



The British-Iranian Chamber of Commerce

Economic Headlines

13 July-19 September 2007

Oil exploration and production. A large gas field has been discovered in Fars province. Oil production fell slightly, but plans to increase Caspian oil swaps are boosted by the announcement of a pipeline to be constructed between Neka, on the Caspian, to Jask, on the Persian Gulf.

Economy. Shahroudi, Head of the Judiciary, criticised government management of the Economy. Liquidity in the economy continues to be a significant problem: at the end of June it was 39.5 percent up on a year earlier. Tax revenues were 19 percent higher in the first quarter than the year before.

Government budgeting and spending. The balance on the Oil Surplus Fund was US\$5.1 billion at the end of March, following significant withdrawals over the previous two years to meet budget overspends, indicating this will not be such a ready source of funding for government in the future. Other income sources, such as privatisation receipts, will become more important unless spending slows or its pattern changes.

Inflation and price increases. CBI announced inflation was 14.8 percent at the end of July and that the Wholesale Price Index rose 12.1 percent last year. More price increases have been announced, including in medical charges (11 percent) and airfares (20 percent).

Rationing and domestic shortages. In the first month of rationing, gasoline consumption was 17 percent less than in the same period last year. There is no resolution to the argument over how to satisfy excess demand: the Majlis is calling of the supply of excess requirements at market prices or a variant thereof; the government refusing. However it looks as though at least some users will receive excess fuel allowances; taxis in Kish, Qeshm and Chabahar FTZs have already. IRICA

reports that demand for flights has increased since gasoline rationing; there are waiting lists for internal flights.

Privatisation. The government's need for additional funds seems to have led to a change in privatisation policy. In addition to Shares for Justice, which doesn't provide immediate cashflow, and sales through the TSE, which are constrained by the limited size of the private sector, two private sales, without tender, of some of the shares of state-run companies have occurred. Also the Privatisation Organisation announced that there would be an international tender for 40 percent of the shares of Mobarakeh Steel, Iralco and Copper Industries.

Ministerial and other government personnel changes. The Ministers of Industries and Mines and Oil resigned to be replaced by Mehrabian and Nozari respectively. The Governor of the Central Bank, Sheibani, resigned and was replaced by Mazaheri, a former Minister of Economy. Seven cabinet ministers have left the cabinet in the last two years. Cabinet changes are intended to speed the restructuring of the state envisaged by government: dramatic changes in the state planning system, the banking industry and in the High Councils of State, are underway or are planned.

Banking. The poor health of the banking sector continues to be reported. State-run banks have US\$12.4 billion of non-performing loans. The Central Bank has authorised banks to off-set such loans against collateral and assets of the borrower, without notice or legal redress. However, a committee on banking sector reforms, chaired by VP Davoudi, has been established to allow for more Islamic banking, more transparency and the separation of commercial and investment banking activities.

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