

# Country Insight Snapshot

## Iran

March 2017



Written 03 March 2017

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## OVERVIEW

**OVERALL COUNTRY RISK RATING:** DB5a

**High risk** : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

**R**

**Rating Outlook:** Deteriorating 

## CORE OUTLOOK


- + The government is slowly liberalising the economy and adopting more business-friendly policies.
- + The lifting of sanctions is leading to an increase in investment and trade opportunities across all sectors of the economy.
- International sanctions and inappropriate government policies have undermined the country's long-term economic potential.
- The presence of powerful companies linked to the state means that the business environment is not a level playing field.

## KEY DEVELOPMENT

The IMF commends the authorities for overseeing an improved macroeconomic position, but stresses the need for further improvements in the face of high uncertainty.

## CREDIT ENVIRONMENT OUTLOOK


**R**

**Trend:** Improving 

Key Development has had a neutral impact on the outlook.

## SUPPLY ENVIRONMENT OUTLOOK


**A**

**Trend:** Stable 

Key Development has had a neutral impact on the outlook.

## MARKET ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable 

Key Development has had a neutral impact on the outlook.

## POLITICAL ENVIRONMENT OUTLOOK

**A**

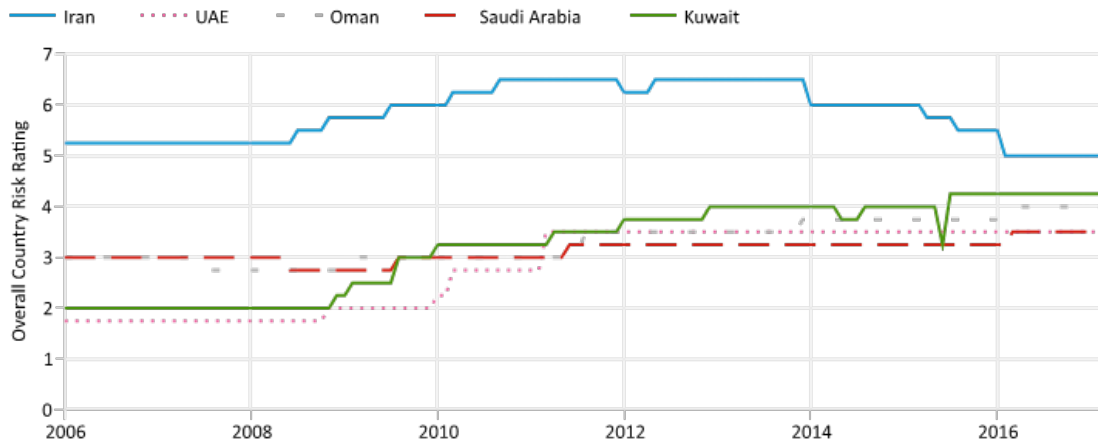
**Trend:** Deteriorating 

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

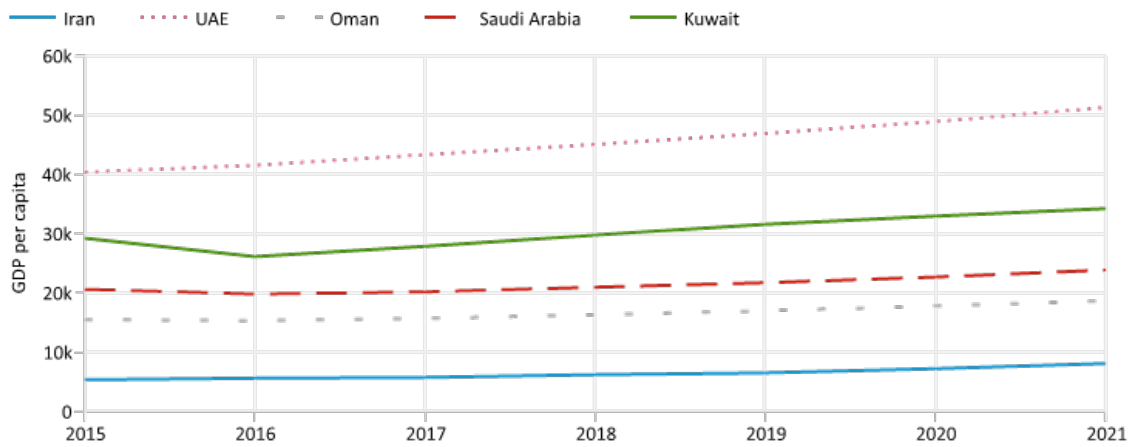
### Rating History and Comparison



Source : Dun & Bradstreet

