

Iran 1389 Budget (2010-2011) & --- Subsidy Reform



A presentation prepared by
ICG Group
April 2010

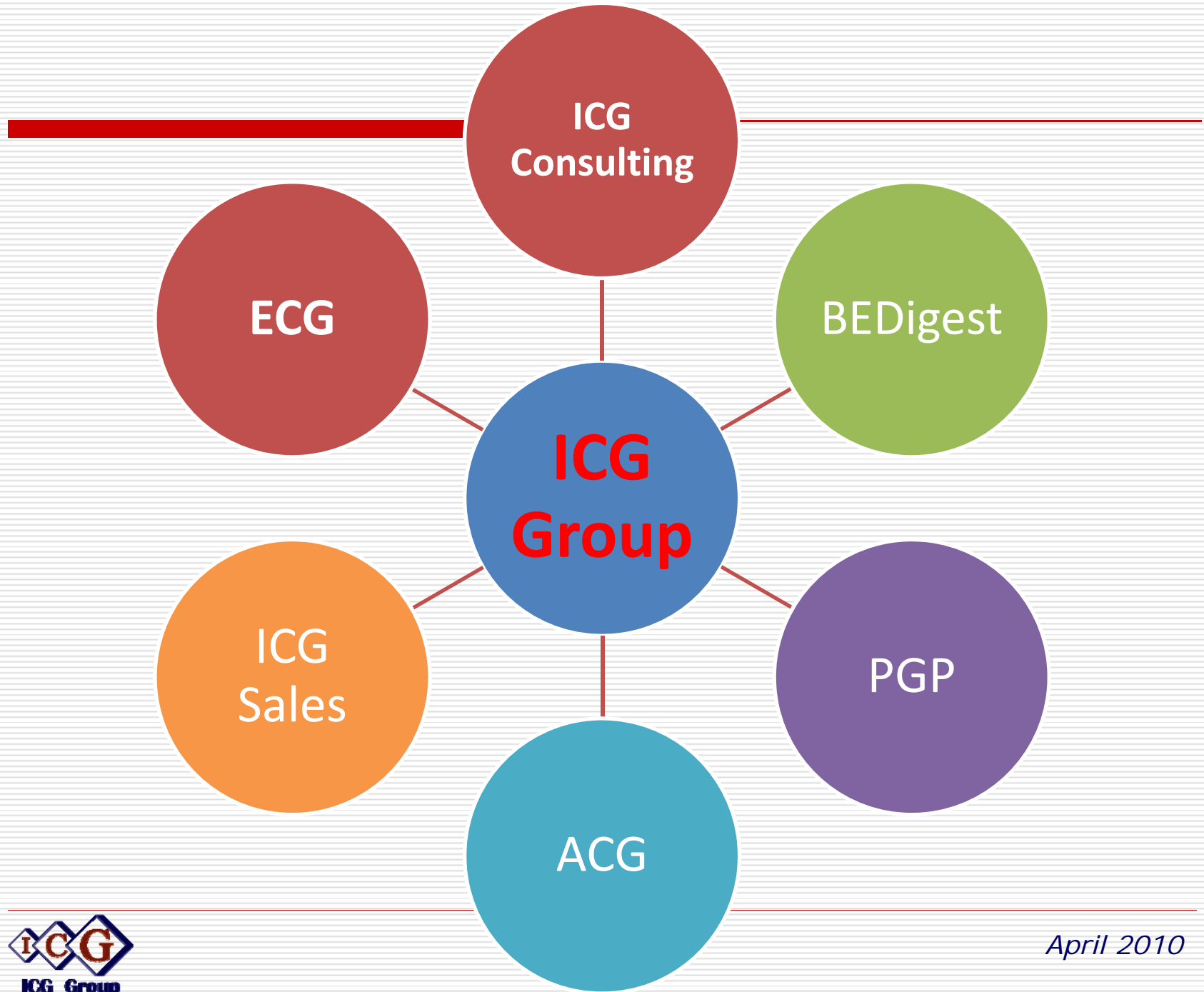
As part of BEDigest effort to provide its clients with the optimal analysis on the economic, oil and gas situation of the MENA countries, in April 2010, a workshop was held with the topic of "Iranian 2010-2011 Budget and Subsidies reform".

