. In response to rising inflation, we expect Bank Markazi to start to increase interest rates by the end of the year.

Importantly, the central bank also has no control over the government's fiscal policy, in particular the wide-ranging subsidy-reduction programme. This situation is exacerbated by constraints on Bank Markazi's ability to deploy direct instruments to combat inflationary pressures, with the issuance of central bank participation papers, for instance, requiring the approval of parliament. More broadly, the poor functioning and weak financial intermediary role of the largely state-owned banking system will undermine the central bank's monetary effectiveness.

Economic forecast

International assumptions

	2010	2011	2012	2013	2014	2015
Economic growth (%)						
US GDP	2.9	2.4	2.5	2.6	2.6	2.7
OECD GDP	2.9	2.2	2.4	2.4	2.4	2.5
World GDP	3.8	3.0	3.2	3.2	3.1	3.2
World trade	13.6	7.7	6.2	6.2	6.3	6.5
Inflation indicators (% unless otherwise indicated)						
US CPI	1.6	2.7	2.1	2.3	2.5	2.5
OECD CPI	1.4	2.5	1.8	1.9	2.0	2.2
Manufactures (measured in US$)	3.4	6.0	-0.9	-0.1	1.4	2.2
Oil (Brent; US$/b)	79.6	108.5	94.5	90.0	85.0	83.0
Non-oil commodities (measured in US$)	24.3	30.1	-10.4	-7.1	-4.3	-1.2
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.3	0.3	0.7	1.5	2.7	2.8
Exchange rate IR:US$, official rate (av)	10,254	10,562	12,009	12,431	12,816	13,322
Exchange rate US$:€ (av)	1.33	1.38	1.26	1.20	1.23	1.28

Economic growth

Iranian real GDP growth is likely to remain modest (and far below potential) over the forecast period, with subsidy cuts introduced late last year taking their toll. Although the subsidy reductions had been trailed in advance, the unexpected scale of the changes is likely to depress private consumption (the largest single component of GDP) in the first half of the forecast period especially, despite compensatory cash handouts by the state. Exacerbating this situation, industry is also likely to be hard hit, although it is earmarked to receive 30% of the savings accrued by the government in compensation.

Iran's hydrocarbons sector will remain the country's economic engine. We believe that the government is unlikely to meet its gas production targets, which will in turn mean less gas available for reinjection to prolong the life of ageing oilfields. The government is attempting to make Iran self-sufficient in refined fuel by converting petrochemical plants to petrol refineries; this will cut into exports despite a target of trying to export petrol to its neighbours. More positively, growth will be buttressed by still strong government spending, supported by high oil prices, and the coming on stream of new gas projects in the South Pars field (albeit not as many as planned, and long behind schedule). Real GDP growth, having recovered to 2.9% in 2010/11, will slip to just 2% in 2011/12, before slowly recovering over the remainder of the forecast period (as the impact of the subsidy cuts begins to fade). The sluggish economic performance will have implications for unemployment (especially in light of Iran's young population), which we expect to rise steadily over the forecast period.

Given the dependence of Iran on oil revenue and the growing need for greater investment in the hydrocarbons industry in order to raise oil and gas production capacity, the imposition, and even the threat, of further sanctions is likely to have a long-term detrimental impact on the economy. The controversy over Iran's nuclear programme is depriving the country of much-needed European investment, and expectations that Asian investors would fill the breach have not materialised. Although the likelihood of direct UN sanctions on the oil sector remains low at present, future punitive measures against the sector (sanctions targeting the hydrocarbons sector have been approved by the US and EU) would worsen the already relatively weak economic outlook, and there is thus considerable downside risk to these forecasts.

Economic growth

%	2010[a]	2011[b]	2012[b]	2013[b]	2014[b]	2015[b]
GDP	2.9	2.0	2.2	2.5	2.5	2.8
Private consumption	2.6	0.3	1.2	1.5	1.8	2.7
Government consumption	2.2	3.1	2.4	2.5	2.5	2.4
Gross fixed investment	3.0	3.3	3.4	3.7	3.9	4.0
Exports of goods & services	0.2	-0.2	-0.9	-1.4	-1.5	-1.5
Imports of goods & services	4.0	-0.1	0.8	1.1	1.6	2.9
Domestic demand	3.6	1.9	2.3	2.8	2.8	3.3
Agriculture	3.5	4.0	4.4	4.3	4.3	4.0
Industry	-0.5	-0.8	-1.0	-1.5	-2.0	-1.7
Services	5.0	3.3	3.5	4.4	4.5	4.7

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts.

Inflation

The removal of subsidies has led to a sharp increase in fuel, electricity and flour prices. However, the impact will be minimised by the fact that the availability of such heavily subsidised items was probably restricted in any case. Inflation had reached 19.7% year on year in the Iranian month of Farvardin (ending April 21st), and we still expect a sharp increase in consumer price growth this year, to an average of over 20% (compared with an average of 10.1% in 2010). With the phased removal of subsidies planned to occur over almost the entirety of the forecast period, we expect inflation to average 16.3% in 2012-14, but to fall back in 2015 following the completion of the subsidy-reduction programme.

Exchange rates

We expect the central bank to continue to try to maintain tight control over the exchange rate, with the objective of managing a gradual depreciation. This effort faced a stiff challenge in the second quarter of 2011, as a wide differential opened up between the official rate and the parallel market rate. The central bank responded with a snap devaluation on June 8th, which was reversed over the next few weeks, mainly as a result of the central bank's readiness to pump foreign reserves into the market. The devaluation (and subsequent revaluation), indicates that Bank Markazi is willing to use a number of instruments it has at its disposal to support the local currency. However, the central bank has also indicated that some of the depreciation reflects fundamentals. Consequently, we project that the official rate will fall from an average of IR10,254:US$1 in 2010 to IR11,992:US$1 in 2015.

