

= Iranian subsidy reform plan =

The Iranian targeted subsidy plan (Persian : ??? ?????????? ?????? ? ??) also known as the subsidy reform plan was passed by the Iranian Parliament on January 5 , 2010 . The government has described the subsidy plan as the " biggest surgery " to the nation 's economy in half a century and " one of the most important undertakings in Iran 's recent economic history " . The goal of the subsidy reform plan is to replace subsidies on food and energy (80 % of total) with targeted social assistance , in accordance with a Five Year Economic Development Plan and a move towards free market prices in a 5 @-@ year period . The subsidy reform plan is the most important part of a broader Iranian economic reform plan .

According to the government , approximately \$ 100 billion per year is spent on subsidizing energy prices (\$ 45 billion for the prices of fuel alone) and many consumable goods including bread , sugar , rice , cooking oil and medicine . However , some experts believe direct subsidies are about \$ 30 billion , depending on oil prices .

The subsidy system has been inherited from the Iran @-@ Iraq war era but was never abolished . Iran is one of the largest gasoline consumers in the world , ranking second behind the United States in consumption per car . The government subsidy reform has been years in the making for various reasons . Iran 's Supreme Leader has backed the government 's latest subsidy reform plan .

= = Objectives = =

Iran was the largest provider of fuel subsidies in the world by 2009 . Many Iranian experts agree that these unsustainable subsidies encourage waste among goods , including in the production sector , ranging from gasoline to bread that must be stopped and the only way to do that is to redirect subsidies .

The stated goal of the subsidy reform is " to rejuvenate Iran 's economy , increase productivity , give it a new footing and bring it out of the slump it has been in for so long " . Concretely , the government plans to replace the subsidies with targeted social assistance . Consequences of the economic reform plan are that Iran will be less vulnerable to US sanctions because it will reduce fuel imports . The reform plan will also save money for the Iranian people because it will end a multibillion @-@ dollar @-@ a @-@ year contraband (17 % percent of fuel production in Iran is smuggled abroad daily) . Due to subsidies , Iran had long had one of the cheapest gas prices in the world , 10 cents per liter or 40 cents per gallon .

Implementation of the plan will reduce waste and consumerism . In fact , according to official data , the higher income strata of the population has enjoyed the same subsidies as the poor until now . On the other side , subsidies reduction will reduce air pollution by reducing car traffic in Tehran . Finally , the subsidy plan will increase social justice through targeted social assistance . According to official data , the richest decile of households benefits 12 times more from gasoline subsidies than the poorest decile . Overall , implementation of the plan will increase productivity , efficiency , competitiveness of Iran 's economy , economic growth , oil exports and per capita income (all other things being equal) .

= = Implementation = =

For implementation of the bill , an entity has been established as a duly authorized governmental company under the name " Targeting Subsidies Organization " .

The amount saved by the government , will be distributed as follows : 50 % towards the poorest strata of Iranian society ; 20 % at the government 's disposal (to compensate for increased costs or as safety net) ; and the remaining 30 % will be directed towards improving the efficiency of the utility , fuel and energy production infrastructure , public transportation development , industry and farming .

The plan will commence with energy , fuel and utilities in the first year and consumable goods will start in the second year . The start of the cuts will coincide with the beginning of the second half of

the Iranian year on Sept . 23 , 2010 . At that time , the 2007 Gas rationing plan will come to an end .

= = = Budgeting = = =

In March 2010 , the Iranian Parliament approved a \$ 347 billion budget , in which the allocation from subsidies and the oil price were set at \$ 20 billion and \$ 65 per barrel , respectively . According to the Vice President for Parliamentary Affairs , Iran 's subsidy reforms would save 20 percent of the country 's budget . Iran wants to save up to \$ 100 billion on subsidies within three to four years . In 2011 , the Iranian parliament approved a \$ 508 billion budget based on \$ 80 / barrel oil price . This bill also factors in \$ 54 billion from price hikes and subsidy cuts .

* Totals may not add up due to rounding and deduction of double @-@ counted items Note : all numbers are in billion dollars .

= = = Income data = = =

According to the IMF , until recently a four @-@ member Iranian household received an average of \$ 4 @,@ 000 a year in subsidies for oil and natural gas , compared with a typical annual income of about \$ 3 @,@ 600 a year .

