

On January 9, President Mohamad Khatami briefed legislators on the details and features of the coming year's budget bill.

The president said the bill pays due attention to human resources and provides appropriate grounds for development based on knowledge.

"The bill places special focus on allocating some of the capital of state companies to development of the private sector."

Khatami noted that privatization, development of tourism industry, paying attention to public organizations in charge of religious affairs, structural reforms of relief organizations and giving aid to women's non-governmental organizations are some of the characteristics of the next year's budget bill.

The budget for the new calendar year (starting March 21) is valued at 1,546,000 billion rials (\$171.77 billion) up by 30.5 percent compared to the current year.

Head of the Management and Planning Organization Hamid-Reza Baradaran Shoraka has said the budget law estimates an increase by 13.1 percent in the current funds, 4.9 percent in the development budget and 24.7 percent in allocations for state companies. He said that oil revenue is predicted to reach \$14.1 billion (128,494 billion rials).

"The government is expected to make somewhere close to 15,000 billion rials from sale of state companies to the private sector and another 7,000 billion rials from selling bonds to the public.

Baradaran Shoraka also said tax revenues will grow by 41.4 percent while proceeds from the National Iranian Oil Company (NIOC) will also rise by 21 percent.

"Shortage of funds will be offset through Foreign Exchange Reserve Fund."

On January 12, parliament passed the controversial bill to stabilize prices of goods and services. Based on the ratification, prices of gasoline, diesel, kerosene, furnace oil and other oil products as well as gas, electricity, water and drainage service charges, phone call and postal rates in the next Iranian year will remain the same as in the current year.

The parliamentary move has raised the ire of many experts and officials who

claim political motives are behind the initiative and question the viability of the plan.

No remedy
Under normal circumstances, analysts say, the initiative would be an effective way for restraining inflation, but they insist, per se, it is not the remedy to Iran's economic ills.

Conservatives who dominate the legislature say only good-intentions are behind the move. Reformists have described the discussions on the plan's formulation as "more political than

Meanwhile, the pro-reform press has also described the price-stabilization plan as a measure intended to earn public support during the upcoming presidential election.

Parliamentary speaker Gholam-Ali Haddad-Adel has denounced critics of the bill as "demagogues motivated by the election."

In response to those that who say political motives are behind the price stabilization move and aimed at manipulating public opinion, Head of Parliament Research Center Ahmad Tavakkoli

But reformist Iraj Nadimi, has said implementation of the price stabilization plan will force the government to draw near \$3 billion from the Foreign Exchange Reserve Fund to cover up for its expenses in addition to depriving the government of its income resources.

Bad to Worse
Economists are greatly divided on how to deal with an economy faced with staggering prices.

Some call for 'actualizing' the prices while others favor a fair distribution of income resources

year's budget law, Danesh-Jaafari told ISNA that the document resembles previous plans in quality and quantity, meaning it fails to offer any practical solution to long-running economic problems. For example, he said, it does not put forth alternative financial resources for the government to make up for possible shortages of funds, or ways of preventing possible deficit.

The Tehran MP said the financial plan comprises two parts: public funds which include allocations to government-owned organizations and exclu-

the state will have to put up its shares for sale."

In the view of Danesh-Jaafari, the move would only make a bad situation worse.

He said state-run bodies including banks and insurance companies each year devour a great portion of state money; up to two-thirds the total budget.

able.

"When assessing the budget bill, responsible parliamentary commissions will take all these things into consideration and will try to come up with ways to help government bodies correct its spending habits."

Shallow Promise
Turning to the contro-

prices to go up when the new-year starts and this automatically pushes up the rates. The plan's writers have tried to deal with this ominous fact by attempting to correct this totally wrong popular mindset."

Complementary measures are needed to make the plan an all-out success, Danesh-Jaafari said, adding that these could include obliging state-controlled organizations to devise financial disciplinary policies to trim their costs or at least bring them under control and prevent an unbridled rise in liquidity.

A close and impartial look at the budget statement and reasons behind chronic deficits show that unless the government comes up with ways to put a stop to the unchecked rise in liquidity, inflation will continue to haunt the economy not only during the next year but for years to come.

The budget law reportedly stipulates a 24 percent growth in liquidity.