What follows is a selection of the slides presented in this workshop.

Should you need any information on this workshop or upcoming workshops of BEDigest, please contact customerservice@bedigest.com

Agenda

- ❑ Iranian Economy in the last decade
- ❑ Subsidy Reform Law
- ❑ The Budget Structure
- ❑ The 1389 Budget Bill/Budget 1388
- ❑ Summary & Conclusion
- ❑ Q & A



Iran's Economy in

the Last Decade



Analysis of the 4th FYDP

- ❑ Highest oil income and imports ever for the country 2004-2009
- ❑ Extraordinary surpluses in foreign currency accounts
- ❑ Shows that public financing cannot stimulate growth with even oil above 100 US\$/barrel (management of resources?)
- ❑ Non oil income and private financing of the economy very low

Subsidy Reform Law



Current subsidy Levels

- Total amount of subsidies: over US\$100 bln/year (30% of the GDP)
 - US\$90 bn for energy
 - Subsidies cover gasoline and other refined products, natural gas, electricity, water, essential foodstuff and agricultural products
 - Removal of subsidies seems to be the only solution

The Budget Structure



Budget Structure

- Recommended by IMF and implemented since 2002
- Model designed for oil producing countries with the aim of:
 - making more transparent level of usage of oil receipts in public finance
 - increasing their non oil income
 - moving towards financing current budget with non oil income

Budget Structure: divided in 3 categories

1. Current

- Current expenditures should be financed by taxes, other non oil income
- This budgeting model reflects insufficient non-oil resources

2. Development

- Development budget contains usage of oil income only for the development projects

3. Financial category (Deficit financing)

- Bonds, privatization, oil fund withdrawals, etc.
- the budget is balanced mainly with oil fund withdrawals

Budget Structure: divided in 3 categories

1. Current

- Current income & expenditures approved respectively at US\$ 69 bln and US\$ 74 bln.

2. Development

- Development income & expenditures approved respectively at US\$ 28 bln and US\$ 39 bln.

3. Financial category (Deficit financing)

- Total budget deficit of US\$ 16 bln financed by oil fund withdrawals, bonds, privatization , etc.
- The total amount of the gov. budget at US\$ 122 bln, +30% compared to the previous year.

The 1389 Budget Bill/

Budget 1388



Establishment of National Dev. Fund

National Dev. Fund

- ❑ 20% of all oil, gas and condensate income shall be deposited, dedicated to finance private sector projects
- ❑ Government cannot withdraw from it to finance its expenditures
- ❑ Balance of OSF will be transferred to NDF

Oil Stabilization Fund

- ❑ Established in 2000
- ❑ A portion of the surplus of oil income was deposited
- ❑ Government needed approval of Majlis to withdraw money from it

1389 Budget Law vs 1389 Budget Bill

Removed

- ❑ Subsidy reforms income reduced to US\$ 20 bln from US\$ 40 bln
- ❑ Gov. share of subsidies reduced to US\$ 4 (US\$ 2 to dev. projects and remaining to subsidy related expenses)
- ❑ Usage of US\$ 14 from NDF rejected for dev. projects

Added

- ❑ US\$ 5 bln to dev. projects ceding to contractors (BOT)
- ❑ US\$ 5 bln in Rial bonds for South Pars
- ❑ Added US\$ 4 bln to privatization income (from US\$7.5 to US\$11.5 bln)

The current expenses and income has been approved without change

A scheme similar to BOT

- A new item entered the financing dev. Projects section of the budget:
A scheme similar to BOT
 - Forecast of gov. bill US\$ 2 bln. Later Majlis added to this item (see next slides).
 - No precisions yet on the scheme. Seems difficult to implement.

Oil & Gas in The Budget

□ NIOC royalties on rise

	Royalty on oil revenues		Royalty on revenue from shared fields	
	1388	1389	1388	1389
NIOC	6%	13%	11%	23%

- NIOC royalties around US\$ 10 bln
- NIGC royalties unchanged at 11%
- Euro bonds:
 - NIOC € 5 bln
 - NIGC, NPC, NIOPDC € 1 bln each

Summary & Conclusion