In 2010 , Iran 's Department of Statistics announced that 10 million Iranians live under the absolute poverty line and 30 million live under the relative poverty line . President Mahmoud Ahmadinejad says implementation of the targeted subsidy system will eradicate unemployment and poverty in Iran within three years .

= = = = Data collection = = = =

The administration has said earlier that it will be able to allocate different payment amounts to different people . To that end , in 2009 , forms were distributed asking Iranians to report income , assets and property but the question remains on how the government will verify this information gathered by self @-@ reporting . Many people have chosen not to report or withhold information . The administration has categorized the people into three income brackets ; namely lower , middle , and higher for the implementation of the subsidy reform plan . On the other side , it was not clear in what form the compensation would be distributed , direct cash or goods . Another concern is the accuracy of government information on family incomes .

In September 2010 , Iran 's Statistics Bureau announced that implementation was delayed by one month because they were still collecting information regarding the financial situation of households and opening bank accounts for them .

= = = Plan revision = = =

Later in 2010 , the government announced that it had revised its plan because of lack of reliable data on personal incomes . To ease the economic loss from lost subsidies , the government indicated it would distribute \$ 40 per person / month (i.e. 455 @,@ 000 rials / month) to 90 % of the general population , starting on December 18 , 2010 .

= = = Price adjustments = = =

The government took control of deciding how much the prices should rise in a year , as long as the subsidy cuts on gasoline and other refined products , natural gas , electricity , water , food (sugar , rice , cooking oil and bread) , health and education are between \$ 10 and 20 billion dollars annually . Estimates indicate that the government has to increase existing prices by an average of 2 @.@ 5 times to achieve the lower target and by 4 times for the maximum target . According to the IMF , Iranians can expect the first price hike to lift energy product prices between four and 20 times previous levels , with prices surging even higher eventually .

== = Other determinants == =

According to the plan , the type of consumption (i.e. whether agricultural , industrial and civil) will also be considered when setting energy prices . The subsidy plan will be implemented in proportion with geographical regions because warm regions consume more electricity during summer while cold regions consume more gas during winter . Finally , the time of consumption (i.e. during peak and off @-@ peak hours) and the consumption demand (i.e. whether it is low or high) will be taken into consideration .

Starting in April 2012 , Iran 's consumers have been hit with a wave of rising prices that has now touched laundry detergent and food items such as cooking oil , rice , eggs and dairy products . Since April 2012 , the price of food and other consumer products have risen between 10 and 20 % in some cases .

The latest official data comparing prices of foodstuffs in the second week of April 2012 to the corresponding period in 2011 showed dairy products rose about 42 per cent , red meat 47 @.@ 5 per cent , rice about 29 per cent , beans 45 @.@ 7 per cent , vegetables 92 per cent , sugar 33 per cent and vegetable oil 30 per cent . The price of chicken nearly tripled since 2011 .

== = Consumption patterns == =

As of October 2011 , consumption of liquefied petroleum gas , gasoline , kerosene , and diesel has cut between 4 and 19 % , despite the fact that more than 1 million cars have been added to Iran 's fleet . Increased use of compressed natural gas (CNG) to fuel cars has also reportedly played a role in this . According to the government , if oil products consumption had not been managed , consumption of gasoline would have increased to 120 million liters per day , while by reforming consumption pattern the figure has fallen to 60 million liters per day . In November 2011 , the Government reported that the subsidy reform plan has saved Iran \$ 6 billion .

== = Economic and structural adjustments == =

The reforms target one of the major sources of inefficiency and price distortions in the Iranian economy , and will likely lead to major restructuring in almost all economic sectors . The banking sector in Iran is viewed as a potential hedge against the removal of subsidies , as the plan is not expected to have any direct impact on banks . Experts believe that following the launch of the subsidies reform plan , the electricity industry will undergo significant changes and will become more appealing to private investors .

On the other side , the cement industry in Iran is one of the economic sectors that will be hit the hardest in Iran following of the subsidy reform plan , because many Iranian cement factories are energy inefficient (Notwithstanding possible adjustment and / or liberalization of commodities prices by the government during implementation) . Taxi , delivery and truck drivers have also been adversely affected by the recent gas price increase . Experts believe that the removal of subsidies is likely to have an adverse impact on the profitability of the automotive sector for at least the next 2 ? 3 years . One major element of pressure on producers is the unchanged exchange regime of the Central Bank of Iran , which puts imported products at an advantage by failing to compensate for the relative increase in production costs of domestic producers .