External sector

With oil production stagnant and non-oil exports dampened because of sanctions, we estimate that the trade surplus stayed level in 2010/11, at around US$26bn. We expect the trade surplus to narrow markedly over the forecast period, declining to US$14.6bn in 2015/16. However, Iran's external position will benefit from high oil prices in the first few years of the forecast period. The non-merchandise deficit is expected to remain relatively steady. The stagnant import bill is likely to suppress growth in services debits, and income debits should be depressed by reduced foreign participation in the Iranian economy. We expect the current-account surplus to narrow from an estimated US$31bn (6.5% of GDP) in 2011/12 to US$5.3bn in 2015/16, largely reflecting the country's deteriorating trade position.

Forecast summary

(% unless otherwise indicated)

	2010[a]	2011[b]	2012[b]	2013[b]	2014[b]	2015[b]
Real GDP growth	2.9	2.0	2.2	2.5	2.5	2.8
Crude oil production ('000 b/d)	3,700[c]	3,680	3,680	3,620	3,600	3,570
Oil exports (US$ m)	65,855	81,039	71,750	66,996	62,931	58,862
Consumer price inflation (av)	10.1	20.5	16.5	16.0	15.6	13.0
Consumer price inflation (end-period)	12.8	17.0	16.1	15.8	15.0	12.4
1-year deposit rate	11.9	12.2	12.5	12.5	12.3	12.3
Official net budget balance (% of GDP)[d]	0.1	2.7	0.2	-0.7	-1.1	-1.2
Unofficial gross budget balance (% of GDP)[e]	5.1	6.6	3.0	1.5	0.9	0.5
Exports of goods fob (US$ bn)	84.9	99.8	90.3	85.7	82.1	78.8
Imports of goods fob (US$ bn)	59.0	59.3	59.2	60.1	61.9	64.2
Current-account balance (US$ bn)[f]	16.0	31.0	21.3	14.9	10.3	5.3
Current-account balance (% of GDP)	3.8	6.5	3.9	2.4	1.5	0.7
External debt (end-period; US$ bn)	14.3	14.8	14.1	13.8	13.9	14.5
Exchange rate IR:US$ (av)	10,254[c]	10,562	10,879	11,238	11,586	11,992
Exchange rate IR:US$ (end-period)	10,353[c]	10,720	11,058	11,412	11,790	12,197
Exchange rate IR:¥100 (av)	11,668[c]	12,837	13,430	13,874	14,108	14,361
Exchange rate IR:€ (end-period)	14,059[c]	14,151	13,491	13,808	14,678	15,729

[a] Economist Intelligence Unit estimates. [b] Economist Intelligence Unit forecasts. [c] Actual. [d] Excludes payments into the oil stabilisation fund (OSF). [e] Includes payments into the OSF as revenue. [f] Data for Iranian fiscal years (March 21st-March 20th).

Monthly review: July 2011

The political scene

President comes under growing political pressure

The Iranian president, Mahmoud Ahmadinejad, remains under severe political pressure following a series of public confrontations with the country's supreme leader, Ayatollah Ali Khamenei. In May Mr Ahmadinejad dismissed the intelligence minister, Haidar Moslehi, but was forced by Ayatollah Khamenei to reinstate him shortly afterwards (May 2011, The political scene). In response, Mr Ahmadinejad refused to attend cabinet meetings for 11 days. The spat between the president and the supreme leader has emboldened parliament, judges and the Guardian Council to show greater assertiveness towards Mr Ahmadinejad, who they consider to have been weakened.

Ayatollah Khamenei appears to want Mr Ahmadinejad to serve out the remaining two years of his second, and final, term in office, to avert further political turbulence, but the situation remains fluid. The Iranian parliament is conducting an inquiry, after a decision in May, into claims that Mr Ahmadinejad's government improperly used public money to influence the 2009 presidential election. The move is widely seen as being intended primarily to deter irregularities in the parliamentary elections due next March, as well as the presidential election due in 2013.

The president and parliament are also at odds over the reorganisation of government ministries and appointment of ministers. Eight ministries—out of 21—now face uncertainty over whether they are being merged, as both the president and the parliament, which insists it controls government restructuring, have put forward alternative proposals for the reorganisation programme (June 2011, The political scene).

Mr Ahmadinejad's appointment in June of Mohammed Ali-Abadi as caretaker oil minister is controversial and has done nothing to cool tempers in parliament (the Guardian Council, which oversees constitutional affairs in the country, earlier ruled out the president's plan to make himself caretaker after he fired the previous minister in May). Mr Ali-Abadi is a close ally of the president, and was deputy mayor when Mr Ahmadinejad was mayor of Tehran. He has no experience in the oil industry.

A further source of friction was the decision by parliament's committee on Article 90, which deals with alleged rule-breaking by the government, to refer Mr Ahmadinejad to the judiciary over his refusal to establish a sports and youth ministry as required by legislation, and his failure to disburse money for the Tehran metro. This could lead to questioning in parliament or even impeachment.

Matters took a further twist in late June, when the parliament launched impeachment proceedings against the foreign minister, Ali Akbar Salehi, over the appointment of his deputy, Mohammed Sharif Malekzadeh, who subsequently resigned and was then arrested on corruption charges on June 23rd, along with the heads of the Arvand and Aras free-trade zones, both seen as being close to Mr Ahmadinejad. Mr Malekzadeh is closely associated with the president's controversial former chief of staff, Esfandiar Rahim Mashaei. In remarks to reporters following the arrests (which were not broadcast on state television), Mr Ahmadinejad threatened to "raise the problems with the people" responsible for the arrests, and was also reported to have said the arrests were "politically motivated".

With the perception that Mr Ahmadinejad has challenged the authority of the supreme leader, it has become common in conservative circles to refer to the president and his associates as the "deviant current". Conservative critics of Mr Ahmadinejad look forward to a defeat of his allies in the parliamentary election due in 2012, and towards the election of a more consensual conservative as president in 2013. But it remains unclear whether Mr Ahmadinejad will continue serving what is increasingly becoming a lame-duck presidency. The situation remains unstable and risks undermining the ability of government to function cohesively or carry out a major reform of public finances with the phasing out of universal subsidies. It also faces growing international pressure over the nuclear programme.

