KEY FACTS ABOUT IRAN'S ECONOMY AS RED CARPETS REPLACE SANCTIONS

News / Finance

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Less than a fortnight after a decade of crippling economic sanctions on Iran ended, President Hassan Rouhani is being treated to red carpets, dinners with top CEOs and billion-dollar deals in Europe.

In Italy, accords worth $22 billion covered industries from natural gas to high-speed rail, while in France Rouhani is expected to purchase Airbus Group SE jetliners and seal manufacturing partnerships with PSA Peugeot Citroen and Renault SA. The speed with which the president travelled to Europe once July's nuclear deal finally came into force underscored the depth of Iran's economic problems.

Here's a look at the state of Iran's economy, and the $102 billion budget Rouhani proposed to parliament before leaving Tehran, urging the nation to "seize the opportunity for an economic leap" forward.

Why Iran's Economy Matters

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The $400 billion economy is the second-largest in the Middle East after Saudi Arabia, Iran's biggest regional rival. With a population of 77 million, for years cut off from trade with the West and its financial services, Iran is a major attraction for investors struggling with slow growth at home.

While Iran's central bank predicts expansion of less than 3 per cent in the current financial year ending March 20, it sees that accelerating to between 5 and 6 per cent in the following 12 months. The government is targeting average annual growth of 8 per cent up to 2020.

Oil Decline

Iran has been trying for years to diminish its reliance on oil revenue. Amid the slump in oil prices, the budget projects greater revenue from taxes than from sales of crude.

The government expects 680 trillion rials ($22.6 billion) in oil revenue, less than 25 per cent of the proposed budget and down from about 33 per cent in the current year. Its calculations are based on an oil price of $40 per barrel, and an exchange rate of 29,970 rials to the dollar.

That's the price Iran needs to balance its budget but the estimates are "optimistic" since it's selling oil at around $25 a barrel, said Pouya Jabal-Ameli, an economist who teaches financial management at Tehran's Amir Kabir university.

Oil remains the bedrock of the economy and Iran plans to boost output to levels last seen during the reign of the last Shah. Its cheap crude, costing almost two-thirds less to extract than in the US, is the prime draw for international majors.

The government is "trying to reduce waste but they are not reducing the size of spending which means they need a lot of hard currency," said Ali Dadpay, an associate professor of economics at Clayton State University in Morrow, Georgia, who studies Iran. "On paper, a figure of oil at $40 per barrel is OK, but in reality they might have a deficit larger than what they are ready to admit."

Europe had been Iran's second-biggest oil customer before sanctions were introduced, purchasing nearly 600,000 barrels a day from the Middle East nation in 2011, according to the US Energy Information Administration.

Taxing, Exporting More

Officials plan to increase tax revenue by almost 15 per cent in the new Iranian year to 1,010 trillion rials ($33.5 billion). The focus is on expanding the tax base and targeting entities currently exempt rather than raising taxes for those already paying, Vice-President Mohammad Bagher Nobakht said Jan. 18.

In Europe, Rouhani said the Islamic republic wants to export at least 30 per cent of its products, not just woo foreign investment, which the country's central bank governor says could reach $50 billion a year.

But Djavad Salehi-Isfahani, an economics professor at Virginia Tech in Blacksburg, who specialises in Iranian affairs, says the proposed budget was "very conservative" and reliant on foreign investors making the first moves.

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Authorities are waiting for “the nuclear deal to jump start the economy,” Salehi-Isfahani said. “They don’t believe the government should stimulate, they believe they should improve the environment for others, they count on foreign investment, on a lower cost of transactions.”

Cash Coming Home

Oil revenues totalling about $32 billion previously frozen in accounts overseas due to sanctions are now accessible, Iran central bank governor Valiollah Seif said in an interview last week, money that should help support the rial.

The coming months will also see moves toward normalisation of Iran’s currency regime and financial system, Seif said. He said dual exchange rates to the dollar — one set by the central bank and a more competitive unofficial market rate — should be unified within six months.

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