

Country Insight Snapshot

Iran

May 2017



Written 05 May 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 presidential election set for 19 May will be fought by six candidates, with a reformist expected to win, which should reduce cross-border risk.

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

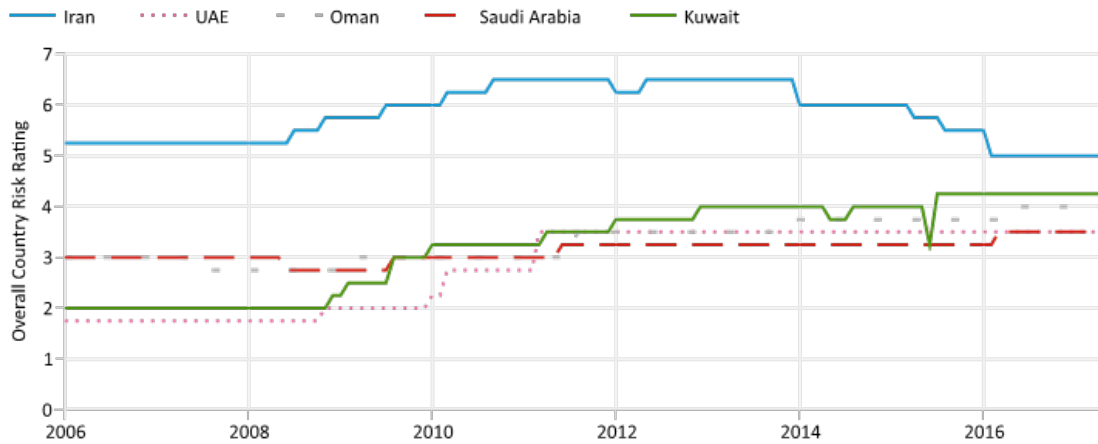
Trend: Deteriorating 

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

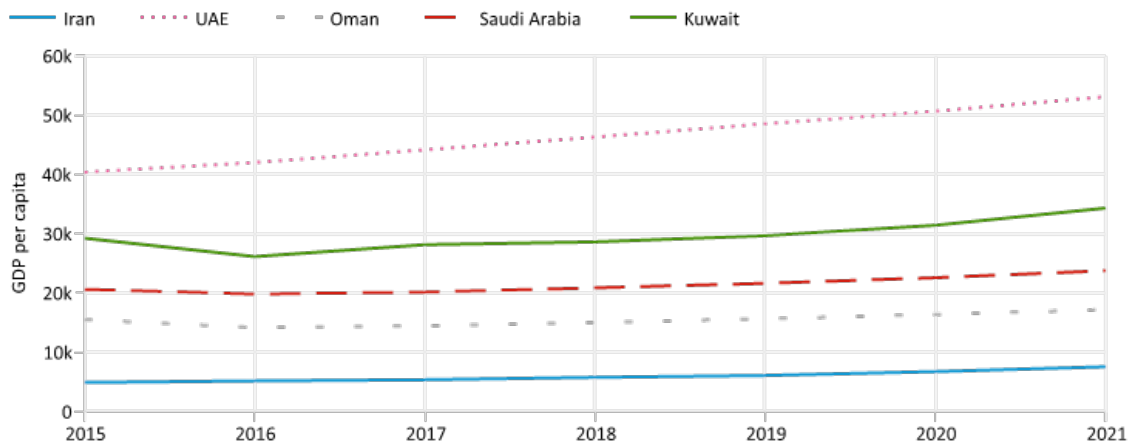
Rating History and Comparison



Source : Dun & Bradstreet

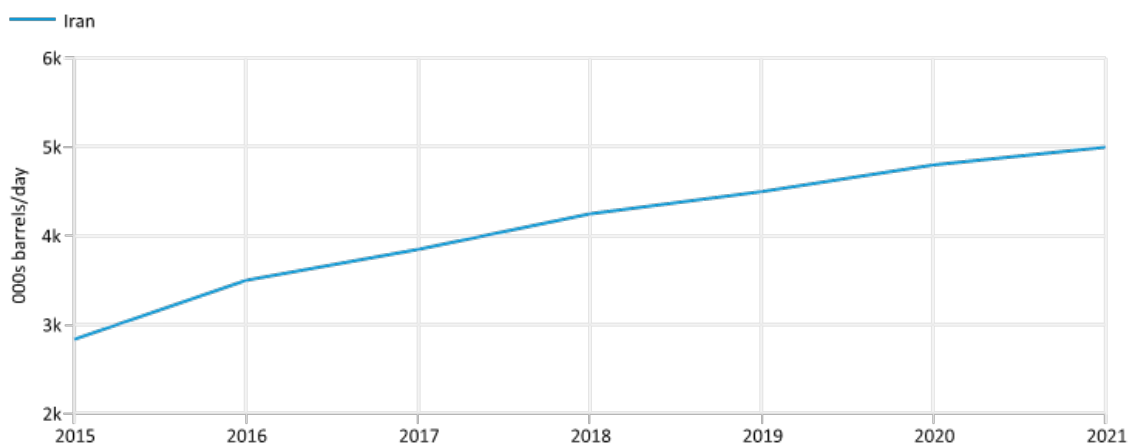