US adds to sanctions

Iran's ambassador to the UN, Mohammed Khazaee, wrote to the UN secretary-general, Ban Ki-moon, at the end of June, condemning new US sanctions against Iran Air and Tidewater, a port-operating company, as a violation of international law. Mr Khazaee's letter said that although the US claimed its actions were "focused on certain companies and legal and real entities involved in those activities supporting Iran's nuclear programme", its real intention was to "affect the lives of the entire Iranian population".

The US alleged that Tidewater, which it said was owned by the Islamic Revolutionary Guards Corps (IRGC) operated at seven Iranian ports, including Bandar Abbas, where it handled "illicit shipments", while accusing Iran Air of shipping military-related electronic parts and mechanical equipment for the Ministry of Defence and Armed Forces Logistics since 2000 and military-related equipment on behalf of the IRGC since 2006.

The US administration also accused Iran of assisting Syria's crackdown on opposition protesters. Sanctions unveiled by the Treasury Department identified Iran's national police force and two senior officials, Ismail Ahmadi-Moghaddam, the chief of Iran's Law Enforcement Forces, and his deputy, Ahmad-Reza Radan, who the US said travelled to Syria in February.

The new sanctions allow US authorities to freeze the assets of any named individual or entity. Essentially, they extend UN Security Council Resolution 1929, passed in June 2010, which imposed travel restrictions and blocked assets for specific individuals and entities, including the IRGC, accused of supporting Iran's nuclear and missile programmes (June 2010, The political scene).

Saudi prince advocates tighter squeeze on Iran

In a further sign of rising regional tensions, an influential Saudi prince, Turki al-Faisal, a former intelligence chief and ambassador, warned that Saudi Arabia was prepared to use military, diplomatic and economic measures against Iran's nuclear programme. His widely published remarks, made during a briefing for military officers in England in June, raised the prospect of Saudi Arabia developing nuclear weapons if Iran did. Prince Turki accused Iran of "meddling" in Gulf affairs. He also pointed out that Iran was "very vulnerable in the oil sector" and that "more could be done to squeeze the current government" as any reduction in oil revenue would cripple the government's finances. Saudi Arabia has been unnerved by the Arab Spring, and has sent troops to Bahrain to shore up the government there. It is also jostling with Iran over Syria, Lebanon and Yemen as well as the Persian Gulf. However, it is not clear to what extent the prince's remarks reflect official thinking. He does not have a defined role in the Saudi establishment, and has a record of self-publicity.

Iran tests missiles

In exercises beginning in late June code-named Great Prophet-6, Iran tested short-, medium- and long-range missiles, including the Khalij-Fars, Sejil, Fateh, Ghiam, and Shahab-1 and Shahab-2 rockets. As the exercises began, state television broadcast images of underground silos it said would make Iran's missiles less vulnerable to attack, and showed footage of an underground launching pad for what it called the Shahab-3, which has a range of about 2,000 km. Large missiles require fixed launching pads or silos, whereas smaller ones can be fired from mobile platforms.

After the tests were carried out, the state-owned Islamic Republic News Agency (IRNA) said that the missile range had been designed to take US regional military bases and Israel into consideration. The US State Department pointed out that UN Security Council Resolution 1929 barred Iran from any activity related to ballistic missiles that could carry nuclear weapons, and called the stipulations of the resolution "an important red line for us". William Hague, the British foreign secretary, told parliament in London that Iran had been carrying out covert tests, separate from the announced military exercises, in which it used missiles capable of delivering a nuclear weapon. Iran denied the claim.

Economic policy

IMF is upbeat on Iranian economy

In mid-June, the IMF issued a statement, issued on the completion of an annual Article IV mission, in which it revised earlier figures, presenting a relatively upbeat view of the economy. The IMF adjusted real GDP growth to an estimated 3.5% for 2009/10 (March 21st-March 20th), up from a figure of 0.1% given in the April 2011 IMF report on the world economy. This is despite falling oil prices at that time, and reflects what the Fund called "strong non-oil growth and an exceptional agriculture crop". The IMF also noted that successful monetary policy had brought down annual average inflation from 25.4% in 2008/09 to 12.4% in 2010/11.

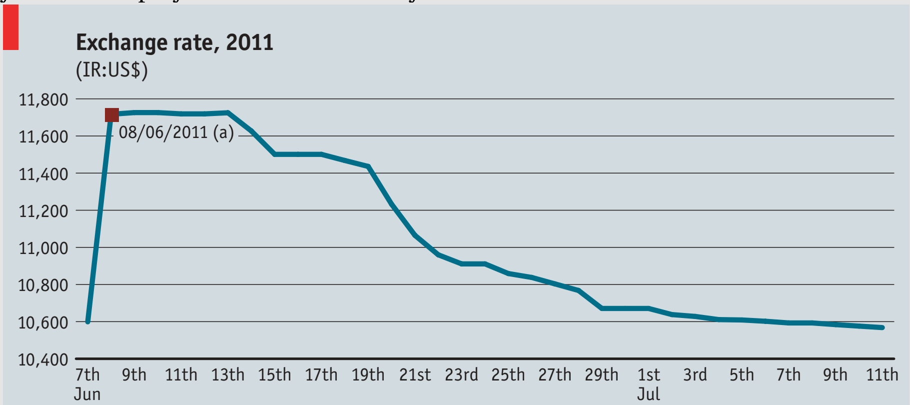
The fund commended "early success" in the reform of subsidies, noting that the price increases in December 2010 of energy products, public transport, wheat and petrol had removed close to US$60bn (about 15% of GDP) in yearly subsidy payments. The IMF argued that the redistribution of the revenue to households as cash payments had reduced inequality, improved living standards and bolstered domestic demand; and that price rises in energy were reducing consumption and waste.

The Economist Intelligence Unit estimates that growth was slower in 2009/10, at 2.1%, owing to the sharp fall in oil export revenue. The IMF said that the positive growth momentum continued into 2010/11, but did not give a figure. It commented with approval on the subsidy reforms, but included an implicit criticism of the way the Iranian economy has been run thus far by observing that these measures will bring "economic activity in Iran closer to its full potential".

