

IS IRAN'S ECONOMIC BUBBLE ABOUT TO BURST?

By Amir Behravan (24/06/2010) <http://www.fozoolmahaleh.com>

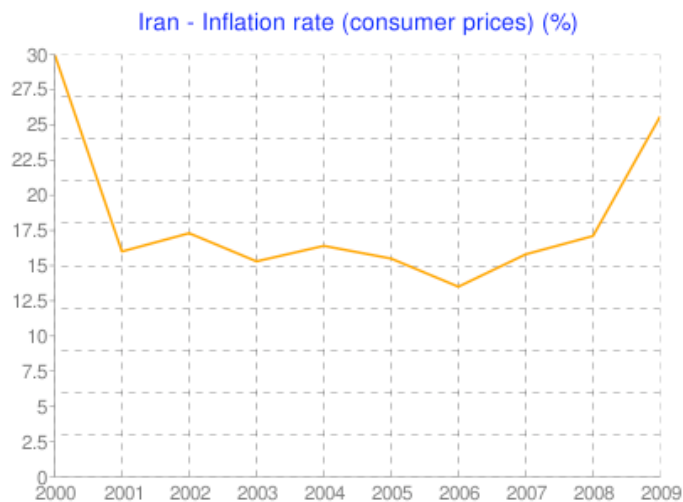
Translated into Farsi by Sohraab Arjang at <http://bit.ly/9oVEpD>

Over the last seven years, the people of Iran have gone from living in the poverty stricken outskirts of big cities, to becoming some of the richest men and women of the country and even the Middle East. Once disregarded and unrespectable professions, such as builders, estate agents and fast food owners are now among the wealthiest and most influential. Prices in Iran have sky rocketed, and in many places Iran has become even more expensive and developed than the US and even Europe.

However, is this bubble about to burst, or has Iran really come of age? Many in Iran will always criticise the government's economic policy, always claiming to know better and professing their ability to be able to fix all of Iran's economic problems themselves. Yet in reality, despite what many Iranians think, there are some important underlying factors that will ultimately determine the actual outcome of Iran's eventual economic downfall.

INFLATION

Between the years 2001-2009, Iran's average consumer prices rate of inflation has been 16.9% according to government figures, although many estimate it to be as high as 25%. Every Iranian is aware of the country's high rate of inflation, but some do not actually understand the underlying effects, or how to guard against it. Inflation represents the amount currency loses its value on a yearly basis. So the same amount of cash in 2001 will not have the same buying power as in 2009, since consumer prices have increased, or alternatively the value of currency has decreased. This is especially true for Iran, as the prices of clothing, food, property, rent, travel and so many other essential things, have sometimes doubled or tripled in cost within the space of a few months on some occasions.

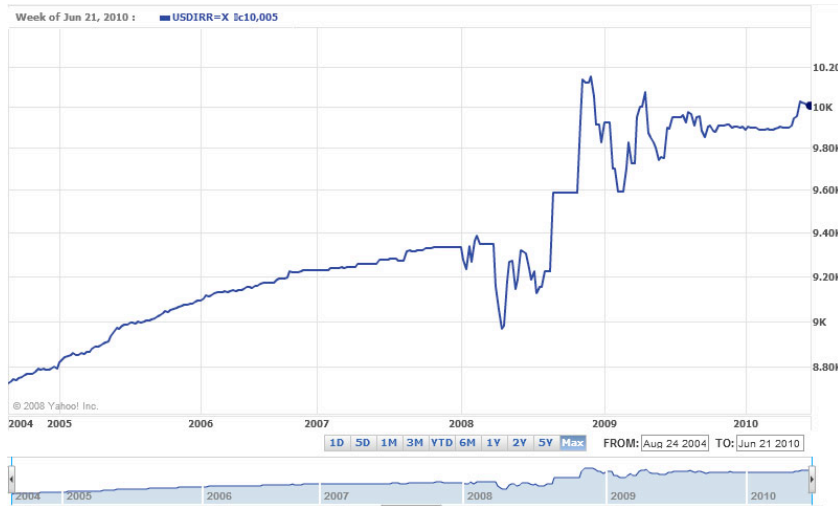


Rate of Inflation 2000-2009 (government figures)

