

COUNTRY PROFILE:**ISLAMIC REPUBLIC OF IRAN**

IES/02: ATTACHMENT A

DATED:**JUNE 2007****CREDIT GUARANTEE:**

	<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 is Supreme Leader President Ali Hoseini-Khamenei and head of Government since September 2005 is President Mahmud Ahmadinejad. The supreme leader is appointed for life and the president is elected for a four-year term. The next presidential election is due in 2009;

Recent Economic Highlights

- Iran has a population of 71m people. When the president won office in 2005, he promised to give oil funds back to the people, but he is now finding the demands of populism difficult to reconcile with economic reality. His Government has been vacillating recently over two big economic decisions, namely to introduce petrol rationing and to cut interest rates. Last year Iran spent over \$13bn on subsidising petrol. The money and credit council feel that interest rates should be maintained at current levels due to high inflation and the risk of hurting private banks. Angry motorists queued up for gasoline recently after the imposed fuel rationing. Despite having the world's second-largest oil reserves, Iran lacks fuelling capacity and has to import 40% of its gasoline requirements.
- Iran's first vice president recently announced that the country's economic growth rate reached 7% during the previous Iranian year (ending 20 March 2007). He claimed that Iran's industrial growth during that time was 8%. He also noted that 70% of the laws and regulations passed by the Government of President Ahmadinejad during the past 18 months were related to the elimination of deprivation from the country's poor areas. The Economist expects GDP growth of 4.6% in 2007 from an expected 4.6% in 2006. The IMF expected 5% growth in 2007 and 2008 and puts inflation at 17.8% in 2007 and 15.8% in 2008. The Economist expects faltering oil revenue to rein in growth to average 3.5% between 2009 and 2011;
- According to Iran's minister of energy, the total electricity output of the country is expected to reach 208bn kwh this year from 190bn last year. The minister noted that the construction of the 1000-MW power plant in Ali-Abad Katool would signify an 8% increase in power generation in Iran. After last year's additions of 5.400MW to the country's total capacity, almost 70m people were supplied with electricity. Iran is now exporting power to all its neighbours and related contracts have been signed with Syria and India;
- With 136bn barrels of oil reserves and extensive natural gas, Iran is the second ranking OPEC oil producer and the world's second largest owner of oil and natural gas reserves and is capable of playing a very vital role in the world's energy equations. Its oil productions are expected to reach 5.31m bpd by 2014 from the current 4.3m bpd. According to the Iran's development plan, the next 10 years will witness a stronger growth in its gas production as it will raise gas production by a 14% annual average;
- Japanese private sector banks have restricted loans and rejected a request to pay for oil imports in currencies other than dollars. Three Japanese banks have confirmed that they would not conduct new business in Iran. The US has pressured nations to boycott business with Iran over the failure to halt its nuclear programme;
- The National Iranian Steel Company (NISC) exported 2m tonnes of steel in the previous Iranian year. By the end of the Fourth Five-Year Development Plan (2005-2010), domestic steel production is to exceed 28m tonnes, of which 6.5m tonnes are expected to come from NISC. With a 10m tonne output, Iran is producing only 1% of the world steel output of 1.13bn tonnes. The Development Plan will boost its contribution to 2.25%. NISC expects to produce 54.6m tonnes by 2021 – 3.5% of world output.

Latest Trade Developments

- In a bid to increase economic cooperation with Europe, Iran has forged economic ties with The Netherlands and concluded bilateral trade ties and a gas agreement with Austria. Noting the economic progress of Iran, the Malaysian state minister has expressed his interest in cooperating in the oil and gas sectors with Iran;
- Iran has invited India and Pakistan to sign a \$7bn and \$400m tri-nation deal on natural gas supply to start from 2011. India's petroleum minister will meet his Pakistani counterpart to finalise the remaining bilateral issues before the three nations meet;
- Venezuela's Hugo Chavez and Iran's Mahmoud Ajmadinejad were expected to sign a series of deals related to energy and industry. The two leaders were due to oversee the beginning of construction of a joint petrochemical plant in Iran. A similar plant will be built in Venezuela. Chavez said that NPT signatories have the right to produce nuclear energy in line with the Non-Proliferation Treaty.
- SA's exports to Iran totaled R1.4bn in 2006 and R1.1bn in the year to April 2007.

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