In focus: Bank Markazi devalues the rial by over 11%

The Iranian central bank, Bank Markazi, cut the exchange rate to IR11,750:US$1 from IR10,570:US$1 on June 8th, in an apparent reaction to the opening up of a widening differential between the official rate and a parallel-market rate. The bank's governor, Mahmoud Bahmani, announced a week later that Markazi would take several other measures to ensure that further devaluation would be unnecessary. These would include pushing up interest rates (in effect reversing a directive in April in which banks were instructed to halve lending rates), injecting between US$1.5bn and US$3bn of hard currency into the market every week, and getting the government to abolish a recently introduced sales tax on gold. The devaluation was short-lived, as the currency recovered from late-June, and reached IR10,568:US$1 on July 11th.

The broad intention of the central bank seems to be to attract savings back into local-currency deposits after Iranians have chosen to invest the cash that they are receiving from the government in lieu of subsidies in a wide range of other asset classes. It was clear that much of the cash handed out at the start of the current Iranian fiscal year (March 21st-March 20th), in which US$59bn has been allocated to compensate for the removal of subsidies, had been invested in the purchase of gold. When the government moved to deter this practice by introducing a sales tax on gold, it seems that this merely stoked up demand for foreign currency as a safe haven. Iranian investors have also poured money into the local stockmarket, which rose by 68% last year and is up by one-third so far this year.



(a) Devaluation.
Sources: Economist Intelligence Unit; Bank Markazi.

The president, Mahmoud Ahmadinejad, has intervened in the past to block moves by the monetary authorities to increase interest rates as a means to counter inflation, but his powers over monetary policy have been stripped away, and the central bank now seems to be intent on returning real interest rates to positive territory. Bank Markazi is also well positioned to intervene in the currency market, as its stock of foreign-exchange reserves will have been boosted by higher state revenue from oil exports.

The quick reversal of the 11% devaluation suggests that the central bank wants to maintain some downward pressure on inflation, which is being pushed up by the effects of the removal of subsidies on a wide range of goods. The official inflation rate was just under 20% in April, according to the most recent figures available from Bank Markazi. However, existing concerns as to the accuracy of inflation data have been amplified by reports that the central bank has been instructed to hand over prime responsibility for presenting such data to a central statistics bureau—this could potentially result in an improvement, but the impact will be unclear until the government provides more details.

The Economist Intelligence Unit expects inflation to average just over 20% in 2011 as a result of the subsidy removals and the increased costs associated with tighter economic sanctions. This is likely to ensure that the exchange rate will remain under pressure, despite the central bank's success in stabilising the currency in the short term. However, once the price adjustments have been made, inflation should start to ease.

International tension over oil output

Iran and Saudi Arabia led rival blocs at the OPEC meeting in early June, with Iran successfully resisting Saudi arguments for an increase in output to ease rising prices and make up for the disruption to supplies from Libya. OPEC decided to maintain output at 24.84m barrels/day (b/d), with the option of reconvening within the next three months to discuss an increase.

Later in the month, the Paris-based, 28-member International Energy Agency (IEA) announced that it would release 2m b/d of oil for 30 days beginning in July, in order to fill the gap left by the disruption in Libya's output. The US has welcomed the IEA action, and said it would release 30m barrels over a period of one month from its own Strategic Petroleum Reserve.

Iran criticised the IEA decision as being politically motivated, designed to put pressure on some producers, and said it would not affect the market in the long run. Iran's caretaker oil minister, Mohammed Ali-Abadi, said Saudi Arabia had argued unsuccessfully at OPEC for an increase of 2.85m b/d, while threatening to raise its output unilaterally. Mr Ali-Abadi also noted that this was the first time many OPEC members had not followed the Saudi lead.

The OPEC secretary-general, Abdalla el-Badri, said differences between OPEC members reflected differing views about production and were "nothing to do" with politics. The IEA and the US said releasing extra oil would help the world economy, although many economists argue that the current difficulties, especially in Europe, are not the result of rising oil prices, but have other, deeper-lying causes.

Economic performance

South Pars “very far behind”

The spokesman for the Iranian parliament's energy commission, Emad Hosseini, said in June that progress with the South Pars gasfield had been delayed by international sanctions. Mr Hosseini told the Fars news agency that Iran was "very far behind" in plans and that it "should have had 30% progress by now". Mr Hosseini added that the delay was partly due to Chinese contractors, but Fars also reported that nine South Pars projects awarded in June 2010 to Iranian companies were all behind schedule.

Many projects in South Pars were reassigned to Chinese or Iranian firms following the withdrawal of Western firms under US pressure. Mr Hosseini said that Iran might need to reconsider the role of the Chinese companies if they failed to deliver. The Mehr news agency reported that the National Iranian Oil Company (NIOC) had warned China National Petroleum Corporation (CNPC) that it might lose its contract at the South Pars gasfield—although the agency also quoted CNPC officials blaming financial restrictions for delays. CNPC reached an agreement with NIOC in 2009 to develop phase 11 of South Pars (replacing Total of France), which is scheduled to produce about 1.8bn cu ft/day of natural gas and 70,000 b/d of condensates. The state-owned company, China's largest oil and gas producer and supplier, also has projects at the Masjed-i-Suleiman, North Azadegan, South Azadegan, and Kuhdasht oilfields. Its subsidiary, PetroChina, is listed in New York and therefore vulnerable to punitive US action.

The Iranian parliament has often expressed concern over slow development of South Pars, which is shared between Iran and Qatar. Iran's share of the field holds around 14trn cu metres of gas, or around 6% of the world's total gas reserves.

Iran's oil and gas output up for 2010: BP

According to UK-based BP's *Statistical Review of World Energy 2011*, Iran increased production of crude oil and natural gas in 2010 by 0.9% and 5.6%, respectively. Oil output rose from 4.199m b/d to 4.245m b/d, and gas from 138.5bn cu metres from 131.2bn cubic metres in 2009. This made Iran, with 5.2% of global oil output, the fourth-largest producer after Russia, Saudi Arabia and the US. With 4.3% of natural gas production, Iran was also fourth in gas production behind the US, Russia and Canada. The increases were achieved in the face of US-led sanctions that have substantially reduced investment in Iranian energy, but Iran continues to face the danger of production declines without an injection of foreign investment.