The most interesting observation, is that during this time the value of Iran's currency has remained stable compared to the Dollar, and has even strengthened against the Pound/Euro. This is because of governmental policy to keep the Iranian Rial fixed to the US Dollar. However since the US and UK inflation is on average between 2-3% you would expect the Iranian Rial to also decrease in value by 12-13% annually compared to the

US/UK; however this has not been the case. According to oktaby, the actual value of the Rial is roughly 25000 per dollar and not 10000-11000 as it currently is.¹

The Iranian government introduced a policy to keep the Iranian currency strong, which they believed would curb inflation as foreign imports would be cheaper. What they didn't count on was the negative effect it would have on its own industry and exports, making it impossible for home grown industries to compete on the world market.² According to the Wall Street Journal, Iran is spending between \$180 million to \$250 million daily to keep the exchange rate steady.³



US Dollar Compared to the Iranian Rial 2004-2010



GB Pound compared to the Iranian Rial 1999-2010

As a result many Iranians (especially government officials) have sold their assets and invested in Western countries, capitalising on the artificially maintained exchange rates.

¹ <http://www.iranian.com/main/blog/oktaby/actual-value-rial-roughly-25000-dollar?page=2>

² <http://www.presstv.ir/detail.aspx?id=64912§ionid=3510213>

³ <http://online.wsj.com/article/SB124951839472809583.html>

Although since last year, property prices in Iran have collapsed and are now at the lowest level for three years. Even still, the average property owner in Iran is still considerably wealthier than much of the working class in the West, as most don't have any loans or mortgages against their properties and could liquidate their assets and bring a substantial amount of money to the West at very favourable exchange rates.

SANCTIONS AND IRAN'S QUEST FOR NUCLEAR WEAPONS

This will have the biggest detrimental effect upon the Iranian economy, which has the potential to shake up the nation completely. Recently the EU was set to introduce new sanctions against Iran⁴, and this being separate to the additional sanctions which the UN voted in favour for⁵. These sanctions will still only have a limited effect upon the economy. However Iran is still strongly pursuing Nuclear weapons under the false pretence of needing Nuclear Energy. This will eventually lead Iran to a cul-de-sac; and if they do manage to obtain these weapons, two things will surely happen:

- Iran will become completely alienated from the West and a crippling level of sanctions will be imposed on the country, possibly also restricting Iran's ability to sell oil on the world market, followed by a US led blockade.
- Iranian nuclear power stations and facilities might be attacked and/or sabotaged by Israeli forces⁶. The biggest threat to Israel being the anti-Semitic government of Iran (which also supports and funds Hezbollah), it would be in Israel's self interest to eliminate any nuclear facilities, as they did to Iraq in 1981⁷. They have recently launched a spy satellite with a sole purpose on spying on Iran's nuclear programme⁸

Eventually Iran will obtain Nuclear weapons, this is due to their belief that it will somehow unite the country, and may even be a measure to incite the West to attack, just like Iran incited Iraq to attack in 1980 (which in turn solidified a corrupted regime), hoping that any invasion would somehow rally the people to support the unpopular government, in defence of their country. Iran's acquisition of nuclear weapons is the worst possible occurrence for Iran's fragile economy, and it's almost inevitable.

REDUCTION AND REMOVAL OF GOVERNMENT SUBSIDIES

Salaries in Iran are very low compared to the cost of living. This is especially true for women who are paid sometimes up to 50% less than their counterpart men, being paid between \$200-\$500 (comparative Dollar value) per month (depending on the region/city). On top of this the unemployment rate is unbearably high at 11.8%, according to government figures; however the true figure is estimated to be between 20-30%.

The government has been planning to remove subsidies over the next five years from all the basic necessities, such as bread, milk, petrol, electricity (food and energy) which will have an adverse effect upon the lowest income families, as well as being a catalyst for an increase in inflation, above the current rate which is already comparatively very high.

⁴ <http://www.guardian.co.uk/world/2010/jun/15/eu-sanctions-iran-nuclear-programme>

⁵ <http://www.un.org/News/Press/docs/2010/sc9948.doc.htm>

⁶ <http://www.timesonline.co.uk/tol/news/world/article1290331.ece>

⁷ http://news.bbc.co.uk/onthisday/hi/dates/stories/june/7/newsid_3014000/3014623.stm

⁸ http://news.bbc.co.uk/1/hi/world/middle_east/10387608.stm

Also the government is planning on removing the zeros from the end of the currency and printing higher value notes⁹, they have already started printing higher value notes, which will also have a negative psychological effect on the people encouraging them to stop using the lower value notes¹⁰ and artificially raising consumer prices.

