

New Sanctions Bring on More Economic Hardships for Iran

The third set of sanctions against Iran, which was passed by the U.N. Security Council in March, is impacting Iranian life in profound ways. Business arrangements, manufacturing, even private Internet users – all are feeling the pinch of the new restrictions. A combination of sanctions and poor management is putting extreme pressure on the Iranian economy. On 3 March, the U.N. Security Council approved a resolution to expand sanctions against Iran until it permits inspection of its nuclear program. The new resolution makes the third time the U.N. has moved against Iran, and it intensifies international efforts to isolate the country economically. The sanctions resolution passed by a vote of 14 in favor and none opposed, with Indonesia abstaining.

U.N. Nuclear Watchdog Agency Endorses Council Action Officials of the U.N. International Atomic Energy Agency (IAEA) called the sanctions resolution justified, because suspicions about Iran's nuclear activities persist. Without Tehran's full cooperation, the IAEA is unable to determine the nature and extent of Iran's nuclear program.

In particular, the IAEA wants Iran to explain certain documents relating to its nuclear activities. Among them are illicit weaponization studies by General Mohamed Reza Nadqi, who ran the activities for the Ministry of Defense and Armed Forces Logistics. General Nadqi, a member of the Islamic Revolutionary Guard Corps, is one of only five people specified by the United Nations to be banned from traveling outside Iran.

Observers say the new sanctions imposed on Iran are having a dire effect on its economy.

Some banks are on the brink of collapse, and manufacturing industries are facing severe shortages of raw materials that are causing dramatic drops in production.

The country's banking industry is being boycotted by most European, Japanese and American institutions. The largest banks will not conduct transactions with Iranian clients, making it increasingly difficult for businesses to acquire hard currency.

Almost all international financial institutions, including several Swiss and German banks,

have severed ties with Iran. Many smaller banks in Malaysia, Singapore, Holland, France and Italy have followed suit. They also have closed accounts owned by Iranian citizens. Italy's export credit agency, Sace, has stopped guaranteeing credit to firms intending to operate in Iran. On a scale of risk running to seven, the agency now rates Iran a six. The average Iranian is being squeezed, even prevented from making purchases on the Internet, because every form of Internet sale is banned. Nor can ordinary citizens register for an e-mail account on the Yahoo Web site.

Business people in Iran who want to carry out banking transactions must travel elsewhere to do it. Every day, dozens of Iranian businessmen carry suitcases full of cash for goods they wish to import aboard commercial flights from Tehran to Dubai. One reporter working for a Dutch newspaper must travel to Holland to draw his salary.

The sanctions have touched even the diplomatic corps. A Western diplomat in Tehran said a member of the staff must travel to Europe each month and return with a bag of banknotes to pay salaries and the embassy's bills.

The economic crisis also has affected the petroleum sector. Sanctions-induced pressure on companies has halted several phases of the South Pars natural gas field project. Located in the Persian Gulf between Iran and Qatar, South Pars is Iran's biggest gas field. French and Japanese companies have withdrawn from the project, and other major companies have said they do not intend to invest further.

Poor Management Policies Make Iran's Economy More Uncertain President Mahmoud Ahmadinejad has responded to gasoline shortages in the country by imposing rationing, boosting subsidies and increasing government spending, all of which have sent inflation to its highest annual rate in eight years. Petrol rationing has added to inflationary pressure on the prices of many goods, including food and agricultural products.

Economists say that with the cost of oil at well over US\$100 a barrel, the president's approach is affordable now, but that may change and change soon. Crude oil prices are forecast to fall 20 percent from current levels by the end of the year.



One economist said. As long as oil prices are high, the Iranians will grab onto that lifeline rather than pursue the structural changes they need. If oil prices go down further, there will be a real crisis.

Inflation in Iran exceeded 19 percent last December, compared with less than 11 percent when Ahmandinejad took office in August 2005. This is more than twice the rate used by the government in its planning.

The president has used Iran's oil revenues to boost his political support. Subsidies for staples such as sugar, wheat and cooking oils have increased more than 50 percent since 2005. Gasoline subsidies rose to 16.4 percent of the GDP in 2006, up from 15.7 percent the previous year. In the 2005 Iranian fiscal year, total subsidies equaled one-quarter of the country's GDP.

So far, all that spending has helped to keep the economy afloat, but the pace of Ahmadinejad's spending is depleting the treasury. The spending also has failed to create jobs. All the resources that are being injected are not turning into support for the economy and the sick economy remains hungry, said Central Bank Governor Tahmasib Mazaheri. Iranian Economist Condemns State of Iranian Economy Iranian economist Mohammad Gholi Yousefi recently confirmed that his country's economy is in dire straits. Whoever believes that U.N. Security Council sanctions have not had any impact on the Iranian economy does not understand anything about economics or is blatantly lying, he said.

The Iranian government is making a grave mistake if it rates international isolation positively, Yousefi said. We need to do our utmost to avoid new sanctions that could herald the death of our economy.

Grand Ayattollah Hossein Ali Montazeri, one of the highest authorities in Shi'a Islam and a founding father of the Islamic Republic of Iran, attacked the government for provoking the current crisis. The errors committed by the Islamic Republic and the gratuitous provocations of the current government are the basis for the lack of international trust in our country, he said. The U.N. sanctions, he added, will continue to have a harmful effect

on the country and seriously hurt the Iranian people.

The economic sanctions imposed on Iran appear to be working. Business operations have been disrupted, and manufacturing schedules have been stalled. The sanctions have compounded the weaknesses already at work in the economy. In fact, the country's economic conditions have become so onerous that influential Iranians have spoken out against them. Observers hope that before too long the government will come to the same conclusion and take necessary action to end the sanctions.