IRAN POST-SANCTIONS
LIMITS, PROSPECTS, AND OPPORTUNITIES

The Iran Nuclear Deal
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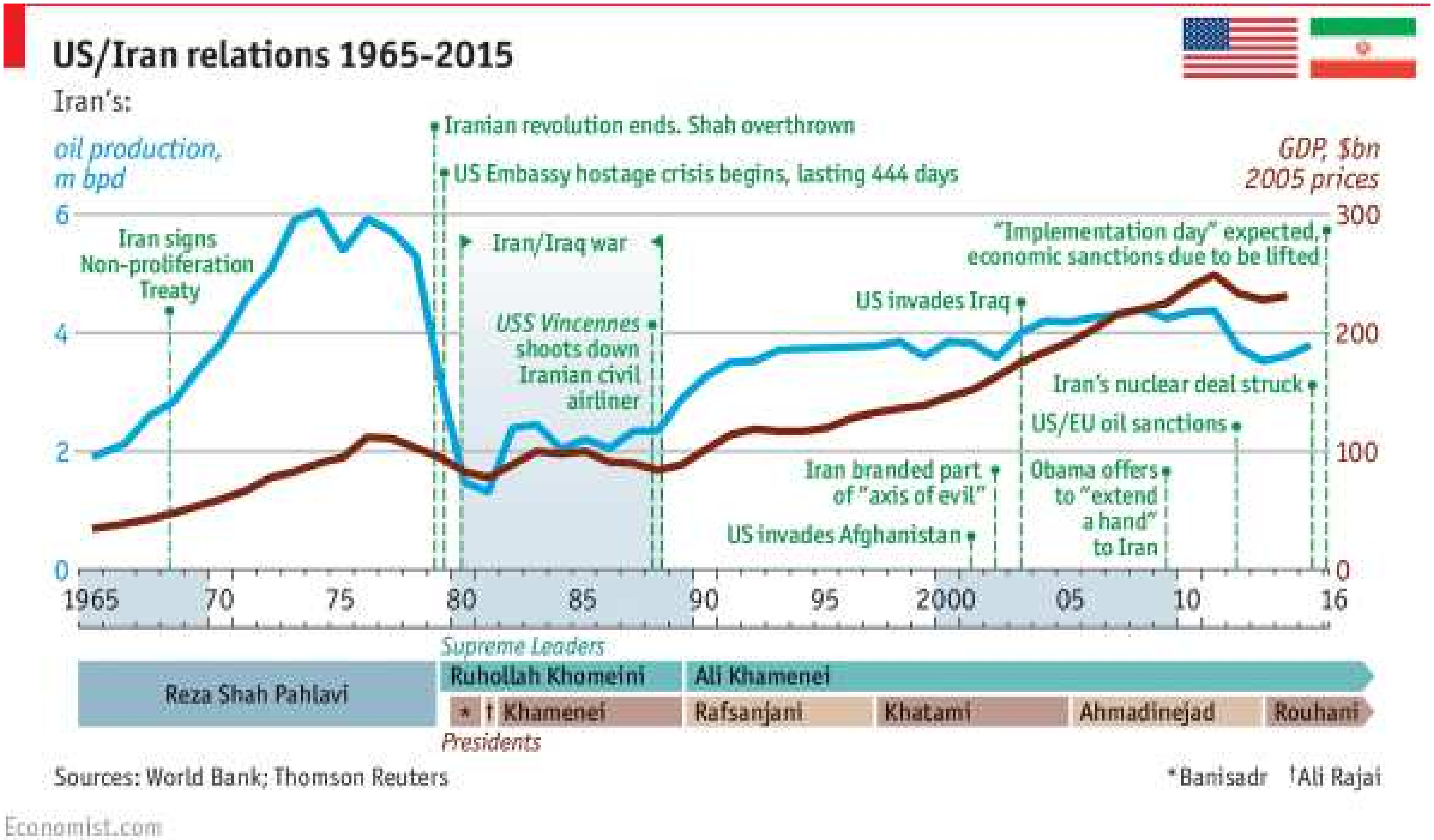
Facts about Iran I

- The prospects in a post-deal Iran are vast.
- It is the world's 18th-largest economy.
- The population of 80m is well-educated.
- The country's oil and gas reserves are large.
- The Tehran stock exchange is the second-biggest in the Middle East, with a capitalization of about $150 billion.
- But at the end of 2014 foreigners owned only 0.1% of listed companies' shares, compared with 50% on Turkey's main exchange in Istanbul.
- Iran ought to be able to attract much **more foreign investment**.

