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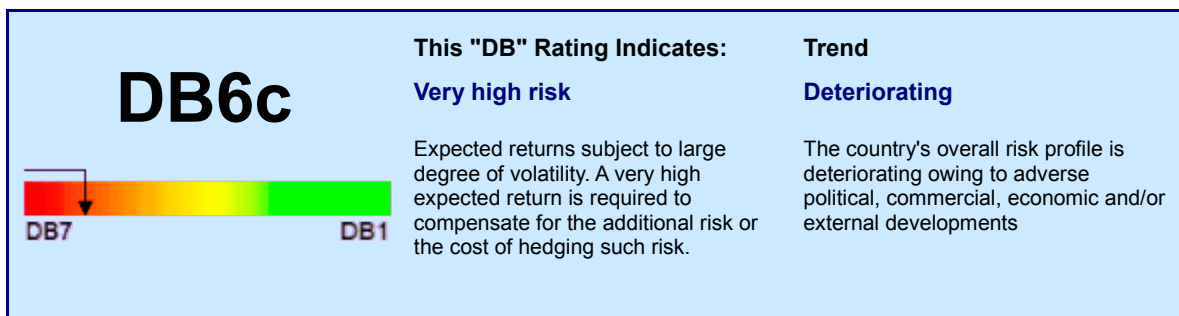
## D&B Country RiskLine Report

# IRAN

Region : Middle East

Edition : April 2012

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	74.8m
<b>Surface area (sq km):</b>	1,648,200
<b>Capital:</b>	Tehran
<b>Timezone:</b>	GMT +03:30
<b>Official language:</b>	Farsi
<b>Head of state:</b>	Supreme Leader Ali Hoseini-KHAMENEI
<b>GDP (USD):</b>	466.1bn
<b>GDP per capita (USD):</b>	6,232
<b>Life expectancy (years):</b>	71
<b>Literacy (% of adult pop.):</b>	77.0

### Country 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. The political system is a highly complex network of elected (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). International sanctions (which are led by the US and the EU, but undermined by non-compliance from China and India), are the result of the ongoing nuclear programme and only serve to undermine the economy.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	CiA
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	CiA
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D&B'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.

<b>Usual Terms:</b>	30-180 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	2-3 months
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	4-5 months
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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.

### Trade & Commercial Environment

Given the intensification of international sanctions against Iran, including cutting the country's banks off from cross-border interbank transactions, D&B strongly recommends CiA trade terms. We also recommend that shippers consider stopping pending transactions unless payment by Iranian counterparties can be effected through non-EU-sanctioned banks. Currently, Turkish banks remain active in transferring payments with Iran. On 29 March, on a visit to Iran with Prime Minister Recep Tayyip Erdogan, Turkish Economy Minister Zafer Caglayan said that talks on a preferred trade agreement between Iran and Turkey continue and that government-run Turkiye Halk Bankasi continues to facilitate payments. However, we caution that sanctions could be extended at any time.

### Export Credit Agencies

<b>US Eximbank</b>	Cover prohibited by US law
<b>Atradius</b>	No cover available
<b>ECGD</b>	ST and MT refer to underwriter
<b>Euler Hermes UK</b>	ST cover available, restrictions may apply

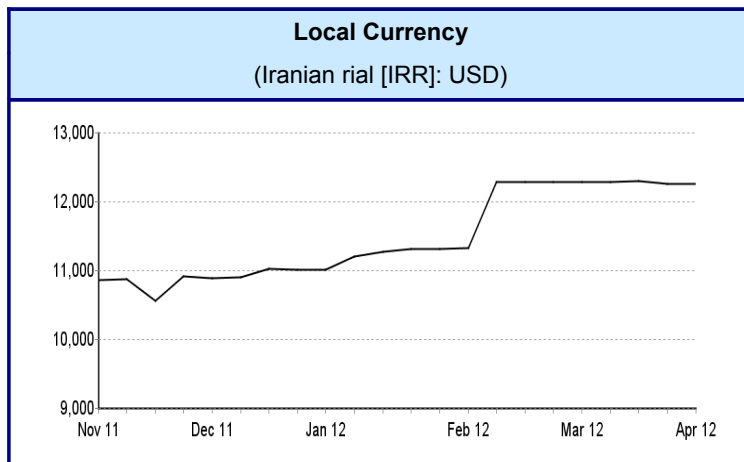
### Economic Indicators

	2009	2010	2011	2012f	2013f
<b>Real GDP growth, %</b>	3.5	3.2	2.5	0.8	1.5
<b>Inflation, annual ave, %</b>	10.8	12.4	18.0	20.0	18.0
<b>Govt balance, % GDP</b>	1.0	1.7	2.5	-0.5	0.5
<b>Oil price, USD/b</b>	61.8	79.6	111.3	122.0	112.1
<b>C/A balance, % GDP</b>	2.9	6.5	5.8	2.1	1.8

Economic Indicators: Real GDP growth, inflation, government balance and C/A balance are for fiscal years (21 March-20 March).