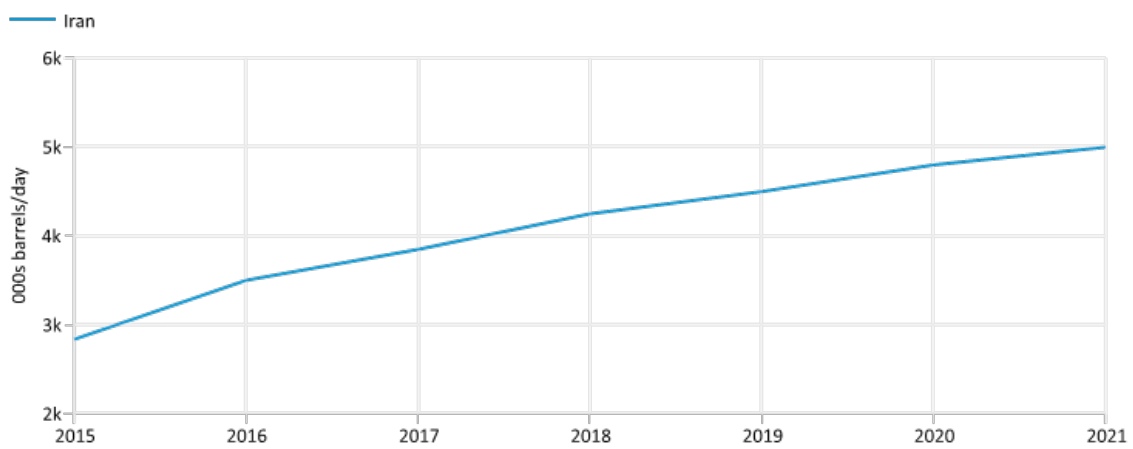
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Crude Oil Production



Source : Dun & Bradstreet



## Economic Indicators

| Indicator                | 2014 | 2015 | 2016e | 2017f | 2018f | 2019f | 2020f | 2021f |
|--------------------------|------|------|-------|-------|-------|-------|-------|-------|
| C/A balance % GDP        | 3.7  | 2.1  | 5.6   | 6.9   | 6.8   | 6.5   | 5.8   | 5.2   |
| Govt balance, % GDP      | -1.2 | -1.6 | -2.5  | -0.8  | -0.1  | 0.4   | 1.0   | 1.5   |
| Inflation, annual avge % | 17.5 | 13.8 | 8.6   | 9.2   | 9.5   | 9.2   | 8.9   | 8.6   |
| Oil Price, USD/b         | 98.9 | 52.4 | 44.0  | 55.0  | 57.3  | 63.0  | 69.0  | 75.0  |
| Real GDP Growth, %       | 2.8  | -1.0 | 4.5   | 3.8   | 4.2   | 4.5   | 5.0   | 6.0   |

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Although the international sanctions applied against Iran due to its nuclear enrichment activities have been lifted, they can be reapplied at any time if Iran is found to be in contravention of the agreement. Sanctions would then be reapplied for a minimum of ten years. In addition, a number of sanctions remain in place, including a UN arms embargo for the next five years. More importantly, a number of US sanctions pre-date the nuclear dispute, and remain in place against persons and companies with links to the Revolutionary Guards. These are unlikely to be lifted in the medium term. Indeed, one of US President Trump's first actions was to increase sanctions as a result of a missile test carried out by Tehran. Trump has promised more sanctions to follow.

