



The British-Iranian Chamber of Commerce

Economic Headlines

16 November – 13 December 2007

Oil exploration and production. NIOC and Sinopec have signed a US\$2 billion contract for the development of the Yadavaran oil field. A new structure for NIOC was approved by cabinet. OPEC reported that Iran's oil price reached US\$77.3/b, but that production had fallen to 3.861 million b/d.

Oil & gas sales. References to future gas sales to Turkey, Bahrain and EU were reported, but increasingly Iran will have to re-inject gas to maintain oil production – in seven years up to 20% of gas production will be needed for re-injection. Iran has stopped selling crude in US dollars.

Other projects. Iran is to buy 30 Russian Illushin aircraft.

Trade. Germany is Iran's second largest trade partner after China.

Sanctions. Chinese banks are beginning to refuse to open L/Cs for Iranian business, which will constrain the growth of trade with China.

Economy. CBI reports that liquidity has reduced slightly, but it remains at 36.9%; also it is forecast, by the Majlis Research Centre, to grow to 45% by the year end. Forex reserves were US\$68 billion in September. The Oil Surplus Fund balance was US\$8 billion in August. A Fars News Agency opinion poll reports the overwhelming principal concerns of the population are economic, particularly housing, inflation and unemployment.

Unemployment. EIU predicts unemployment to be 12% this year.

Government budgeting and spending. There appears to be agreement between government and Majlis leaders on the format of next year's budget. Majlis critics argue that the format is illegal in some respects, limits Majlis authority to prioritise and allocate expenditures and does not hold

government accountable to the Majlis. CBI reports that six months government revenues are up 45.7% at US\$14.7 billion but expenditures were some US\$24.4 billion, leaving a deficit of US\$9.7 billion. Ahmadinejad promises to increase spending hugely next year, for example doubling development spending in Ardebil, Ilam and Khorasan provinces; but MPs claim this is neither possible nor legal.

Inflation and price increases. Wholesale price inflation is 15.2%, retail price inflation is 19.1% and prices continue to rise (for example, electricity prices are to increase 8-10%).

Rationing and domestic shortages. While some MPs press for the excess supply of gasoline at market prices, Ahmadinejad has expressed the hope of an end to rationing by March 2009. The gasoline ration for private cars will be increased by 20% to 120 litres per month from December for four months.

Privatisation. Some US\$6.2 billion of shares in nine companies will be ceded to the Shares for Justice scheme.

Banking. TEPIX has been falling in the month, due mainly to the impact of large royalty increases on metal and mineral shares. This has led to the promulgation of new regulations by the TSE Council on ceding state-run companies, which call for government disclosure of plans to change concessions, royalties, subsidies, contracts, tariffs and pricing before and after ceding. CBI has announced the establishment of a company to take over non-performing loans, whilst Ahmadinejad has ordered the granting of new loans to enterprises with non-performing loans, apparently to allow them to recommence operations. Several foreign buyers have expressed an interest in Bank Saderat Iran, it is reported.

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