Central Bank of Iran has declared the current inflation rate at 14.5 percent.

The CBI is optimistic the government will manage to keep the rate constant in the coming Iranian year.

Danesh-Jaafari said should the government fail to curb its expenses and refuse to hand over executive affairs to private and cooperative sectors, all efforts to bring the fast rising prices to a standstill will remain a shallow promise.

"Another issue to be taken care of is lack of sovereignty and independence by the Central Bank of Iran for taking big decisions such as refusing to give in to requests by public organizations to intervene in the market by increasing liquidity.

"We will try to give state policies, specified in the budget plan, the required executive guarantee though its success depends on having full cooperation of all sides."

Successful implementation of monetary and financial policies should come with efforts to reduce the size of the administrative sector and trim its responsibilities so as to lift the burden of state organizations, some of which are involved in duties beyond their scope of responsibilities and authority, thus increasing their expenses and ultimately pushing up inflation and causing budget deficit.

As long as state organizations fail to spend wisely, the government will continue to be cash-strapped

Majlis Firm on Price Control



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The 2005-06 budget falls short of practical solutions to the country's chronic economic problems

economic".

They say the rightist majority in parliament do not plan to withdraw from their stance and would continue to push for its endorsement.

has said nothing can stop lawmakers from fulfilling their legal, humanitarian and Islamic duty, one way of which is preventing inflation from rising up to 60 percent.

to raise people's purchasing power in tandem with price increases.

Head of the Parliament Economic Commission Davoud Danesh-Jaafari believes both groups are justified in their standpoint and can each can have their way through a system based on which the government pays the subsidies in cash.

Commenting on the next

five finances.

Running out of public budget, said Danesh-Jaafari, has become an unending problem for the government, rather something unpreventable and a sure thing to happen.

"Even with the inclusion of oil revenues, the government would still run short of up to 70,000 billion rials in public funds and to compensate for it,

He asks, "Is it fair that they (state entities) should pay only 2.5 percent of their funds as taxes when having a lion's share of all the money that the government makes?"

As long as state organizations are not taught to spend wisely, the government will continue to be cash-strapped and hopes for improving state efficiency will not be attain-

versal price stabilization plan, Danesh-Jaafari said the objective is to rein in inflation. "The by-law has fortunately received majority support on the floor."

Trying to explain the plan and its objectives in more detail, he said, it treats the phenomenon of price increases from a psychological perspective. "People expect the

Obstacles to Exports

Based on statistics released by the Bureau for Exports of Ministry of Mines and Metals during the first nine months of the current Iranian year, exports of industrial and mineral products including luggage and border market trades reached \$3.613 million.

This shows that 88.5 percent of the target outlined in the Third Development Plan (2000-05) for the first three-quarters of the year, has been fulfilled. Based on the same report, the level of exports of food industries, petrochemicals, plastics, minerals, metals, textile products, automobiles and automotive spare parts increased during the same period. Meanwhile, exports of non-ferrous metals, tire and tube, leather products and electrical products showed a decline.

In recent years, the cabinet, the Supreme Council for Promotion of Exports, various ministries and organizations have tried to remove the obstacles facing foreign trade. However, despite all their efforts the nation's exports still lag behind the declared ceiling. Expert studies reveal that non-oil exports continue to grapple with myriads of problems.

It seems that these problems will linger as long as Iran does not become a member of the World Trade Organization (WTO), the two-digit inflation rate is in

place, the national currency does not gain in value, the local demand for various goods and services does not decline, red tape prevails, the Commonwealth of Independent States (CIS) does not reduce tariffs on imports, the national transport fleet is not upgraded, new technological advances are not deployed and the services of experts are not used in economic decision-making.

In the meantime, it must be pointed out that meaningless rules and regulations have made exports vulnerable and it is necessary to remove the hindrances if we are to see a growth in the sector and also compete effectively with a strong regional rival like Turkey.

In order for this to happen, exporters should be given more freedom to conduct their activities by liberalization of the relevant regulations. This may seem a time-consuming process, but when it materializes traders will stand to benefit.

When the exports sector picks up significantly, the state of economy will automatically improve. The officials have to realize that the key to success lies in engaging the people in economic activities. Other countries have advanced by boosting their national production and exports.



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