## TRADE TERMS AND TRANSFER SITUATION

### **Minimum Terms: LC**

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### **Recommended Terms: CiA**

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### **Usual Terms: 30-180 days**

*Normal period of credit associated with transactions with companies in the stated country.*

### **Local Delays: 2-3 months**

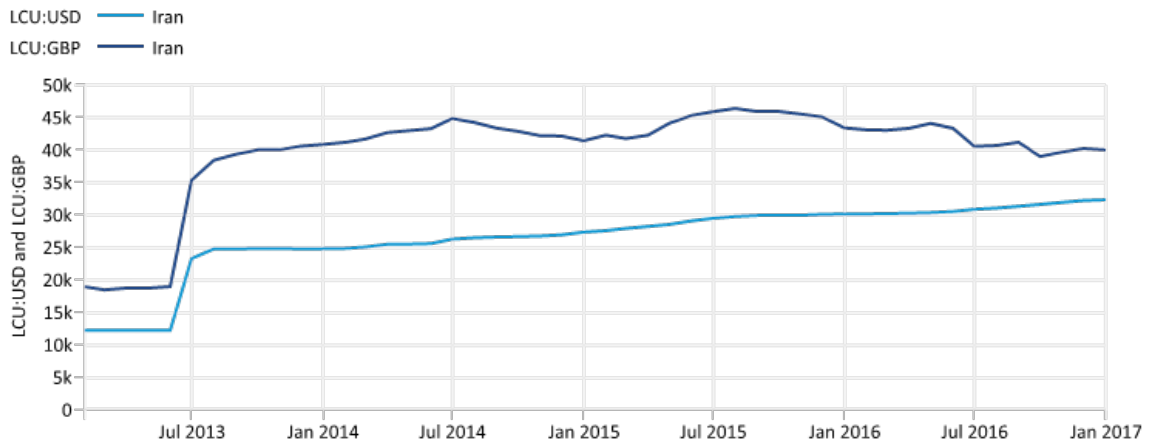
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### **FX/Bank Delays: 2-4 months**

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



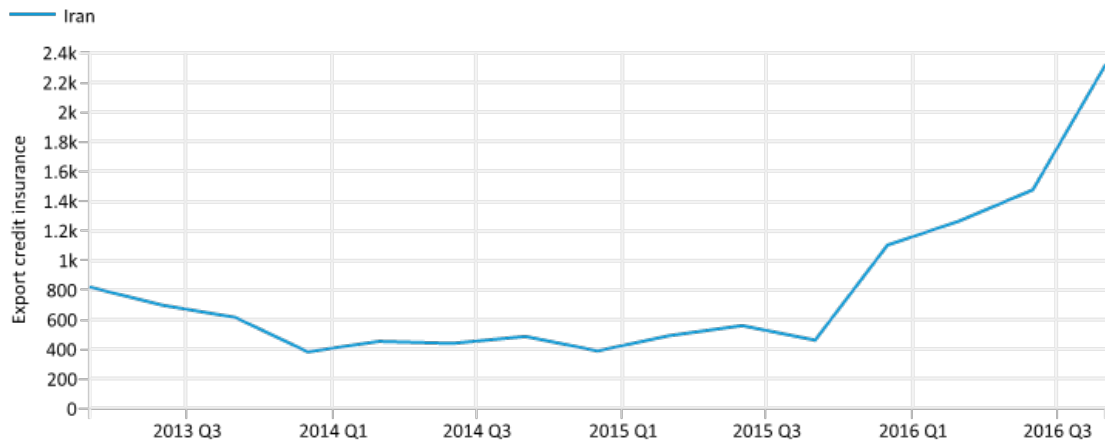
## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU (local currency unit) = Iranian rial*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***IMF welcomes macroeconomic improvement***

