

# The Multitude of Trouble Stifled Economic Prospect and Social Wellbeing in Iran

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**Abstract:** Islamic Republic of Iran is a nation with troubled history. It carries the legacy of ancient empire. It holds notable geopolitical significance in west Asian landscape. It is endowed with oil reserves and relies heavily on oil export. Iran's economy faced stringiest of sanctions over the years. Western power had always been sceptical about Iran's nuclear armament. So, the Islamic state was kept isolated from international community for long which hampered its progress to great extent. Iran's economy went through tough time due to outbreak of pandemic. Iran's currency lost its value as a result of sanctions and four decades of economic indecision. Washington pulled out of Iran nuclear deal in May 2018 under the leadership of President Donald Trump and imposed heavier sanction to restrict its vital oil export. Fiscal deficit went high during COVID 19 inflicted hard time. Unemployment rate turned double digit and went beyond 11 percent in 2021 and millions of people continued living below the poverty line. Draught affected farming severely caused by failure in resource usage, water guzzling crop cultivation and climate related uncertainty. IMF delayed to offer bailout package on the ground of opposition by USA and allies, shaky balance of payment situation, low repayment ability and questionable debt sustainability. Iran needs reform in financial sector, makeover of state-owned enterprises, private sector growth and normalization of trade links to salvage its battered economy.

**Keywords:** Currency depreciation, Economic collapse, Hyperinflation, Nuclear deal, Pandemic repercussion, Rising poverty, Trade restriction.

## 1. Introduction

Ancient Persia is presently known as Iran. It is located between Caspian Sea in the north and Persian Gulf in the south and share its border with Afghanistan, Armenia, Azerbaijan, Iraq, Pakistan, Turkey, and Turkmenistan. The maritime border is dealt with host of nations such as Kazakhstan and Russia (right at Caspian Sea), Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Tehran being the largest city, takes the pride to be nation's capital and economic as well as political nerve centre of the republic. As per official record of 2020 country held population base of 83 million, who reside in the north, northwest, and west and follow Shia Islam religious belief.

The most difficult challenge facing Iran's economy is its continued isolation from the rest of the world. This isolation has harmed the country's short- and long-term market growth, limited its access to advanced technology, and dissuaded

foreign investment. Iran's isolation is a result of both its conservative rulers' xenophobia fearing post-imperial entanglements and international sanctions enforced by the international community, primarily the US, which accuses Iran of aiding international terrorism. The Iran and Libya Sanctions Act of 1996 broadened an existing US embargo on Iranian petroleum imports to include substantial restrictions on both US and non-US investment in Iran. Foreign investment in Iranian petroleum development, the export of sophisticated technology to Iran, and the import of a wide range of Iranian items into the United States were all prohibited. Reform-minded Iranian officials' attempts to open their country to global business have met with limited success as US sanctions remained in place in the early twenty-first century. Iran's long-term goals have been economic independence, full employment, and a good standard of life for its inhabitants since the 1979 revolution, but the country's economic future was blighted at the turn of the century. During that time, Iran's population more than doubled, and its population became increasingly young. Agriculture production has continually declined since the 1960s (by the late 1990s, Iran was a significant food importer), and economic hardship in the countryside has forced massive numbers of people to migrate to the larger cities. Iran has high rates of literacy and life expectancy for the region, but it also has a high unemployment rate and yearly inflation rates in the 20 percent level. Iran's one major industry, the extraction of petroleum and natural gas for export, is heavily dependent, and the government is having increasing difficulties creating chances for a younger, better-educated workforce, causing frustration among lower- and middle-class Iranians. Despite this, the government has attempted to develop the country's communication, transportation, manufacturing, and energy infrastructures (including potential nuclear power plants) and has begun the process of integrating the country's communication and transportation systems with those of neighbouring states.

## 2. The Economic Crisis and Social Hardship of Iran

Iran's real GDP growth has been minimal over the last decade, resulting in a decline in real GDP per capita to 2006 levels. Despite considerable progress toward economic diversification, the presence of a large public sector continues to stifle job creation and investment in the private sector. Job

