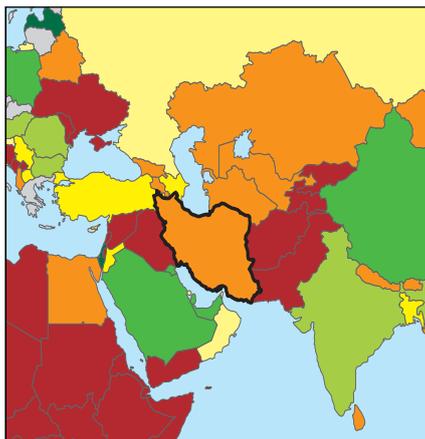




The country risk category are arranged on a scale från 0 to 7.

The lower the figure, the better the coutry's creditworthiness.



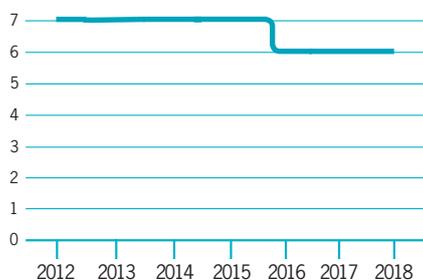
#### CONTACT

Coutry analyst: Victor Carstenius  
Tel. +46 (0)8-788 00 65  
email: victor.carstenius@ekn.se

#### BASIC FACTS

Population	80 million (2016)
Nominal GDP	USD 432 billion (2017)
GDP/capita	USD 5 305 (2017)

#### COUNTRY CLASSIFICATION HISTORY



Source: EKN

## USA reinstates sanctions

On 8 May, President Trump announced that the USA will be withdrawing from the nuclear deal and reinstating sanctions against Iran. The USA's actions will have serious consequences for the Iranian economy and have an adverse impact on the opportunities for trade and investment between Europe and Iran. The sanctions will cause payment channels to disappear, which may result in payment problems in transactions already entered into. Iran's focus is on managing the economic consequences of the USA's sanctions, in particular reduced oil and gas exports. When European companies and banks withdraw from Iran, the country is forced to turn to its trading partners in Asia. The conservative and religious forces in Iran will probably be able to increase their political and economic influence as the Iranian economy becomes more isolated.

There is a high level of interest in the Iranian market among Swedish companies. Swedish exports to Iran have increased significantly since sanctions were eased in 2016, but are now expected to decline once more. EKN introduced the provision of guarantees to Iran in 2016 and has been guaranteeing new export deals since then.

#### THE COUNTRY'S STRENGTHS AND WEAKNESSES

##### STRENGTHS

- + Major oil and gas reserves.
- + Low external debt and little need for external financing.
- + High willingness to pay.

##### WEAKNESSES

- Reinstatement of US sanctions limits trade and investment.
- Iranian companies are suffering from the effects of the sanctions.
- Weak business climate with government dominance and extensive regulation.

## SWEDISH EXPORT TO IRAN, MSEK

	MSEK
2017	4 323
2016	2 244
2015	2 546
2014	2 105
2013	1 227

Source: SCB

## EKN:S EXPOSURE

	MSEK
Guarantees	1 776
Offers	1 082

## EKN:S POLICY

EKN categorises Iran in country risk category 6 out of 7, an assessment made in collaboration with the OECD. The country was downgraded to country risk category 6 in June 2017, after the USA had withdrawn from the nuclear deal and announced new sanctions against Iran. The USA's actions increase payment risks, as they not only weaken the economy, but also result in payment channels disappearing.

EKN is open to the guaranteeing of payments from the Iranian government and the country's banks. Transactions with banks as the counterparty require a letter of credit as the payment instrument. The letter of credit may be either confirmed or unconfirmed. There must be a confirming or advising bank in place before EKN issues a guarantee. The difficulty lies in finding such a bank when the USA has reinstated sanctions. A letter of credit is also required in connection with payment risks with Iranian companies. All transactions are subject to testing against the UN's and the EU's sanctions. All transactions require a currency other than the US dollar.