In the IMF's review, issued in February, following the 2016 Article IV consultation, the authorities were commended for achieving impressive economic growth following the lifting of most sanctions in January 2016, as well as for keeping inflation in single digits and stabilising the foreign exchange market. The directors pointed out that renewed uncertainty over the sanctions regime as a result of the new administration in the US means that Tehran needs to maintain its prudent macroeconomic policies, build buffers, strengthen the financial sector and implement reforms to diversify the economy away from its dependence on oil, and develop the private sector. In relation to the fiscal position, the IMF highlighted the need to implement a medium-term fiscal framework in order to support prudent fiscal policy, through higher tax collections, further reductions in fuel subsidies and better targeted cash transfers. Although the Central Bank of Iran (CBI) has yet to publish up-to-date macroeconomic data, in particular with relation to real GDP growth (the latest data is for Q1 2015), the IMF report includes more recent data. Based on this data, we have changed a number of forecasts in our five year period. We are now forecasting real GDP growth of 3.8% in 2017 (down from an estimated 4.5% in 2016), and 4.2% in 2018, while annual average inflation will be 9.2% in 2017 and 9.5% in 2018, compared with 8.6% in 2016. However, risks to these forecasts are on the downside because of the threat of increased sanctions by the Trump administration.

#### Transfer Risk

#### ***IMF highlights banking sector vulnerability***

In particular, the IMF highlighted the need to focus on strengthening the financial sector through the passing of two bills that would increase the independence of the Central Bank of Iran and improve its regulatory capacity: the two bills have been held up by parliament due to the partisan nature of politics in Iran. The report also noted the need to increase supervision of distressed banks, review their asset quality in order to recapitalise where appropriate, and address the issue of non-viable banks. The banking sector lacks modern management controls and IT systems, has accounting and auditing practices that are inconsistent, and has failed to recognise non-performing loans (NPLs). In addition, the banks are small in relation to the country's GDP, and are unlikely to be able to cope with the demands of a growing economy. Additionally, real interest rates are high, NPLs are estimated to run at about 12-15% of total lending, and the official banks face competition from large, informal and unregulated banks. In addition, the authorities still have to ensure that the recent money laundering and counter-terrorist financing law is being supervised to the degree sought by the international organisation FAFT. The FAFT has given Iran until June to implement the regulations. As a result, transfer risk will remain elevated well into our two year forecast horizon.



## COUNTRY PROFILE AND STATISTICS

### Overview

Iran is strategically located at the crossroads of the Middle East and Central Asia; it is bordered by Iraq, Turkey, Azerbaijan, Turkmenistan, Afghanistan and Pakistan. It also has a long coastline on the Persian Gulf.

Iran is a theocratic republic, and its political system is a highly complex network of elected bodies (President, Parliament and the Assembly of Experts) and unelected bodies (the Supreme Leader and the Expediency Council), who compete with each other for dominance. Outside the formal system, a number of interest groups, including the Revolutionary Guards and *bonyads* (charitable foundations run by the clerics), also have considerable influence.

The economy is highly dependent on hydrocarbon revenues (it has the second-largest gas reserves in the world). The majority of international sanctions, which served to undermine the economy, were lifted in January 2016 but can still be reapplied. In addition, a number of US sanctions remain extant and could be increased.

### Key Facts

| Key Fact                   | Detail                              |
|----------------------------|-------------------------------------|
| Head of state              | Supreme Leader Ali Hoseini-KHAMENEI |
| Capital                    | Tehran                              |
| Timezone                   | GMT +03-30                          |
| Official language          | Farsi                               |
| Population (millions)      | 80                                  |
| GDP (USD billions)         | 455.4                               |
| GDP per capita (USD)       | 5,689                               |
| Life expectancy (years)    | 75                                  |
| Literacy (% of adult pop.) | 87.2                                |
| Surface area (sq km)       | 1,648,200                           |