Seifollah Jashnsaz, the head of NIOC, said last year that Iran needed to invest between US$24bn and US$30bn a year in its oil industry to reach the goals outlined in the 20-year development plan for 2005-25. Masoud Mir-Kazemi, Iran's former oil minister, said in 2010 that Iran required US$150bn-200bn of investment in energy over five to six years to avoid falling output.

Data and charts

Annual data and forecast

	2006[a]	2007[a]	2008[b]	2009[b]	2010[b]	2011[c]	2012[c]
GDP							
Nominal GDP (US$ m)	222,881	286,058	344,823	371,424	418,318	473,590	540,058
Nominal GDP (IR trn)	2,044	2,655	3,251	3,664	4,290	5,002	5,875
Real GDP growth (%)	5.8	7.8	6.5	2.1	2.9	2.0	2.2
Expenditure on GDP (% real change)							
Private consumption	6.2	9.1	8.5	4.8	2.6	0.3	1.2
Government consumption	7.4	-4.3	5.0	4.3	2.2	3.1	2.4
Gross fixed investment	3.3	6.0	5.8	3.5	3.0	3.3	3.4
Exports of goods & services	2.0[b]	6.0[b]	4.0	-3.8	0.2	-0.2	-0.9
Imports of goods & services	4.0[b]	8.3[b]	9.0	5.5	4.0	-0.1	0.8
Origin of GDP (% real change)							
Agriculture	4.7	6.2	3.0	2.8	3.5	4.0	4.4
Industry	6.9	7.9	4.5	-1.0	-0.5	-0.8	-1.0
Services	6.5	6.8	5.8	4.0	5.0	3.3	3.5
Population and income							
Population (m)	71.6	72.4	73.3[a]	74.2	75.1	75.9	76.8
GDP per head (US$ at PPP)	9,689	10,627	11,433	11,635	11,941	12,228	12,673
Recorded unemployment (av; %)	12.1	12.3[b]	12.5	12.9	13.2	14.1	15.0
Fiscal indicators (% of GDP)							
Public-sector revenue[d]	39.1	39.7	35.4	29.4	26.7	28.4	24.5
Public-sector expenditure	27.5	21.4	24.8	21.6	21.5	21.8	21.5
Public-sector balance[d]	-7.2	-3.6	-6.5	-4.6	0.1	2.7	0.2
Net public debt	24.3	21.0[b]	18.3	18.5	16.3	12.2	10.5
Prices and financial indicators							
Exchange rate IR:US$ (av)	9,171	9,281	9,429[a]	9,864[a]	10,254[a]	10,562	10,879
Exchange rate IR:US$ (end-period)	9,223	9,282	9,825[a]	9,984[a]	10,353[a]	10,720	11,058
Consumer prices (av; %)	11.6	17.1	25.5[a]	13.5[a]	10.1	20.5	16.5
Stock of money M1 (% change)	25.7	30.5	2.8[a]	9.3[a]	8.0	18.0	13.0
Stock of money M2 (% change)	29.0	30.6	7.9[a]	27.7[a]	17.4	18.7	18.3
Lending interest rate (av; %)	14.0	12.5	12.0	12.0	12.5	12.5	12.5
Current account (US$ m)							
Trade balance	26,203	39,428	31,090[a]	25,751	25,952	40,554	31,138
Goods: exports fob	76,190	97,668	101,289[a]	84,718	84,919	99,816	90,311
Goods: imports fob	-49,987	-58,240	-70,199[a]	-58,967	-58,967	-59,262	-59,173
Services balance	-9,241[b]	-11,260[b]	-13,826	-10,934	-11,254	-11,343	-11,320
Income balance	3,109[b]	3,783[b]	3,832	2,121	480	947	614
Current transfers balance	513	642	811[a]	876	858	841	866
Current-account balance	20,584	32,593	21,907[a]	17,814	16,036	30,999	21,300
External debt (US$ m)							
Debt stock	19,386	21,072	13,967[a]	13,435[a]	14,345	14,751	14,059
Debt service paid	2,751	2,953	2,778[a]	2,578[a]	1,974	2,382	2,435
Principal repayments	1,718	2,006	2,162[a]	2,093[a]	1,362	1,620	1,607
Interest	1,033	946	616[a]	485[a]	612	762	828
International reserves (US$ m)							
Total international reserves	58,459[b]	82,059[b]	96,559	81,309	75,060	79,860	78,360

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Excludes payments into the oil stabilisation fund (OSF).

Source: IMF, *International Financial Statistics*.

Quarterly data

	2009				2010			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Central government finance (IR bn) [a]								
Revenue	135,986	164,864	150,400	172,113	158,200	232,093	185,097	n/a
Expenditure	126,950	227,102	174,963	262,942	154,757	223,496	222,682	n/a
Balance	9,036	-62,238	-24,563	-90,828	3,443	8,597	-37,585	n/a
Prices								
Consumer prices (2000=100)	191.6	196.8	201.7	204.7	209.0	215.1	221.2	230.1
Consumer prices (% change, year on year)	20.8	15.0	12.1	7.5	9.0	9.3	9.7	12.4
Wholesale prices, general (2000=100)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wholesale prices, general (% change year on year)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Financial indicators								
Exchange rate IR:US$ (av)	9,768	9,842	9,920	9,927	9,973	10,257	10,395	10,392
Exchange rate IR:US$ (end-period)	9,924	9,929	9,899	9,984	10,012	10,483	10,198	10,353
M1 (end-period; IR trn) [b]	497	463	486	481	n/a	n/a	n/a	n/a
M1 (% change, year on year)	-1.1	4.4	4.4	9.3	n/a	n/a	n/a	n/a
M2 (end-period; IR trn) [b]	1,300	1,337	1,427	1,470	n/a	n/a	n/a	n/a
M2 (% change, year on year)	11.9	18.7	23.5	27.7	n/a	n/a	n/a	n/a
Sectoral trends								
Crude oil production (m barrels/day)	3.76	3.72	3.77	3.69	3.71	3.73	3.69	3.67
Crude oil prices (US$/barrel)								
OPEC basket	45.78	68.36	67.17	n/a	75.40	76.59	73.80	n/a
Iranian Heavy	44.52	68.16	66.43	74.53	75.06	76.00	72.60	n/a
Balance of payments (US$ m) [a]								
Exports fob	17,972	22,522	22,979	24,601	24,391	26,421	25,651	n/a
Oil & gas	13,835	17,498	17,056	18,658	19,543	21,207	19,589	n/a
Imports fob	13,863	15,773	17,801	19,161	16,251	15,613	19,192	n/a
Trade balance	4,110	6,749	5,178	4,899	8,140	10,808	8,188	n/a
Current-account balance	1,070	3,986	3,258	1,968	5,248	7,258	4,630	n/a

[a] Iranian fiscal year (March 21st-March 20th). [b] 20th of month.