## EKN:S EXPOSURE AND EXPERIENCE

EKN became open to the issuing of new guarantees to Iran after the easing of the EU sanctions in January 2016. Since then, EKN has issued just over 200 guarantees to a total value of SEK 6.3 billion. The guarantees related to short-term transactions with a credit period of up to one year, in which EKN primarily insured letters of credit issued as payment instruments for export transactions. There has been no possibility of financing large, long-term export transactions as no European bank has been willing to finance projects in Iran. Experience of payments has been good. In one individual case of a transaction without a letter of credit there were payment problems, as the importer did not receive an allocation of hard currency.

In 2016 EKN recovered the outstanding claim on Iran of around SEK 600 million, which arose because of the previous sanctions and the difficulty in finding a payment channel for the guarantees outstanding at that time. This recovery illustrates Iran's good willingness to pay.

## WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

### LESS RESTRICTIVE

- Iran can maintain its exports of oil and gas.
- European payment solution that enables continued trade between Europe and Iran.

### MORE RESTRICTIVE

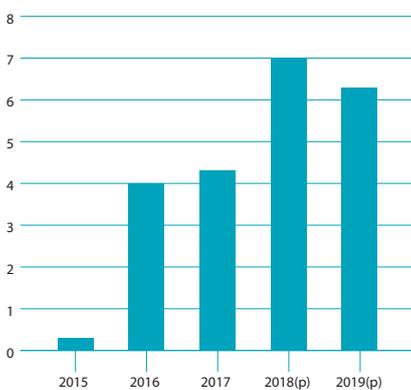
- Nuclear deal collapses, resulting in additional sanctions and increased political tension.
- Reinstatement of US sanctions results in payment problems.

## GDP-GROWTH (% PER ANNUM)



Source: IMF WEO 2018

## CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO 2018

## COUNTRY ANALYSIS

### BACKGROUND

The nuclear deal and the easing of sanctions in 2016 brought a temporary economic upturn to Iran. Oil exports increased, and the rate of growth rose. But the nuclear deal failed to bring the broad economic recovery that had been promised. Growth was high at 12.5 per cent in 2016, but it was driven primarily by increased gas and oil production. Growth in other sectors, where 95 per cent of the labour force is active, was limited and far too small to reduce the high level of unemployment. Uncertainty about President Trump's attitude towards Iran restricted trade and investment and prevented Iran's integration into the international financial system. European companies and banks were hesitant to resume business relationships. Iranian banks were able to conduct international banking transactions, but this was difficult due to the shortage of correspondent banks.

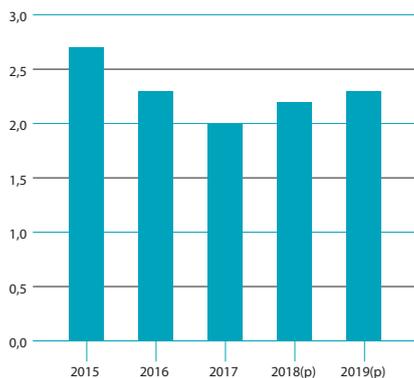
Iran's public finances and balance of payments were already strong thanks to the low level of debt and little need for external financing. Iran has virtually no external debt and the current account shows a surplus, in spite of the price of oil being lower in recent years. Iran has high international reserves, corresponding to more than one year's import requirements, and following the easing of sanctions Iran gained access to frozen assets abroad. But the assets are primarily in Asia, and it was difficult to use them in Europe because of the restrictive attitude of European banks towards Iran.

### RECENT DEVELOPMENTS

In May 2018, President Trump announced that the USA is withdrawing from the nuclear deal and reinstating sanctions. It is the extra-territorial sanctions, the sanctions that the USA believes that persons and companies outside the USA also need to observe, that are being reinstated and extended. The sanctions will be introduced in two stages. On 6 August 2018, sanctions were introduced on certain products and sectors, including the automotive sector, which accounts for a large proportion of Swedish exports. The other sanctions will be introduced on 4 November 2018, the most important ones being targeted against the energy and banking sectors in Iran. All things considered, international banks that follow the USA's sanctions will not be able to become involved in Iran-related transactions after November. Payments falling due after November risk being unpaid, as payment channels disappear.

The US sanctions and the uncertainty surrounding Iran's future opportunity to export oil have created turbulence in the Iranian currency market. The exchange rate in the parallel market, which accounts for more than 50 per cent of all currency transactions, has become significantly weakened since the USA backed out of the nuclear deal in May. The central bank's attempts to stabilise the currency have failed. The allocation of hard currency to importers is uncertain. Payments that take place via letters of credit are relatively secure, as it is the bank that opens the letter of credit, and for certain products the central bank, that provides the hard currency.