Source : Various sources/Dun & Bradstreet

### Historical Data

| Metric                             | 2012      | 2013      | 2014       | 2015       | 2016e      |
|------------------------------------|-----------|-----------|------------|------------|------------|
| Real GDP growth (%)                | -5.9      | -1.7      | 2.8        | -1.0       | 4.5        |
| Nominal GDP in USDbn               | 587       | 512       | 425        | 429        | 455        |
| Nominal GDP in local currency (bn) | 7,149,595 | 9,421,215 | 11,033,666 | 12,448,033 | 14,077,735 |
| GDP per Capita in USD              | 7,711     | 6,631     | 5,443      | 5,424      | 5,689      |
| Population (year-end, m)           | 76.2      | 77.2      | 78.1       | 79.1       | 80.0       |
| Exchange rate (yr avge, USD-LCU)   | 12,176.0  | 18,414.0  | 25,942.0   | 29,012.0   | 30,915.0   |
| Current Account in USDbn           | 23.4      | 25.1      | 15.9       | 9.0        | 25.5       |
| Current Account (% of GDP)         | 4.0       | 4.9       | 3.7        | 2.1        | 5.6        |
| FX reserves (year-end, USDbn)      | 104.4     | 117.6     | 126.2      | 128.4      | 132.3      |
| Import Cover (months)              | 18.2      | 22.2      | 23.3       | 29.4       | 19.4       |
| Inflation (annual avge, %)         | 25.7      | 39.5      | 17.5       | 13.8       | 8.6        |
| Govt Balance (% GDP)               | -0.6      | -0.9      | -1.2       | -1.6       | -2.5       |

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

| Metric                             | 2017f      | 2018f      | 2019f      | 2020f      | 2021f      |
|------------------------------------|------------|------------|------------|------------|------------|
| Real GDP growth (%)                | 3.8        | 4.2        | 4.5        | 5.0        | 6.0        |
| Nominal GDP in USDbn               | 471        | 513        | 545        | 608        | 688        |
| Nominal GDP in local currency (bn) | 15,907,841 | 18,087,215 | 20,565,163 | 23,423,721 | 26,843,584 |
| GDP per Capita in USD              | 5,823      | 6,272      | 6,593      | 7,295      | 8,182      |
| Population (year-end, m)           | 80.9       | 81.8       | 82.6       | 83.4       | 84.1       |
| Exchange rate (yr avge, USD-LCU)   | 33,750.0   | 35,250.0   | 37,750.0   | 38,500.0   | 39,000.0   |
| Current Account in USDbn           | 32.6       | 34.8       | 35.3       | 35.2       | 35.8       |
| Current Account (% of GDP)         | 6.9        | 6.8        | 6.5        | 5.8        | 5.2        |
| FX reserves (year-end, USDbn)      | 148.0      | 166.4      | 182.5      | 200.3      | 215.2      |
| Import Cover (months)              | 20.2       | 23.5       | 23.1       | 22.9       | 20.7       |
| Inflation (annual avge, %)         | 9.2        | 9.5        | 9.2        | 8.9        | 8.6        |
| Govt Balance (% GDP)               | -0.8       | -0.1       | 0.4        | 1.0        | 1.5        |

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

| Indicator                             | Iran  | UAE       | Oman      | S. Arabia | Kuwait  |
|---------------------------------------|-------|-----------|-----------|-----------|---------|
| Income per Capita (USD)               | 5,424 | 40,439    | 15,551    | 20,664    | 29,305  |
| Country Population (m)                | 79.1  | 9.2       | 4.5       | 31.5      | 3.9     |
| Internet users (% of population)      | 44.1  | 91.2      | 74.2      | 69.6      | 82.1    |
| Real GDP Growth (% p.a., 2017 - 2026) | 2 - 6 | 3.5 - 5.5 | 2.5 - 4.5 | 3 - 4.5   | 3 - 5.5 |

Source : Various sources/Dun & Bradstreet





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