Sources: Bank Markazi, *Economic Trends*; International Energy Agency, *Monthly Oil Market Report*; IMF, *International Financial Statistics*; Platts.

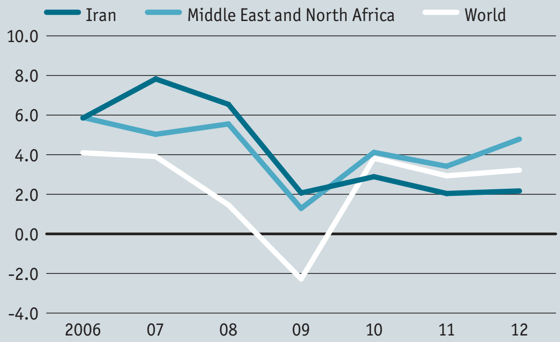
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate IR:US$ (av)												
2009	9,865	9,546	9,894	9,972	9,772	9,782	9,935	9,939	9,885	9,900	9,911	9,970
2010	9,997	9,962	9,958	10,052	10,286	10,433	10,396	10,428	10,363	10,443	10,367	10,365
2011	10,339	10,325	10,338	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate IR:US$ (end-period)												
2009	9,670	9,310	9,924	9,792	9,657	9,929	9,963	9,925	9,899	9,948	9,914	9,984
2010	10,008	10,038	10,012	10,075	10,405	10,483	10,385	10,464	10,198	10,407	10,399	10,353
2011	10,352	10,304	10,400	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (% change, year on year)												
2009	2.6	-1.3	-1.1	0.7	-1.9	4.4	3.8	3.9	4.4	2.3	4.5	9.3
2010	7.7	14.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (% change, year on year)												
2009	10.5	11.1	11.9	14.6	14.5	18.7	20.8	22.7	23.5	23.3	24.7	27.7
2010	25.4	24.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2009	14.0	14.1	14.1	13.0	13.0	12.9	12.9	12.9	12.9	13.0	13.1	13.1
2010	13.2	13.3	13.3	11.6	11.7	11.7	11.7	11.7	11.8	11.9	11.9	11.9
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (end-period; %)												
2009	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2010	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
2011	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2009	24.0	20.8	17.8	15.5	15.0	14.5	14.0	13.1	9.3	7.6	7.4	7.4
2010	7.8	8.9	10.4	10.3	9.4	8.3	9.4	9.6	10.0	11.9	12.5	12.8
2011	15.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, *International Financial Statistics*; Haver Analytics.

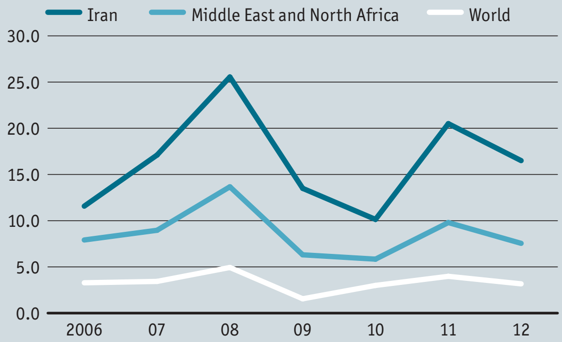
Annual trends charts

Real GDP growth
(% change)



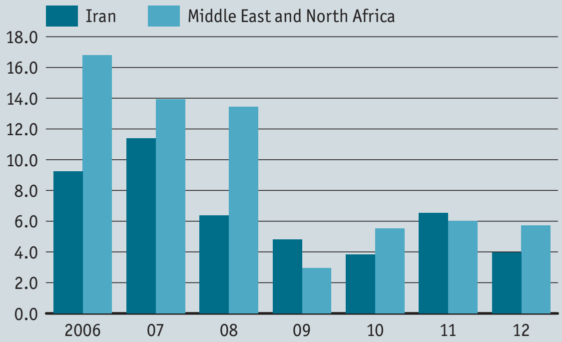
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



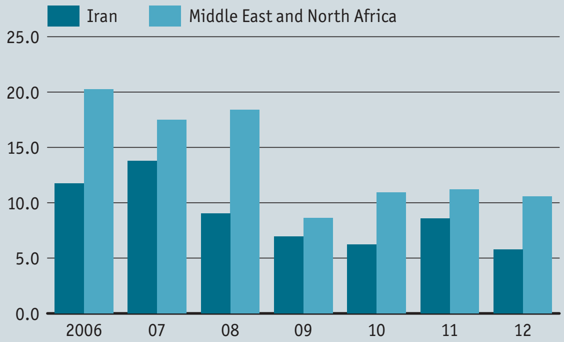
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



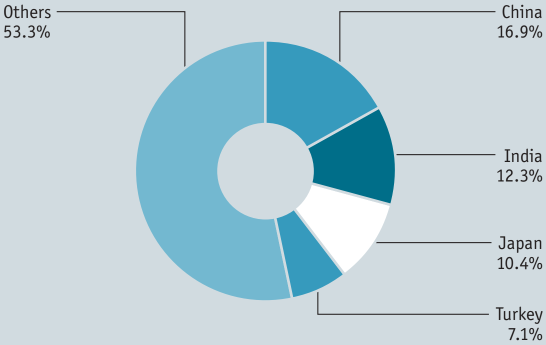
Source: Economist Intelligence Unit.