### Currency Information

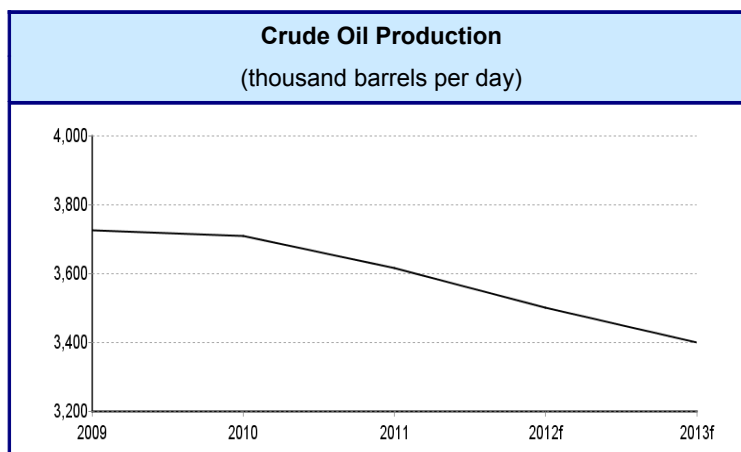
<b>Exchange Rates</b>	
(London, 02 Apr 12)	
EUR	16322.0
GBP	19582.8
JPY*	14893.4
USD	12256.5
*(x 100)	



**Local Currency**  
(Iranian rial [IRR]: USD)

	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12
<b>Week 1</b>	10857.000	10890.000	11010.000	11320.000	12285.000	12256.500
<b>Week 2</b>	10872.000	10900.000	11192.500	12282.500	12285.000	
<b>Week 3</b>	10555.000	11015.000	11270.000	12282.500	12300.000	
<b>Week 4</b>	10917.500	11010.000	11311.500	12275.000	12256.500	
<b>Week 5</b>			11315.000			

## Crude Oil Production



**Data Table**

2009	2010	2011	2012f	2013f
3725.0	3707.0	3615.0	3500.0	3400.0

## Risk Factor

After an intensification of international sanctions against Iran and the very real possibility of armed conflict between the country and Israel and/or the US, D&B has downgraded Iran's country risk rating by one quartile, to DB6c. This remains within our 'Very High Risk' category, but any future revision is more likely to be down further, especially if military hostilities break out.

In line with an EU Council decision, on 17 March the Brussels-based Society for Worldwide Interbank Financial Telecommunication (SWIFT), which operates a financial messaging network for more than 9,000 financial institutions in 209 countries and territories, and in effect handles the vast majority of cross-border interbank transactions, cut off all Iranian financial institutions, subject to EU sanctions. As a result, around 30 Iranian banks (including the central bank, Bank Mellat, Post Bank of Iran, Saderat Bank of Iran and Sepah Bank), on which the country relies for importing and exporting goods, including crucial international oil sales, have been banned from the worldwide financial network. According to SWIFT Chief Executive, Lazaro Campos, disconnecting banks is an 'unprecedented step' for the organisation. SWIFT has come under intense pressure to end relations with Iran in recent months, including a vote by the US Senate Banking Committee in February to impose sanctions on SWIFT. In addition, the action effectively removes the 'voluntary' element of co-operation with the sanctions regime. Countries and companies that may still want to do business with Iran must now find alternative ways to transfer money with the country. Although there are several smaller networks that fulfill a similar role to SWIFT, these too are likely to face pressure if they continue to deal with Iran. Meanwhile, many money exchange houses in the Gulf, which operate a transfer system known as *halawa* and have previously supported trade with Iran, have indicated that they are to cease trading in the Iranian rial, further exacerbating the situation.

Alternative methods of trading with Iran include trading for cash, gold or barter. Barter deals might be particularly appropriate for Asian countries less tied in to international finance. China and India, for example, barter wheat and soybeans for oil. However, under a law signed in December 2011, the US has threatened to sanction countries that fail to reduce their purchases of Iranian oil. The EU and Japan have been exempted, but China, India, South Africa, South Korea and Turkey could all face sanctions if they do not reduce purchases by at least 15% by 28 June (Turkey announced on 30 March its intention to cut Iranian oil imports by 20%). Sanctions could eventually leave half of Iran's oil output cut off from international markets, reducing FX earnings and local firms' ability to pay for imports.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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

#### Recommended Terms:

D&B'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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

#### C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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