

**COUNTRY PROFILE:****IRAN****DATED:****AUGUST 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

|                   | <i>Country Rating</i> | <i>U/W Method</i>  |
|-------------------|-----------------------|--------------------|
| <i>Short-term</i> | 3C                    | ILC Specified Bank |

*Recent Political Highlights*

- ❑ Chief of state since June 1989 has been Supreme Leader Ali Hoseini-Khamenei with Mahmud Ahmadi-Nejad as head of Government since August 2005. The Supreme Leader is appointed for life by the Assembly of Experts. The president is elected by popular vote for a four-year term and is eligible for a second term and a third nonconsecutive term. The next election is scheduled for 2009.
- ❑ Williams Burn, a top American diplomat met with five colleagues from Britain, China, France, Germany and Russia in Geneva and the EU's Javier Solana in July to hear Iran's response to their latest offer of talks to end its nuclear defiance. It marked the first time that a senior official held direct talks with Iran on nuclear matters and the first time that Iran did not back away at such a revolutionary prospect. The meeting took place because American President George Bush insists that Iran first suspend its uranium and plutonium activity as the UN has demanded. Iran claims to have no other nuclear purpose than to fuel reactors to make electricity.
- ❑ The US treasury imposed sanctions on five additional Iranian entities it said had provided support or materials to Iran's nuclear and missile programmes. The entities, designated as proliferators of weapons of mass destruction, are controlled by or act on behalf of previously blacklisted Iranian entities responsible for uranium enrichment, nuclear development work and ballistic missile programmes. Western powers fear that Tehran wants to build an atomic bomb. The US, Britain, France and Germany are considering imposing broader economic sanctions beyond the steps likely to be considered in the next round of UN sanctions. Areas under consideration may include liquefied natural gas, investment in oil and gas, imported refined products, reinsurance and other financial areas.
- ❑ Iran's Defence Minister warned that its response to a surprise enemy attack would be a greater surprise for the aggressor. Iran has developed an extensive defence force to repel any possible attack, adding the Islamic Republic is currently a major defence power. These comments come in response to reports about an armada of US naval battle groups heading towards the Persian Gulf with the aim of reinforcing US strike forces in the region.
- ❑ The Iraqi prime minister visited Iran to assure the Iranian leadership that Iraq will not allow itself to be used as a launch-pad for a US attack against its neighbour. He also called on Iran's help in moderating Shia militias in Iraq.

*Recent Economic Highlights*

- ❑ Iran has a population of 66m people with an expected population growth rate of 0.8% in 2008.
- ❑ The Economist expects economic growth in Iran to remain firm until 2012. It states that slow oil output increases and hence stagnating oil revenue will force Government to rein in its expansionary fiscal policy. GDP growth is forecast at 6.5% in 2008, 6% in 2009, 5.6% in 2010, 5.6% in 2011 and 5.8% in 2012 from 6.2% in 2007.
- ❑ Further strong price increases in food and housing costs pushed inflation up to average 17% in 2007. It is forecast to escalate to 28% in 2008 before declining to 25% in 2009.
- ❑ The hydrocarbons industry, which provides over 80% of Government revenue, will continue to face investment difficulties as foreign companies come under growing pressure to abandon ties with Iran due to its nuclear activities.
- ❑ A top official said that Iran has no plans to sell any more of the oil it holds in floating storage off its southern coast. Industry sources estimated the world's fourth-largest oil exporter had about 30m barrels stored. The quantity in storage increased due to maintenance work in the spring at global refineries that cut demand for Iran's crude by around 300,000 bpd in April and May. The oil ministry news agency later said that Iran has no crude in floating storage light or heavy as Iran sold stored crude when the price reached \$147 per barrel. Another official stated that an increase in storage capacity at Iran's main export terminal on Kharg Island in the Gulf had helped reduce the oil in storage. A new barrel storage facility on the island boosts total storage there to 19m barrels.
- ❑ The volume of water stored in dams nationwide has decline 46% compared to the amount last year. The volume of water in dams has decreased from 20bn cubic meters in the past year to 11.1bn cubic meters this year. The drought has led to a decline in agricultural products by 15%. About 90 dams in the country are undergoing reconstruction and once operational, they will be able to store over 10bn cubic meters.

*Latest Trade Developments*

- ❑ Major exports: petroleum, chemical and petrochemical products, fruits and nuts and carpets.
- ❑ Major imports: industrial raw materials and intermediate goods, capital goods, food and other consumer goods and technical services.
- ❑ Main trading partners: China, Germany, UAE, South Korea, Russia, Japan, Turkey, Italy and South Africa.
- ❑ South African exports to Iran totaled R1.5bn in 2007 from R1.4bn in 2006 and R172m in year to March 2008.

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