Trade balance
(% of GDP)



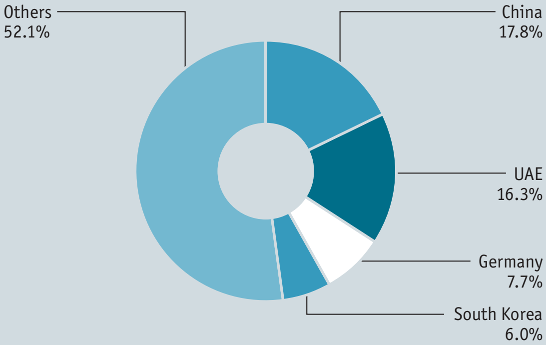
Source: Economist Intelligence Unit.

Main destinations of exports, 2010
(share of total)



Source: Economist Intelligence Unit.

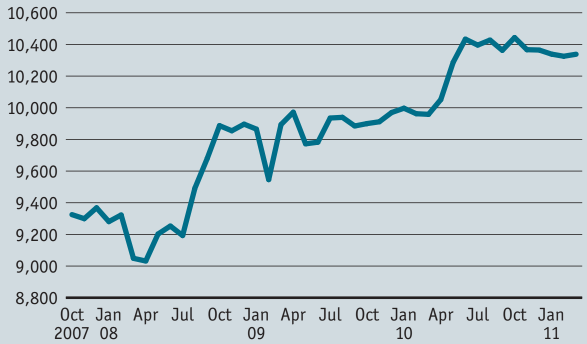
Main origins of imports, 2010
(share of total)



Source: Economist Intelligence Unit.

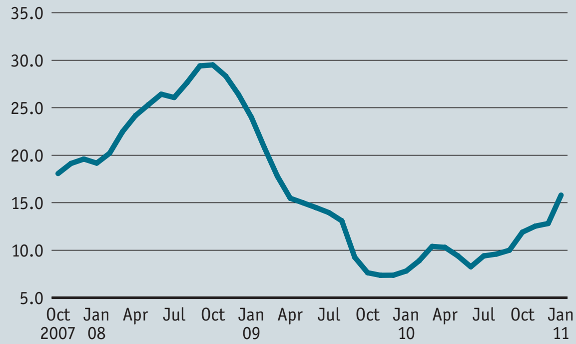
Monthly trends charts

Exchange rate
(IR:US$; av)



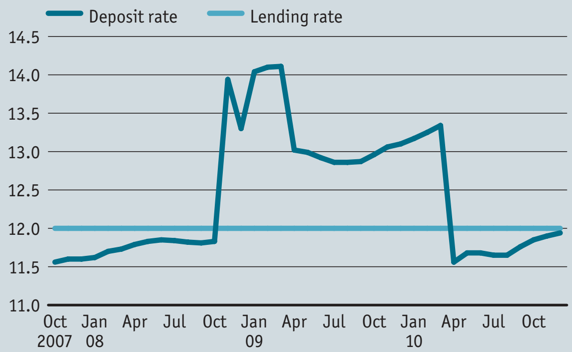
Source: Economist Intelligence Unit.

Consumer price inflation
(% change, year on year)



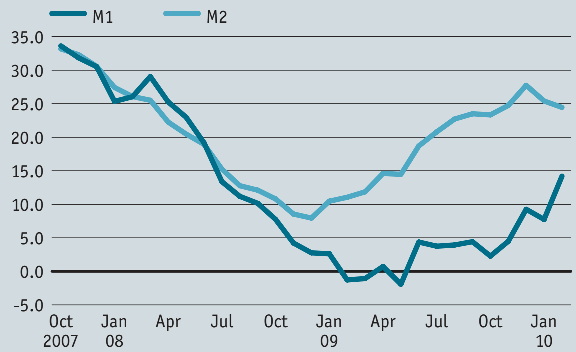
Source: Economist Intelligence Unit.

Interest rates
(av; %)



Source: Economist Intelligence Unit.

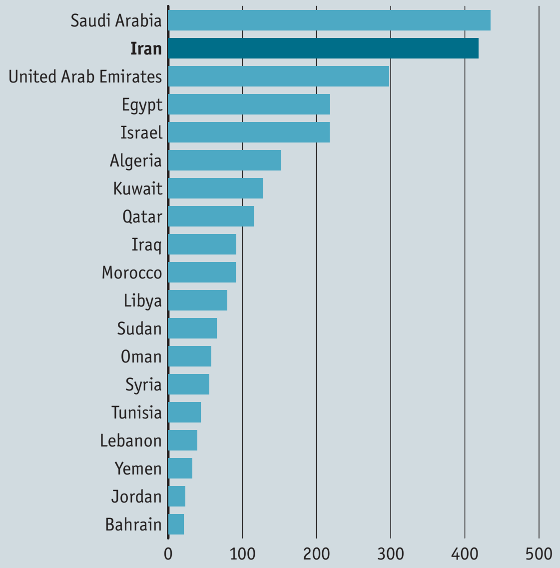
Monetary aggregates
(% change, year on year)



Source: Economist Intelligence Unit.

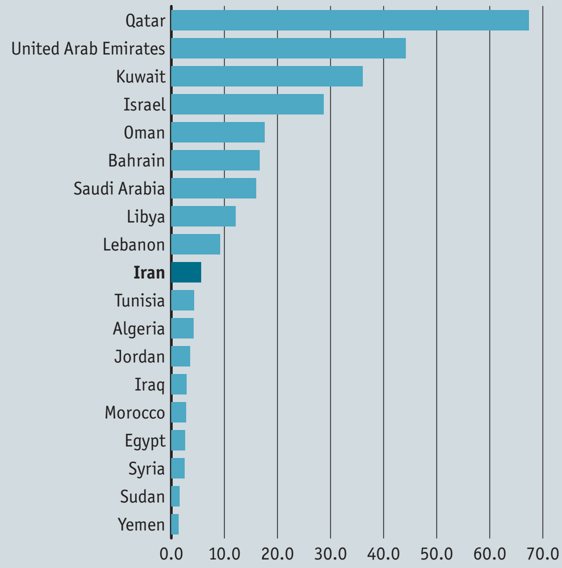
Comparative economic indicators, 2010

Gross domestic product
(US$ bn; market exchange rates)