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creation lagged behind new labour supply even before the latest sanctions, and unemployment remained persistently high. Low participation and huge gender gaps define the work economy. Droughts and deserts have been exacerbated by climate change, which has harmed agriculture as well as industrial productivity due to decreasing hydroelectricity generation. Furthermore, since 2019-20, a substantial drop in oil income in Iran has been noted as a result of US sanctions, which, when paired with the outbreak of the epidemic, has increased the pro-cyclicality of government spending and the economy's volatility. Household welfare has deteriorated as a result of income losses. The loss of household earnings of the pandemic (because to lockdowns) and rising living costs as a result of inflation put even greater strain on low-income families. These shocks are likely to have resulted in a significant increase in poverty due to the large number of vulnerable households. While a variety of social protection measures were implemented to compensate for the loss of welfare benefits, inflation weakened their effectiveness. Because of a significant currency devaluation (almost 400 percent since 2018-19) and deficit monetization, inflation has remained high (36 percent YoY on average since 2018-19). The dramatic drop in oil prices in 2020 as a result of COVID-induced transportation restrictions resulted in revenue losses and a widening of the current account deficit. The Iranian government requested IMF the emergency financing in March 2020 to aid in the fight against the coronavirus and its economic consequences. The proposal was apparently denied due to pressure from Donald Trump's past government. With the new administration in the United States, there was renewed optimism that the international lender might examine the corona-stricken country's request for financial help. Iran appeared to be counting on recent success in its nuclear programme, such as the production of highly enriched uranium and the advancement of centrifuge research, to secure better terms from the West. In reaction to US sanctions, Tehran claimed it has increased its enrichment programme, transgressing many of the nuclear deal's conditions. In the final months of 2021, Iranians took to the streets multiple times, insisting better living conditions and mounted pressure on Mr. Ebrahim Raisi's government to reach an agreement that would free billions of dollars in frozen Iranian assets abroad and allow access of Iran's banking system to international trade. Iran has confronted severe draught condition and it translated into acute water shortages for residents. The flawed agricultural practice and government's apathy to address the issue was blamed for water scarcity. Rice and sugar cane are the traditional crops in Khuzestan, both of which require a lot of water. Agriculture consumes around 90% of Iran's overall water resources. The unbearable water crisis forced people to take out protest rally in 2021 against water mismanagement and government's inability to address the issue. Iran and Afghanistan share a 900-kilometer border, and since the Taliban retook power in August of the year 2021, Iran exerted attempts to keep its borders open, permitting human and commercial flow. After decades of hosting Afghan refugees, Iran grew increasingly concerned about new arrivals from the neighbouring nation following the Taliban's invasion and dominance over Kabul in 2021. The pitiable condition of

Iran's economy appears vivid with the macro-economic data furnished in the following table.

Table 1  
Macro-economic indicators of Iran  
(Annual percent change unless indicated otherwise)

	2018/19	2019/20	2020/21
<b>Real GDP growth, at constant market prices</b>	-6.0	-6.8	3.4
Private Consumption	-2.6	-7.7	-0.4
Government Consumption	-2.9	-6.0	-2.3
Gross Fixed Capital Investment	-12.3	-5.9	2.5
Exports, Goods and Services	-12.5	-29.9	-5.4
Imports, Goods and Services	-29.5	-38.1	-29.2
<b>Real GDP growth, at constant factor prices</b>	-5.4	-6.5	3.6
Agriculture	-0.9	8.8	4.5
Industry	-11.0	-15.9	8.4
Services	-0.7	-0.5	-0.1
<b>Inflation (Consumer Price Index)</b>	31.1	41.3	36.4
<b>Current Account Balance (% of GDP)</b>	9.1	1.5	-0.3
<b>Fiscal Balance (% of GDP)</b>	-1.7	-5.0	-6.9
<b>Gross Public Debt (% of GDP)</b>	38.5	48.0	52.0
<b>Primary Balance (% of GDP)</b>	-1.5	-4.3	-5.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. data sourced from CAIT and OECD, October 2021

In these descriptive statistics, the macro-economic data are revealing the abysmal performance of Iran's economy blatantly. Real GDP growth rate at constant market price plummeted sharply in 2018-19 and 2019-20 before it recovered in 2020-21. Private consumption and government consumption showed a declining trend in hard pressed time saddled by economic recession and export restriction. Gross fixed capital investment worsened over the years due to lack of revenue generation and less of income flow into govt. exchequer. Export and import of goods and services suffered tremendously owing to trade restriction. All three sectors of the economy such as agriculture, industry and service suffered loss due to COVID 19 outbreak. The impact was most debilitating for industry which underwent worst productivity fall due to lockdown and production halt. Inflation measured in consumer price index spiralled high and made all commodities expensive. This in turn badly hurt household budget and affected quality of life. People had to deal with scarcity of basic necessities. Current account balance deteriorated as trade embargo didn't provide enough room for export driven growth, Depleted gas and oil price during pandemic outbreak caused a gulf in current account. Fiscal balance went haywire as tax revenue reduced sharply with economic contraction but govt. expenses went high to deliver healthcare facility during pandemic ridden time. Public debt mounted high in successive years due to economic mismanagement. Due to decreased oil earnings, the government had difficulty funding a mounting fiscal deficit. Because oil revenues accounted for less than 10% of government income in 2020/21, the fiscal impact of the global oil market rebound was modest. Faced with poor revenues, the government cut spending to mitigate the negative impact on the deficit, which grew by nearly 2 percentage points to 6.9% of GDP in 2020-21. Due to increased economic uncertainty and negative real interest rates, deficit financing through bond auctions (46 percent lower in Apr-Sep 2021, YoY) was less successful. As planned sales of public assets lagged, the government was forced to deplete its revolving fund and monetize the remaining deficit.

