
ANASTASIA OBUKHOVA. ADVANTAGES AND
DISADVANTAGES OF THE SUBSIDY SYSTEM IN IRAN

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Abstract. The article examines the system of social subsidies in Iran. The author notes the significance of the (partially) implemented Targeted Subsidies Reform of the Government of M. Ahmadinejad, which involved the replacement of subsidies for food and energy with targeted social assistance.

The author emphasizes that at least 45 per cent of the country's population currently depends on direct government payments. It is noted that a system of state-subsidized purchase prices for agricultural products continues to operate in Iran. The article focuses on fuel subsidies. Fuel consumption is subsidized both for the Iranian industry (including petrochemicals, mining, auto industry, cement plants, etc.) and for retail prices for petroleum products, which are set by the state when domestic refineries (mainly owned by the state) pay the difference between the subsidized and the actual market price. The amount of government subsidies provided by Iran for the consumption of oil, natural gas, coal and electricity remains one of the largest in the world, and the amount of subsidies allocated by Iran for energy resources averages 15.6 per cent of GDP annually.

In harsh conditions of forced isolation, state subsidies allowed Iran to provide affordable food to the population (which has grown by 24 per cent over the past 17 years) to strengthen regional positions in pharmaceuticals and medical technologies, create one of the most competitive petrochemical industries in the Middle East, and enter the top ten countries in terms of cryptocurrency mining, allowing to circumvent illegal restrictions of the West.

The Islamic Republic of Iran can be considered in many ways a socially-oriented state. Iran's legal system guarantees and ensures social protection for the majority of the country's population. Subsidies are also available to Iranian producers. In 2007, budget subsidies covered 50 million people (67 per cent of Iran's 75 million population) [1]. The volume of direct and indirect subsidies in 2007/08 reached \$77.2 billion, accounting for 27 per cent of the IRI's GDP, with the most significant portion of subsidies (equivalent to 20 per cent of GDP) allocated to energy subsidies (oil, gas, coal, electricity), which transformed the IRI into one of the most energy-intensive economies in the world [2]. Assessing the impact of subsidies on Iran's economic development is a complex task, considering the country's 45-year international isolation.

The "Targeted Subsidies Reform" was a significant stage in the investment policy during the presidency of M. Ahmadinejad (08/05/03–08/03/13)¹. The reform plan aimed to replace subsidies on food and energy, which constituted 80 per cent of total subsidies, with targeted social assistance. Simultaneously, plans were made to introduce a value-added tax (VAT) as a primary tax (it is worth noting that the first attempt to implement VAT in Iran in 2008 was unsuccessful).