ANTI-GOVERNMENT PROTESTS AND RESISTANCE

Over the last 11 years, there has been an increasing resistance towards the government, specifically the undemocratic theocratic rule of the clerics. This resistance group (green movement – jombeshe sabz) erupted last year into mass protests numbering 2-3 millions post-election. Although since then, the severe government crackdowns have all but wiped the visible elements of the resistance, as with any resistance effort this smoking fire is getting ready to burn again when the time is right.

With the instability of politics, Iranian tourism has become almost non-existent, with many foreign governments warning against travel to Iran and many western insurance companies having exception clauses for travel to Iran.

The capture and torture of foreign nationals for fabricated crimes, as well as foreign governments making prisoner swaps of known terrorists for their own nationals who are falsely imprisoned in Tehran^{11,12}, has led to bad sentiment among foreign companies and nationals, unwilling to invest or further their business interests in Iran.

Also after one year of a heavily disputed election, there are only three years left until an inevitable showdown in Iran between the resistance / opposition groups and the government with the next election and in addition to the fragility of the economy may lead to complete economic collapse, with many wealthy Iranians planning on fleeing the country with their assets. Any future government crackdowns on protest demonstrations may lead to increased levels of public anger and even equally violent backlashes and retribution, which will increase the uncertainty and instability that can only have an increased negative effect for the country.

HOW TO GUARD AGAINST THE ECONOMIC DOWNFALL?

There are some important steps that Iranians can take to protect themselves against any economic collapse in Iran.

1. Spread your assets into different areas. It's important that not all of your investment is Land or Property. This is one of the biggest mistakes that many Iranians make. A good % of assets should be in gold, other commodities and foreign currencies, this will protect against any future currency devaluation that is likely to occur, as it did in Zimbabwe in 2007¹³, so as not to take the full brunt of any economic disaster.
2. Liquidise your assets. When the economy is sour, property is often the hardest asset to sell, with so many sellers and very few buyers, many will get caught out in a crisis and although with high inflation

⁹ <http://www.msnbc.msn.com/id/34957186>

¹⁰ http://news.bbc.co.uk/1/hi/world/middle_east/10377186.stm

¹¹ <http://www.english.rfi.fr/france/20100517-reiss-supplied-french-intelligence-iran-updates-says-former-agent>

¹² <http://www.english.rfi.fr/france/20100518-france-releases-iranian-assassin>

¹³ <http://news.bbc.co.uk/1/hi/business/6982749.stm>

property prices are set to rise, with the risk of a military strike, property prices will be affected negatively, with many wealthy Iranians selling out cheap and fleeing the country as already happened in 1979.

3. Don't put your money in Iranian banks. Even though the interest rates from Iranian banks are currently good, with sanctions primarily affecting the Banks, then it is likely that in the event of a crisis, some might go bankrupt and will not be able to pay out the money to their customers. Currently the exchange rate between the British Pound / Euro and Iranian Rial is very favourable and likely to improve as Western Interest rates increase in the next couple of years to curb inflation. Now is a good time to put some money into foreign banks. Even if the interest rates are lower, there is significantly higher security and the future strengthened exchange rate will negate the interest that might have been lost.
4. Totally leave Iran. Right now many western countries will accept visa applications from Iranian investors. Many property owners in Iran have apartments, houses and land that are worth more than properties in Western countries, especially now as the World is coming out of recession. Not only is the exchange rate beneficial for Iranians to leave Iran, but bargain properties and businesses can be purchased overseas.
5. Overthrow the government. Ultimately the Economic problems that Iran faces can only be solved once this government is replaced by a democratic government which is willing to once again reintegrate itself with the World. Until this government is replaced and overthrown, Iran will always face a future of uncertainty and instability. With a truly representative government, the vast amounts of wealth that Iran possesses could be used to rebuild Iranian industry and economy and not waste it on dead end projects, propaganda and persecution.