

Oil Plunge Heightens Tensions in Iran

By [FARNAZ FASSIHI](#)

TEHRAN -- Falling oil prices and soaring inflation are squeezing Iran's economy, sparking anxiety among top officials and citizens on how the country will cope.

Iran's budget deficit next year will widen to as much as \$50 billion, economists forecast. In a turnabout earlier this month, President Mahmoud Ahmadinejad acknowledged the plunging oil prices are hurting the economy and said the government would have to abandon "a major part" of its public projects. It was a rare admission for the president, who until then had said Iran's economy was immune to the global downturn.



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Iran's economic downturn threatens to undermine the popularity of President Mahmoud Ahmadinejad.

The economy is becoming a sore point for the populist Mr. Ahmadinejad, who came to power promising to bring the country's oil money to the people, and faces new elections in June. "What has the government done with \$200 billion in oil revenues?" was the headline on one daily newspaper in Iran this week.

The downturn is a heated topic these days. In taxis and shops, at work and family gatherings, Iranians say they are being squeezed by soaring prices and economic instability. Newspapers devote many pages every day to dissecting various problems people face, such as unemployment and inability to buy property. Recently, a government study showed that a young college graduate had to work and save 40 years in order to be able to afford to buy a first home.

Oil's recent plunge has been a huge blow for Iran, where crude accounts for 80% of the country's annual revenues. Oil dropped below \$34 a barrel on Friday, down more than \$110 from its peak in July despite a pledge by the Organization of Petroleum Exporting Countries this week to cut production dramatically. In response, Tehran's stock market dove to a five-year low this week, down nearly 18% from October.

The parliament recently broke ranks with Mr. Ahmadinejad over the economy, vowing to block a reform plan he has proposed. Under his plan, all state subsidies on electricity, gasoline, and water would end, and sales taxes would be enforced. The government would offer payments of

up to \$70 a month for each member of a needy family. Economists warn that cutting fuel subsidies would cause instant inflation of up to 80%. Mr. Ahmadinejad hasn't submitted his plan to parliament and instead has written the fuel-subsidy cuts into next year's budget.

Ahmad Yousefi, a 47-year-old taxi driver, says he and his wife and their two college-age children work but they still can't make ends meet. They often skip having meat or chicken in their meals and have no savings or disposable income. "If they cut the subsidies we will not survive. Even if they give us \$70 a person, with inflation, it won't make any difference. We are doomed," he says.

The government is widely criticized for lacking fiscal discipline, failing in its touted efforts to create jobs by injecting cash into the economy, and allowing too many cheap imports that compete with local agricultural products.

Iran's Central Bank reported last week that inflation hit a record high of 25% over the past 12 months. Prices for food and drinks rose 35% in September alone, and Iran -- though it is world's fourth-largest producer of oil -- ranks as having the lowest annual economic growth among Central Asian and oil-producing Middle Eastern countries, the bank said.

The widespread dissatisfaction over the economy has strengthened the president's political opponents, in particular the former reformist President Mohammad Khatami, who is emerging as a possible candidate. However, Mr. Khatami has expressed reservations about whether he could turn the economy around with oil prices so low and international pressure at its height.

As Iran's economy falters, it will become more vulnerable to outside pressures, analysts here say. Iran could face tougher sanctions over its nuclear enrichment program, which the U.S. and its allies say would enable Iran to make atomic weapons. Iran dismisses the allegation and contends that its enrichment of uranium is for peaceful energy purposes.

So far Iran has indicated it won't abandon its nuclear program under any circumstances.

Some observers say that could change. "Our state of economy is desperate now, and it will get worse. If the U.S. offers Iran an attractive economic package that would lift the sanctions and allow Iran to tap into the American market as well guarantee the regime's security, I think Iran would be interested," says Saeed Leylaz, editor of the business daily Sarmayeh