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Crude Oil Production



Source : Dun & Bradstreet



Economic Indicators

Indicator	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	3.7	2.3	5.7	4.8	5.4	4.7	4.9	5.0
Govt balance, % GDP	-4.2	-5.2	-4.5	-3.2	-2.1	-1.1	1.0	1.5
Inflation, annual avge %	17.5	13.8	8.6	10.8	9.5	9.2	8.9	8.6
Oil Price, USD/b	98.9	52.4	44.0	52.8	53.1	56.0	63.0	75.0
Real GDP Growth, %	4.3	-1.0	4.7	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, and he 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

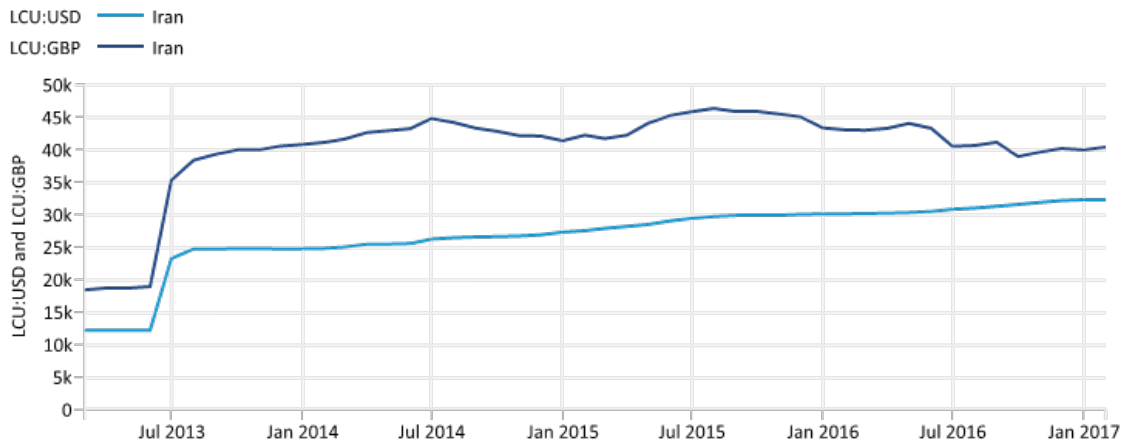
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