## EXTERNAL DEBT (% of GDP)



Source: IMF Article IV 2018

The political power struggle continues between those in favour of reform, represented by President Rouhani, and the conservatives, which include the revolutionary guard, the judiciary and the religious establishment. The USA's withdrawal from the nuclear deal will weaken President Rouhani and further strengthen the conservative forces. Demonstrations against the economic problems and government measures indicate that President Rouhani is struggling to maintain broad popular support. The protests have also become to some extent protests against the Islamic Republic's form of governance. The demonstrations will influence economic policy, particularly the plans to limit subsidies and aid, although it is unlikely that they will threaten the prevailing political system.

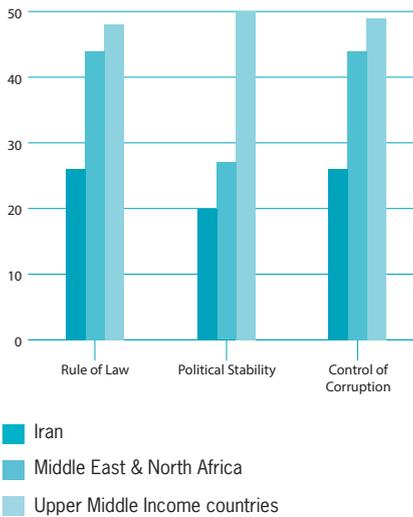
### LONG-TERM TREND

Even though there are internal political conflicts in Iran's response to the USA's sanctions, Ayatolla Khamenei's prioritisation of national unity means that Rouhani is reasonably secure in his position as President. Iran will probably continue to implement its side of the nuclear deal but will be prepared to back out of the deal by increasing its capacity for future uranium enrichment. Discussions with the EU on how trade and investment can be rescued will continue, but they offer little in the way of economic value to Iran since most European companies will be forced to leave the country. Iran is expected to focus instead on improving its economic relationships with countries such as China, India, Russia and Turkey.

Before the USA withdrew from the nuclear deal, Iran's growth forecast was four per cent for the next three years. This forecast now needs to be revised downwards. The USA's extra-territorial sanctions will frighten off trade and investment. Oil and gas exports will fall. By how much depends on whether countries such as China, India, South Korea and Turkey dare to resist pressure from the USA. The Iranian banking system will once more be cut off from the rest of the world. Inflation, which was over 30 per cent during the sanctions of 2012 and 2013, has fallen thanks to President Rouhani's tightening of fiscal and monetary policy. Prices will now start to rise once more because of currency depreciation and a more expansive fiscal policy. The international reserve will fall because of increased capital outflows and reduced oil exports.

To develop the economy and achieve higher growth in the longer term, regardless of whether or not the economy is facing international sanctions, reforms are needed to strengthen the private sector and get to grips with unprofitable governmental and semi-governmental companies. President Rouhani has criticised the major economic interests of the revolutionary guard but lacks a mandate to implement genuine changes. Now that Iran's economy is once more cut off from the outside world, there is a major risk that the economic role of the public sector and the revolutionary guard will instead increase. There is also a risk that the reforms in the banking sector, including those that aim to prevent the financing of terrorism and money laundering, will be put on hold.

## BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

## BUSINESS ENVIRONMENT

The Iranian business climate is weak, with deficiencies in respect of regulations, the judiciary and bureaucratic obstacles. The World Bank ranks the Iranian business climate 124th out of 190 countries, behind many countries in the Middle East. Previous sanctions against Iran have had a negative impact on the corporate sector. The shortage of hard currency has raised the costs of commercial activities and the currency's depreciation has resulted in an increase in import costs. Companies have found it difficult to get loans from local banks, which are themselves suffering from a shortage of liquidity.

The corporate sector had started to recover thanks to the easing of sanctions in recent years. When the US sanctions are reinstated, the business environment is expected to worsen once more. Trade and investment will be difficult to carry out when the formal payment channels disappear. When European banks and companies withdraw from Iran, the country will be forced to turn to its trading partners in Asia, as the country did during previous periods of sanctions.

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