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The Economic Crisis and the Protest Movement in Iran:
One Year after the Renewal of Sanctions
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As expected, the renewal of economic sanctions against Iran one year ago led to a worsening of an already bad economic situation in Iran. A number of economic indexes attest to the severity of the economic crisis, mainly the budget deficit stemming from the unprecedented drop in the export of Iranian oil, high inflation, and negative economic growth. In contrast, a number of indexes may also suggest that the Iranian economy is gradually acclimating to the sanctions regime. The deepening economic crisis has heightened the sense of frustration among the public, but thus far has not led to an increase in unrest. On the contrary, in the past year, the scope of popular demonstrations has ebbed significantly. In the final analysis, despite the economic crisis and the rising public despair, it seems that the Iranian regime is managing to withstand the American sanctions, and there is even a possibility of a slight economic improvement in the coming year. As long as the Iranian regime feels that it can hold out over time and that the economic crisis does not pose a serious threat to its stability, Supreme Leader Khamenei's position of not responding to the demands of the American government will likely be strengthened.

The economic sanctions against Iran, which came into force in August 2018 following the American withdrawal from the nuclear agreement, led, as expected, to a worsening of an already bad economic situation in Iran, as reflected by a number of economic indicators. However, there are also indices that suggest a possible process whereby the Iranian economy is gradually acclimating to the sanctions regime.

The most serious harm to the Iranian economy comes from the difficulty in exporting oil, particularly after the Trump administration decided in May 2019 to cancel the waivers that had allowed eight countries to continue purchasing Iranian oil. The result was a further drop in exports – according to various estimates, from 2.8 million barrels per day in June 2018 to 300,000 to 800,000 barrels per day, an unprecedented low since the Iran-Iraq War. (The range stems from questions regarding the amount of oil smuggled from Iran.) The resulting sharp decline in state revenues required the government to reopen the state budget for the current year, which was based on forecasted exports of 1.5 million barrels of oil per day at a price of about \$55 per barrel. In order to reduce the added budget deficit, the Iranian authorities decided on a series of measures, led by the

withdrawal of more than \$10 billion from the national development fund, which intended to retain some of the oil revenues to prevent shocks to the economy as a result of price changes in the world markets, and the withdrawal of tens of billions of dollars from foreign currency reserves.

Another significant challenge faced by the Iranian authorities is the inflation rate, which currently stands at 40.4 percent, a 23-year high. The International Monetary Fund (IMF) estimates the expected inflation rate for 2019 at 37.2 percent, although it expects inflation to drop beginning in 2020. There is no doubt that inflation heightens the distress of the Iranian population, despite their extensive experience in dealing with high inflation rates, for instance by adjusting their consumption habits. The Iranian authorities are trying to prevent a further significant erosion of the standard of living by revising employee wages and increasing budgets for welfare services and subsidies.

The severity of the economic crisis likewise figures in the sharp decline in the volume of economic growth. In July 2019, the IMF revised its annual growth forecast for Iran, and estimated that Iranian growth would decline sharply in 2019 by 6 percent. However, the IMF also expects that as early as 2020, there will be a turnaround, and real growth in Iran will resume at the low rate of 1 percent, possibly due to the increase in economic activity of industries that are not based on oil.

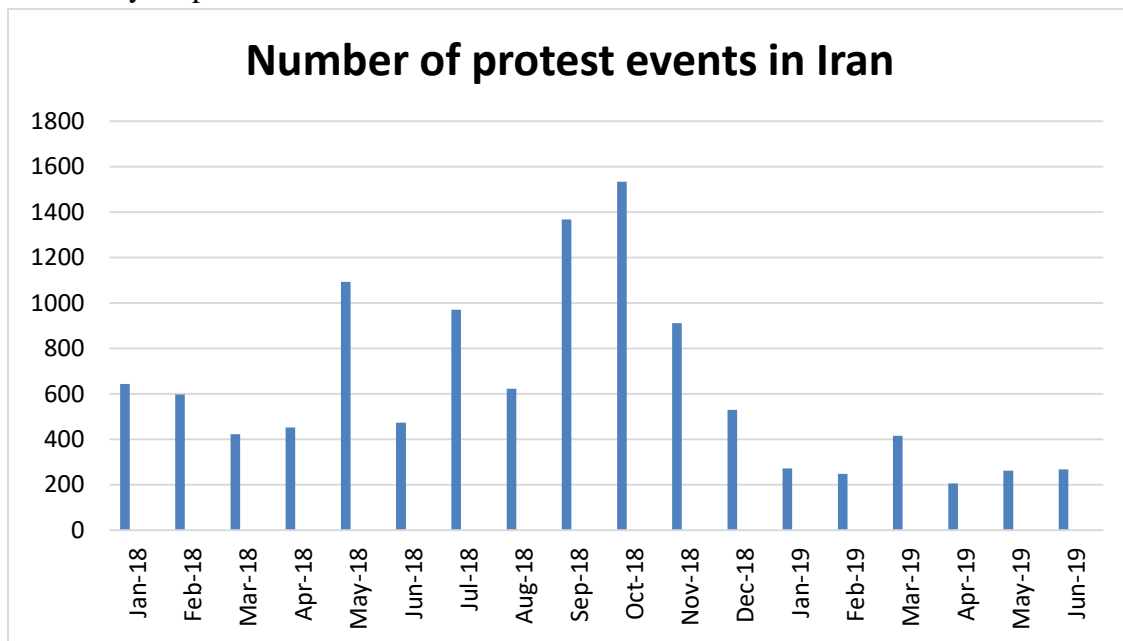
In parallel with growth data, the IMF expects that the unemployment rate in 2019 will rise from 13.9 percent in 2018 to 15.4 percent, and will continue to increase, to 19.4 percent in 2024. The unemployment rate among young people is even higher (about 30 percent), and among young university graduates, it ranges between 40 and 50 percent. The Iranian Center for Statistics recently published data that suggest that there was actually a slight drop in the unemployment rate in the spring of 2019 compared with the same period the previous year, but it is too early to assess whether this figure reflects a genuine improvement in the employment situation. In a report published in late July 2019, the Majlis Research Center argues that the reason for the decline in the number of those seeking work does not reflect a decline in unemployment, but is due to the fact that many citizens no longer approach the employment offices after despairing of ever finding work.