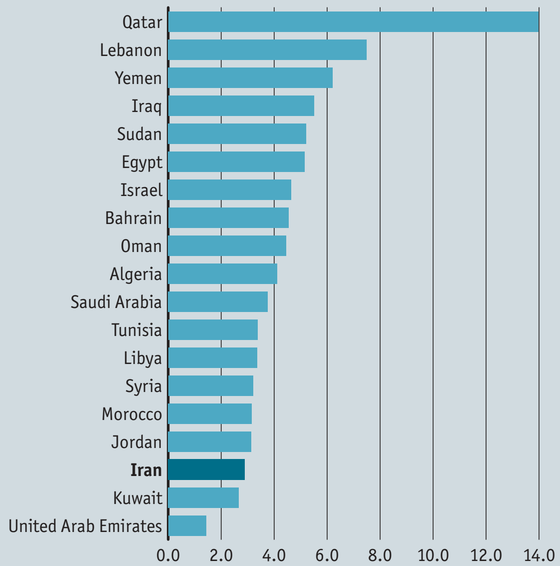
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



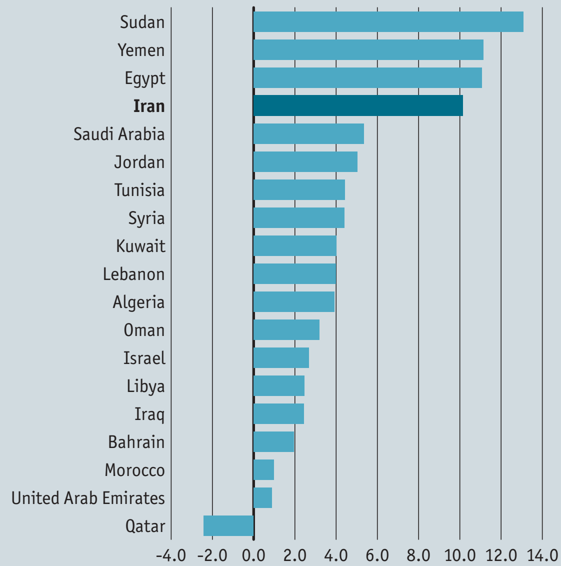
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Total area
163.6m ha

Population
55.8m (1996 census); 73.3m (IMF year-end 2008)

Towns with populations in excess of 500,000
Population in '000 (2007 Economist Intelligence Unit estimates)

Tehran (capital)	7,705	Shiraz	1,205
Mashhad	2,411	Qom	1,042
Isfahan	1,583	Ahvaz	790
Tabriz	1,379	Bakhtaran (formerly Kermanshah)	643

Climate
Continental, with extremes of temperature

Weather in Tehran (altitude 1,220 metres)
Hottest month, July, 22-37°C (average daily maximum and minimum); coldest month, January, minus 3-7°C; driest month, July, 3 mm average rainfall; wettest month, January, 46 mm average rainfall

Official language
Persian (Farsi)

Measures
Metric system. Some local measures are used, including: 1 jerib=0.108 ha; 1 artaba=0.66 hl; 1 rey=11.88 kg

Calendar
The Iranian year begins on March 21st, and contains 31 days in each of the first six months, 30 days in the next five months and 29 in the 12th month (30 in every fourth year). The system relates to the Prophet Mohammed's flight from Mecca in 622 AD, but, unlike the Islamic calendar, follows solar years. The Gregorian equivalent can be found by adding 621 years to the Iranian date. The Iranian year 1388 began on March 21st 2009

Currency
Rial (IR); IR10 = 1 toman. (Although all government statistics are given in rials, in conversation Iranians refer to tomans.) The multiple exchange rate was replaced by a single floating rate at the start of fiscal year 2002/03

Time
3.5 hours ahead of GMT

Public holidays
Many holidays are religious and based on the Islamic year. Exceptions include New Year (Nowruz) celebrations (March 21st-24th)

Political structure

Official name	Islamic Republic of Iran
Legal system	Based on the constitution of 1979, which was amended in 1989
Legislature	290-member Majlis-e-Shuray-e Islami (National Assembly). All candidates for the Majlis must be approved by the 12-member Guardian Council, six of whom are appointed by the supreme leader (*rahbar*) and six by the judiciary. Majlis legislation must also be approved by the Guardian Council. The Expediency Council mediates between the Majlis and the Guardian Council
Electoral system	Universal adult suffrage for elections to the Majlis, to the Assembly of Experts (the body that chooses the *rahbar*) and for the presidency
National elections	Next elections: March 2012 (legislative); June 2013 (presidential)
The supreme leader (*rahbar*)	Ayatollah Ali Khamenei
Head of state	President, elected by universal suffrage for a four-year term for a maximum of two terms. Mahmoud Ahmadinejad was controversially re-elected in June 2009
Executive	The post of prime minister was abolished in 1989. The current cabinet was approved by the Majlis in September 2009
Main political trends	Parliamentary factions are loose. The new Majlis is dominated by the United Principlist Front (those that claim to follow the principles of the 1979 revolution). The main rival conservative and reformist blocs are the Inclusive Front and the Mosharekat, respectively

	President	Mahmoud Ahmadinejad
	Head of presidential office	Gholam-Hossein Elham
Key ministers	**Commerce & industries & mines**	Mehdi Ghazanfari
	Culture & Islamic guidance	Mohammed Hosseini
	Defence	Ahmad Vahidi
	Economy & finance	Shamseddin Hosseini
	Education	Hamid Reza Hajibabai
	Energy	Majid Namjou
	Foreign affairs	Ali Akbar Salehi
	Health	Marzieh Vahid Dastjerdi
	Information (intelligence)	Haidar Moslehi
	Interior	Mostafa Mohammed Najjar
	Justice	Morteza Bakhtiari
	Speaker of the Majlis	Ali Larijani
	Head of the Supreme National Security Council	Said Jalili
	Head of the Management & Planning Organisation	Amir Mansour Borghei
	Head of the Iranian Atomic Energy Organisation	Fereydoun Abbasi
Central bank governor	Mahmoud Bahmani	