== = Second phase == =

During the second phase , starting in June 2012 , half of the funds from energy and food subsidies will be re @-@ allocated to the people and the remaining 50 % will go to the industrial sector . If approved by the Parliament , the government will pay an extra cash handout of 280 @,@ 000 rials / month to 80 % of the general population (i.e. people earning less than \$ 2000 / month , which is a comfortable income level in Iran) . In July 2012 , it was announced that implementation of the

second phase was suspended awaiting further adjustments by the government and because of raising inflation (around 22 % as of April 2012) . Finally , in fall 2013 , the parliament approved a plan to drop 22 million Iranians ? the top 30 percent of earners ? from the subsidy system instead . Yet , it was reported in 2014 that out of Iran ? s population of 77 million , 73 @.@ 6 million registered to receive the cash hand @-@ outs .

= = Effects and criticism = =

= = = 2010 = = =

According to earlier critics , even if half of \$ 20 billion is passed as part of the compensation to the poorer 50 % of the Iranian society , it will amount to \$ 25 per eligible person per month ; " no way near enough to make up for such inflation rates " .

Critics say that if the government goes for the top of this range inflation could rise up to 40 % through the economy . The International Monetary Fund , however , has predicted a more moderate rise in inflation of just 32 percent . As of January 2010 , the official inflation rate stands at 15 percent . The cost of living in Iran , according to the Majlis Research Center , could rise by up to 60 percent . Ahmadinejad 's administration contends that the negative side effects will be transient and that the projections are based on out @-@ of @-@ date models .

= = = 2011 = = =

According to some western reports , cash payments have been denied to some opponents of the regime during the distribution phase .

Ahmad Tavakkoli , a parliamentarian , accused the government of ? violating the law ? and ? mis @-@ implementing ? the plan because it earned 290,000bn rials (\$ 23.6bn) from the cut in subsidies in the first 14 months of its implementation but paid people \$ 36.7bn of compensation in return (he says) .

It has also been reported that while the subsidy reform plan needs further adaptation and fine @-@ tuning , citizens must separate the questions of public policy from the issues of government legitimacy . The IMF has hailed Iran 's economic reform and asked Iran 's expertise to be transferred to other countries . The Economist Intelligence Unit has also praised Iran 's subsidies reform plan for its positive effect on the economy in 2011 .

= = = 2012 = = =

In 2012 , Iran 's head of the Expediency Council , Ayatollah Hashemi Rafsanjani , criticized the government for failing to reinvest the money it saved by restructuring government subsidies . To compensate , the government says it has allowed producers to adjust their prices more liberally and it has given free loans and energy subsidies in some cases . In recent years , income inequality in Iran has declined by different measures , which may be an effect of the subsidy reforms . For example , the income Gini coefficient fell from 0 @.@ 4023 in 2005 to 0 @.@ 3813 in 2010 . Between February 2011 and February 2012 , the government earned 510 trillion rials (some \$ 41 @.@ 6 billion) by implementing the Subsidy Reform Plan .

According to the World Bank :

In October 2012 , 179 of 240 members of parliament voted in favor of pausing the subsidy reform , because of high inflation (exacerbated by the sanctions against Iran) . Consequently , the growth in consumption of subsidized products rebounded in 2012 .

= = = 2014 = = =

In 2014 , Iran started the second phase of its targeted subsidy plan under President Hassan Rohani

. Petrol prices were raised by 75 % from 4 @, @ 000 to 7 @, @ 000 rials (\$ 0 @. @ 16 to \$ 0 @. @ 28) per litre which is far from the target price of approx . \$ 0 @. @ 90 per litre . As a consequence , fuel smuggling and gasoline imports increased again .

== 2015 ==

Iran 's government reported that the second phase of the subsidy reform plan will continue as originally planned .

== 2016 ==

According to the sixth five @-@ year development plan (2016 @-@ 2021) , the subsidy reform plan is to be extended until 2021 .

In 2016 , the Iranian Parliament approved subsidy cuts to 24 Million Iranians . Under the changes , the government must end monthly cash payments of around \$ 12 a person for many government employees with income above \$ 900 per month and citizens who already receive social welfare . Nevertheless the government is reluctant to comply because this would be " unfair " (allegedly) despite the risk of running large budget deficits .