AMERICAN FOREIGN POLICY COUNCIL

Iran’s economy is a house of cards

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Just how durable is the Iranian economy, really? As the Trump administration’s “maximum pressure” campaign against Iran marks its one-year anniversary, that’s the question many policymakers in Washington are asking.

Iranian officials have been eager to supply the answer. According to the country’s Supreme Leader, Ali Khamenei, U.S. pressure has foundered in the face of Iran’s heroic revolutionary resistance. America, Khamenei recently intoned, was deluded in thinking that it “will bring Iran to its knees by focusing on maximum pressure, particularly through economic sanctions.” Other top Iranian decisionmakers have said much the same, taking pains to minimize the impact that U.S. pressure has had on the country’s economic health.

Look a bit closer, however, and it becomes clear that the Islamic Republic is profoundly ailing. This summer, the World Bank estimated that the country’s gross domestic product (GDP) is expected to shrink by some 4.5 percent this year alone — a much steeper decline than the 3.9 percent economic contraction the international financial institution had initially predicted.

Part of the reason for this decline is undoubtedly American pressure, which has deftly managed to exploit the Islamic Republic’s myriad economic vulnerabilities. But the true causes of those vulnerabilities are distinctly local in nature.

The problems begin with the Iranian banking system, which is now teetering on the verge of full-blown crisis. A Summer 2019 study by the Peterson Institute for International Economics, a prestigious Washington, D.C. think tank, found significant liquidity and solvency problems among the country’s fragile financial institutions, which are now deemed to be in a “precarious” position. The problems, moreover, are ongoing. While a collapse of institutions may not be in the offing in the short run, “banking distress will continue to mount, making the system more vulnerable to an external shock” like a military conflict or further slowdown in oil exports, says Adnan Mazarei, a former deputy-director at the International Monetary Fund.

The state of the regime’s retirement funds is also dire. Most of the country’s pension funds are now considered insolvent and rely heavily on government subsidies to stay afloat. Last year, Iranian Vice President Eshaq Jahnagiri admitted that between 70 and 80 percent of the nation’s retirement funds — and the entirety of its retirement planning for the Iranian military — are paid for by the government.

Such a state of affairs would represent a severe economic burden under the best of circumstances, but Iran’s demographics make the situation simply unsustainable. This is because the Iranian population is aging quickly — and rapidly outpacing the ability of the regime to adapt. As of last year, the official number of Iranian senior citizens stood at 7.4 million, or roughly nine percent of the country’s total population of 84 million. But by 2050, that number is expected to skyrocket to 30 million, putting massive strain on the country’s retirement system in the process.

Iran’s labor market, meanwhile, lies fallow. Last year, the IMF gauged that the unemployment rate in Iran was at nearly 14 percent, and rising. According to the IMF’s projections, unemployment in Iran is expected to rise sharply for the next half-decade at least, reaching nearly one-fifth of the total population by the mid-2020s. That dire prediction isn’t adequately captured by official Iranian estimates, which paint a comparatively rosy picture of the employment situation within the Islamic Republic.

This state of affairs is most acute among young Iranians. According to the Iran Statistical Center, a government agency under the control of the country’s president, the official unemployment rate hit 27 percent among young Iranians last year, and a whopping 40 percent among university graduates. Simply put, the Iranian regime has systematically failed to create enough jobs to accommodate the country’s labor force, thereby adding fuel to the growing discontent now visible on the Iranian “street.”

All of these problems, in turn, are creating a secondary crisis in Iranian healthcare. The Islamic Republic now faces what could be called a “medical brain drain,” as more and more doctors and nurses seek an exit from the country. The results are dire. The Iran Student News Agency has reported that there are just 1.6 doctors and medical specialists per 1,000 Iranians — far below the World Health Organization’s estimates of the resources necessary for primary care. And, as the country’s currency (and by extension its purchasing power) has cratered, Iran has also begun to experience shortages of badly-needed foreign-made medicine.

Iran’s economy, in other words, is sick, and getting sicker. Of course, Iranian officials have styled the country’s current economic woes as nothing more than the product of malign Western “imperialism.” A closer look, however, indicates that the true causes of the country’s economic malaise are distinctly local — and that the Iranian people have their own government to blame for their current condition.

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