Despite the negative economic indicators, some of the economic data may indicate that the Iranian economy is slowly adapting to the situation. The most encouraging index from Iran's point of view concerns the stabilization of the local currency's exchange rate relative to the US dollar. After the rial collapsed in 2018, losing about two-thirds of its value, the rate stabilized in recent months around 120,000 rials to the dollar, mainly due

to efforts on the part of the authorities to stabilize the exchange rate, for instance through a struggle against the black market of foreign currency trading.

In addition to efforts to stabilize the currency, the government is also striving to continue increasing revenue from the export of goods not connected to oil. It is too early to assess the government's success in this area, although there is a significant increase in the volume of foreign trade with Iraq, which has become a main theater for Iran in its efforts to bypass the economic sanctions. In contrast, the efforts to create a sanctions bypass mechanism with the European Union (INSTEX) proved unsuccessful, and in the first half of 2019 there was a significant decline in the volume of Iranian trade with European countries, and even with China. Continued increases in the Tehran stock exchange also indicate a more complex economic picture despite gloomy forecasts.

The ostensibly deepening economic crisis could have exacerbated the popular protests that broke out in Iran in late 2017. Public opinion surveys published in the past year in Iran indeed revealed the intensity of public despondency. A survey published by the ISPA institute in the summer of 2019 indicates a sharp decline in the rate of people's satisfaction with the situation, from 6.3 (on a scale of 1 to 10) in December 2015 to just 3.6 in October 2018. Even so, the sense of frustration has not thus far led to increased unrest, and in practice, there is a significant decline in the number of protest events (demonstrations and strikes). While there were an average of about 800 protest events per month in 2018 (with more than 1,000 per month in May, September, and October), on average there were fewer than 300 protest events per month in the first half of 2019. The Iranian Interior Minister also stated in mid-August 2019 that the number of protest events declined by 38 percent in the first months of 2019.



The decline in the volume of protest can be attributed to a number of main factors:

- a. The Iranian public has despaired of generating significant political change in view of its recognition of the strength of the regime and its efficient repression capabilities, as well as the clear weakness of the protest movement, which even during 2018 remained local, incidental, and limited in scope.
- b. The worsening economic crisis requires the citizens, mainly the urban middle class, which is considered the backbone of the movement for political and social change in Iran, to focus on the struggle for day-to-day survival, and prevents it from being available for the struggle to advance political and civil freedoms. Moreover, the economic crisis increases the dependence of workers, most of whom are employed in the public sector or the government, thereby lowering the chances that they will risk their economic and employment security through political and civil involvement.
- c. The Iranian regime is managing, as in the past, to contain the economic difficulties without leading to deterioration and unrest that will undermine its stability. It seems that President Trump's continued policy of pressure and the escalation between Iran and the US is strengthening the hardliner groups and encouraging the Iranian leadership to show stubbornness inwardly as well, and to increase the internal repression.
- d. The concern among citizens about chaos and the loss of stability, particularly in view of the escalation between Tehran and Washington, exceeds their preparedness to advance revolutionary political changes at this stage. It seems that the increasing chances of military confrontation between Iran and the US contribute to internal cohesion among a public that frequently shows a readiness to rally behind the regime against threats of military attack or challenges to Iran's territorial integrity.

In conclusion, despite the economic crisis and the increasing public despondency, it seems that the Iranian regime is managing to withstand the American sanctions, and there is even a possibility of a slight economic improvement in the coming year. These circumstances help strengthen Iranian Supreme Leader Ali Khamenei's position that the US withdrawal from the nuclear agreement proves that the US cannot be relied upon, and that economic improvement is possible only through an "economy of resistance," which mainly involves reducing Iranian dependence on foreign entities and refusing to concede to the demands of the American administration.