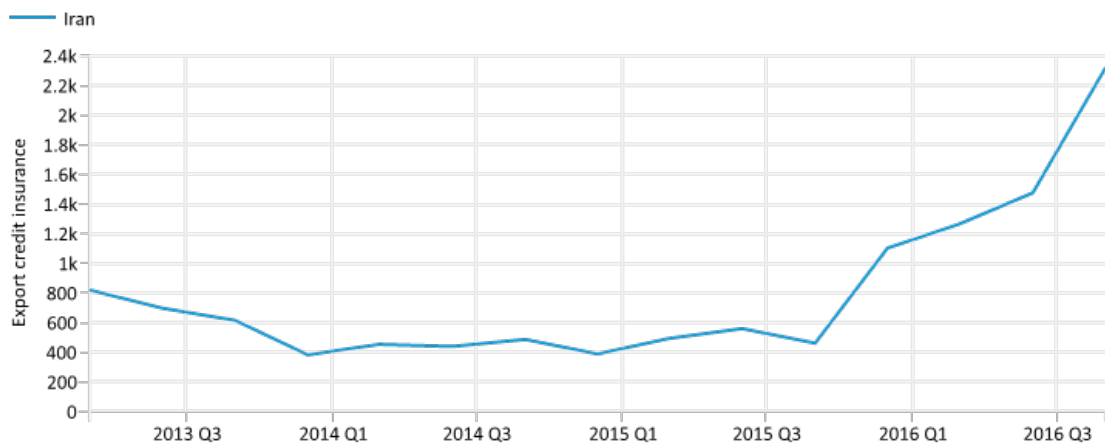
Exchange Rate



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

Political/Insecurity Risk

Presidential election uncertainty

The presidential election, set for 19 May, is still shrouded in uncertainty. After over 1600 candidates applied to stand, the Guardian Council, comprised of 12 unelected jurists, permitted just six to stand. The six are equally divided between the centrist/reformist and hardline/conservative camp - incumbent President Hassan Rouhani (centrist), First Vice President Eshaq Jahangi (reformist), mayor of Tehran Mohammed Bagher Qalibaf (conservative), head of Iran's largest religious charity Ebrahim Raisi (conservative), Mostafa Mirsalim (conservative) and Mostafa Hashemi-Taba (reformist). In a poll conducted by the Tabnak news website, taken two days after the first live presidential debate, 42% of respondents said that Jahangi gained most from the debate, followed by Rouhani (34%) and Qalibaf (15%). Although predicting the outcome of Iran's presidential elections is notoriously difficult, at present it appears that the conservative camp is too divided to win. As a result, it appears that some hardliners are supporting Jahangi in an effort to unseat Rouhani, who is unpopular with the conservative camp for attempting to open Iran to FDI, thereby undermining the economic power of groups such as the Revolutionary Guards.

Furthermore, although Rouhani gained kudos for getting sanctions lifted as a result of the nuclear deal, the economic benefits have not yet been felt by many, which has seen his popularity on the street fall. Against that, no incumbent president has failed to gain a second term since the 1979 revolution. The outcome is set to be important for cross-border trade and investment. A conservative victory would likely increase pressure on the nuclear deal both within Iran and from the US, as well as barriers being raised by the new president with relation to cross-border trade. A reformist victory would see further incremental improvements in the business environment, and opportunities increase in many sectors. We expect that at least one reformist candidate will pull out before 19 May, improving the likelihood of a reformist victory. In the unlikely event that two conservative candidates pull out, then a conservative victory is possible. We suggest that customers closely monitor the outcome of the election before making cross-border investment decisions.

Long-Term Economic Potential

Hydrocarbon projects come on-line

The opening of the economy after sanctions is resulting in a number of upstream and downstream hydrocarbon projects coming on-line. In April, President Rouhani inaugurated five new phases of the South Pars gas field, boosting production by 37%. A further six phases in the field are still to be completed. The gas will be used to meet soaring domestic demand, including four new petrochemical plants, which were also inaugurated in April. In addition, a new refinery was opened, with two more phases to be completed in the next year. This is set to make Iran self-sufficient in refined products, significantly reducing the import bill.



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)	418.3
GDP per capita (USD)	5,226
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	2016
Real GDP growth (%)	-6.6	-1.9	4.3	-1.0	4.7
Nominal GDP in USDbn	587	512	425	393	418
Nominal GDP in local currency (bn)	7,149,595	9,421,215	11,033,666	11,414,167	12,931,344
GDP per Capita in USD	7,711	6,631	5,443	4,973	5,226
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	23.8
Current Account (% of GDP)	4.0	4.9	3.7	2.3	5.7
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)	-4.5	-5.1	-4.2	-5.2	-4.5

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	439	478	507	567	641
Nominal GDP in local currency (bn)	14,819,320	16,849,567	19,157,957	21,820,913	25,006,767
GDP per Capita in USD	5,425	5,843	6,142	6,796	7,622
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	21.2	25.8	23.6	27.6	32.1
Current Account (% of GDP)	4.8	5.4	4.7	4.9	5.0
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, %)	10.8	9.5	9.2	8.9	8.6
Govt Balance (% GDP)	-3.2	-2.1	-1.1	1.0	1.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Iran	UAE	Oman	S. Arabia	Kuwait
Income per Capita (USD)	4,973	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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