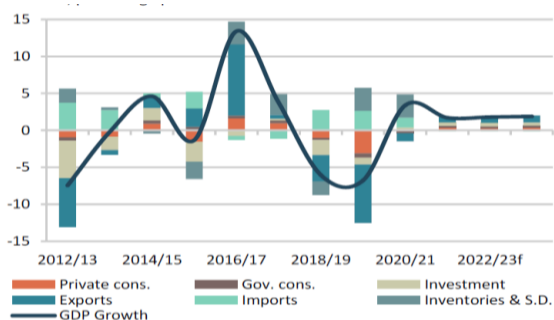


Fig. 1. GDP growth and demand side growth of Islamic Republic of Iran (percent, percentage growth)

Source: CBI and World Bank, October 2021

In the above diagram lots of economic indicators have demonstrated a bleak picture of Iran's economy. Private consumptions remained subdued since 2012 except slight improvement in 2016-17. As fear on the mind of people remained undeletable about economic prospect and unemployment rate remained high, households shied away from making big expenses, Persistent inflation dampened purchasing power of people to great extent. Export prospect dimmed over the period with breakdown of 2015 Iran nuclear deal which is also known as the Joint Comprehensive Plan of Action (JCPOA). Export of crude oil, natural gas and other items slimmed down due to stringent export restriction by USA, Export showed some stamina when it grew beyond 10 percent in 2016-17 but plunged drastically in the following years. Govt. consumption remained on lower side due to lack of fiscal strength. Import remained high since 2019 as dependence on imported goods felt poignantly amidst economic turmoil. Investment had never shown great progress as govt. didn't have fund for development projects. Govt. of Iran had been mired in deception, incompetency, and financial irregularities. The punitive sanction by USA on oil export of Iran since 2015 Iran nuclear accord fell apart, revenue earning of Iran govt. fell drastically. Following the global oil market crash in 2020, revenues plummeted even more, with oil production at less than 2 million barrels per day, or roughly half of what it was in 2018. This contraction, which was predicted to result in a 3.7 percent drop in GDP in 2020-21, followed a decade-long reduction in per capita GDP income. The rial, Iran's currency, lost 43% of its value against the dollar by 2021. According to the Iran Economic Monitor, this, combined with years of austerity imposed by successive governments with the support of all factions of Iran's political establishment, has resulted in inflation reaching 46%, mass unemployment, a devastating impact on household budgets as the cost of food and housing soared, and ever-deepening social inequality, with the Gini coefficient of inequality reaching 35.6.

### 3. Conclusion

In 2020-21, Iran's economy emerged from a two-year slump, supported by modest COVID-19 mitigating efforts and a gradual increase in oil production in the second half of 2020. Poor economic activity, partially as a result of US sanctions, low oil revenues, and increasing recurrent and COVID-19-

related expenses, nevertheless, expanded the budget deficit, causing considerable inflationary pressures and currency devaluation. Further waves of COVID-19 variants, uncertainties in the materialisation of sanctions relief, tensions in Afghanistan, and the impact of climate change were all projected to slow growth. The combined impact of US sanctions, the oil market collapse, and the COVID-19 pandemic wreaked havoc on Iranian workers and their families. Iran's GDP had already dropped by 6.8% in the fiscal year 2019-20 before the pandemic-induced recession hit, as oil earnings halved after the Trump administration's short-term waivers of sanctions on nations that import Iranian oil expired. Punitive sanctions were imposed by the Trump administration in 2018, after the US pulled out of the 2015 Iran nuclear deal, with the goal of crippling the country's economy and instigating "regime change." The sanctions effectively prevented Iran from selling its oil, which caused crude oil production to decline to its lowest level in 40 years, oil storage facilities to fill to capacity, and the government to lose a key source of cash. Onslaught of COVID 19 and health emergency caused collateral damage to Iran economy. As oil price nose-dived in world market in 2020 due to restriction on trade and transport service, Iran faced a mortal blow as oil export receded extremely. The fallout of COVID 19 outbreak, trade embargo was economic contraction, currency depreciation, inflation upsurge and mounting unemployment and poverty. Because earnings are insufficient to cover their basic necessities, at least 55 percent of Iranians are impoverished, with half of them living in destitution, a five-fold spike since the tightening up of US sanctions in 2018. Since the revolution in 1979, Iran had been ruled by a conservative religious class. The leaders of the judiciary, military, and media were appointed by the Supreme Leader Ayatollah Ali Khamenei, the country's highest power. He holds the authority to ratify elected president. In June 1989, Ayatollah Ali Khamenei, the Islamic Republic's founder, was appointed for life. During the 1980s, he was president for two consecutive terms. This hardliner cleric and Khamenei's friend defeated a slate of middle-ranking conservative candidates in the 2021 election, despite the fact that reformers and notable conservatives were forbidden from running. Iran held its thirteenth presidential election on June 18, 2021, since the Islamic Republic was established in 1979. In a highly contentious election, Ebrahim Raisi, former Chief Justice of Iran, was pronounced the winner. His top focus would be to repair the country's ailing economy, a task made more difficult by his animosity toward the US, which put severe sanctions on it.

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