

At a tipping point

General Information

GDP	USD425bn (World Ranking 26, World Bank 2015)
Population	79.11mn (World Ranking 17, World Bank 2015)
Form of state	Theocratic Republic
Head of state	Supreme Leader Ayatollah Seyed Ali Khamenei
Head of government	President Hassan ROUHANI
Next elections	Presidential 19 May 2017



Strengths

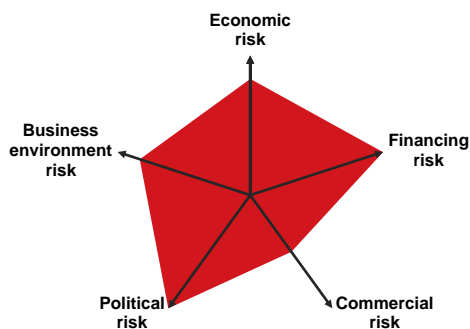
- World's second largest known natural gas reserves and fourth largest oil reserves, which will last over 100 years at current rates of extraction (according to the government)
- Large domestic market
- Current account surpluses
- Large foreign currency reserves, currently providing 11 months import cover.
- Very low external debt obligations

Weaknesses

- Occasional conflict between the twin pillars of power – the government and the theocracy.
- Despite the Joint Comprehensive Plan of Action (JCPOA) known commonly as the Iran nuclear deal, relations with the new U.S. Administration will be a source of uncertainty, as secondary sanctions will possibly be imposed. Undermining the nuclear deal could strengthen hard-line conservatives (Revolutionary Guards) in the race for the presidential elections, which represents a geopolitical risk for the region (e.g. a more radical stance on Israel)
- Regional dynamics are negative. Neighbors include Iraq, Afghanistan and Pakistan. The Syrian conflict and IS activities provide further uncertainties. Moreover, Israel is perceived as a security threat.

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	36% 1	27% United Arab Emirates
India	14% 2	15% China
Turkey	14% 3	7% Korea, Republic of
Japan	7% 4	6% Germany
Korea, Republic of	5% 5	5% Turkey

By product (% of total)

Exports	Rank	Imports
Petroleum & products thereof	50% 1	12% Iron and steel
Organic chemicals	7% 2	9% Road vehicles
Plastics in primary forms	6% 3	8% Industrial machinery and parts
Vegetables and fruits	4% 4	5% Electrical products
Natural gas & products thereof	4% 5	5% Specialised machinery

Source: UNCTAD (2015)

The risk of maintained and possibly new U.S. sanctions hovers over the recovery

Since the partial relief of sanctions in early 2016, Iran has increased its oil production by almost 20% (up to 3.8-3.9 mb/d) and has been exempt from OPEC supply cuts. Inflation dropped below 10% for the first time since 1990 (down from +30.8% in 2012) as import costs eased after the sanctions lifting. External trade has also regained momentum (e.g. additional +EUR536mn or +26% in imports from Germany in 2016).

Robust GDP growth (+4% in 2016 and +3.8% in 2017) should limit commercial risk. With regard to financing risk, public and external and debt ratios are projected to stay low. FX reserves are ample at around USD70bn, providing a healthy import cover of over 10 months. Annual current account surpluses have been posted since 2005 and are forecast to widen to more than 3% of GDP in 2016-2018. However, the fiscal deficit worsened to an estimated -3.5% of GDP in 2016, due to low oil prices, and is forecast to remain around that level in the next two years. Despite the lifting of sanctions on transactions with Iranian banks, there is still hardly any external financing available as western banks remain reluctant to doing business with Iran, being wary of infringing remaining U.S. sanctions. This tilts the balance of risks to the downside.

Signs of an improving business environment, but structural weaknesses and political uncertainties remain

Iran is classified as an upper-middle income economy, with annual GNI per capita of USD6,550. The country has improved to rank 120 (out of 190 economies) in the World Bank's *Doing Business 2017* survey from rank 144 in the 2012 survey. Moreover, the Rouhani administration, after starting reforms of the banking sector (anti-money laundering and counter-terrorist financing laws) is expected to further enhance financial transparency by summer 2017. A healthier banking sector along with practices that are compliant with international standards (Basel III) would be key to attract much-needed FDI and unlock the necessary financing.

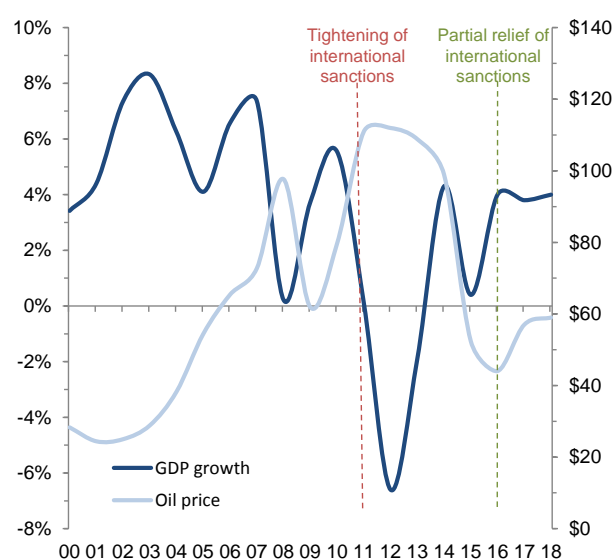
However, many structural weaknesses remain. The unemployment rate is high at around 12% and the economy lacks diversification, being heavily dependent on the oil and gas sector which accounts for 23% of GDP and over 50% of export receipts. Against this background, the government's aim for annual average growth of +8% in 2016-2021 appears ambitious. Moreover, the crucial presidential election scheduled for May 2017 bears the downside risk of a shift to a less reform-minded new government.

Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	0.4	4.0	3.8	4.0
Inflation (% end-year)	8.3	9.2	9.5	9.0
Fiscal balance (% of GDP)	-1.7	-3.5	-3.5	-3.0
Public debt (% of GDP)	15.9	16.5	17.0	17.3
Current account (% of GDP)	2.1	3.5	3.3	3.0
External debt (% of GDP)	1.5	1.6	1.8	2.0

Sources: National statistics, IMF, IHS, Euler Hermes

GDP growth and oil price (USD/bbl of Brent)



Sources: IHS, Euler Hermes

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