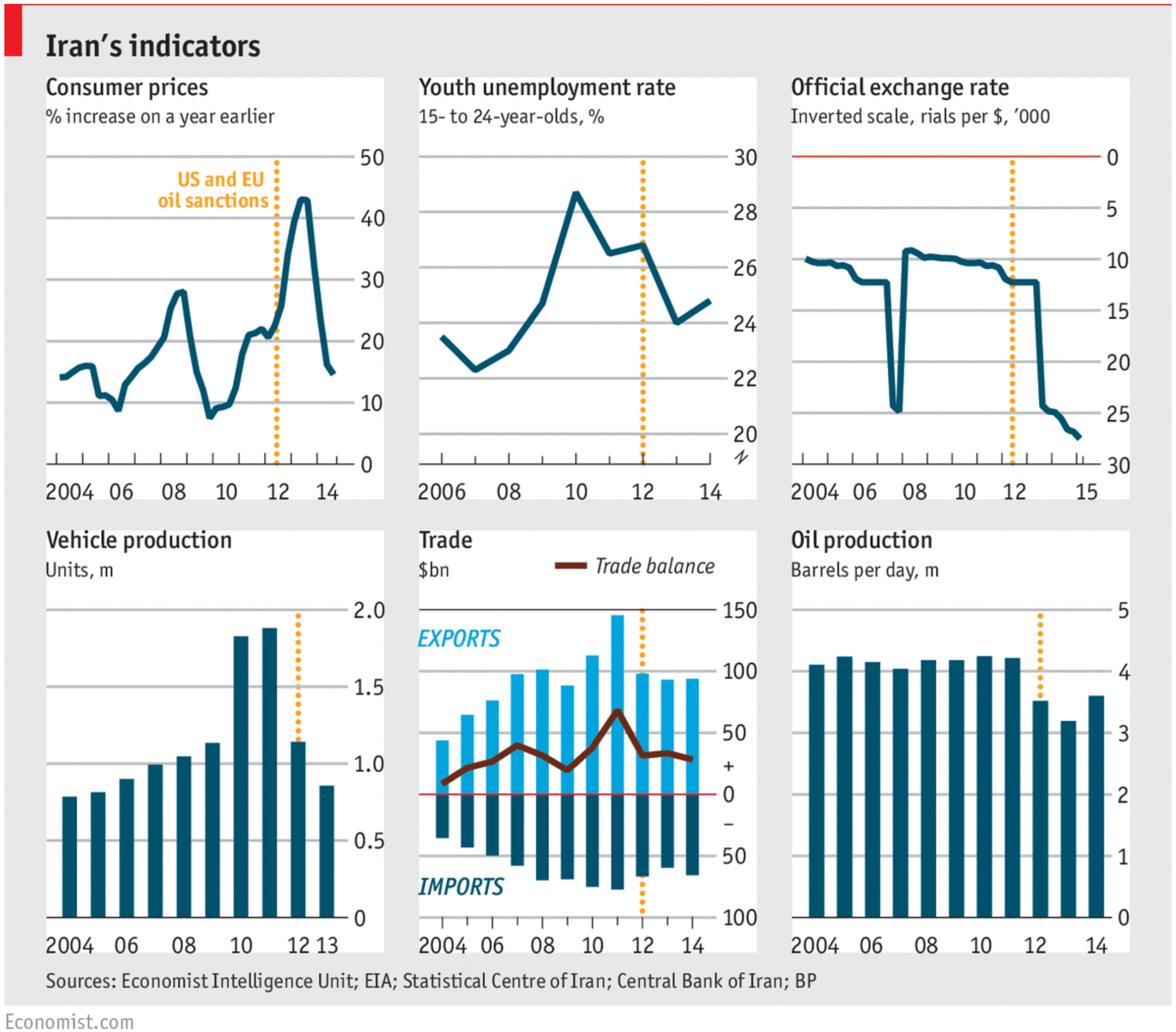
Facts about Iran II

- Unlike its richer Gulf neighbors, Iran is not an oil-soaked rentier state, but a regional power with an industrial economy and many educated people who work.
- But mismanagement under the hardline former president, Mahmoud Ahmadinejad, as well as corruption, sanctions and the collapse in oil prices, have shrunk economic output.
- The introduction of crippling oil **sanctions** cut export revenues by a third.

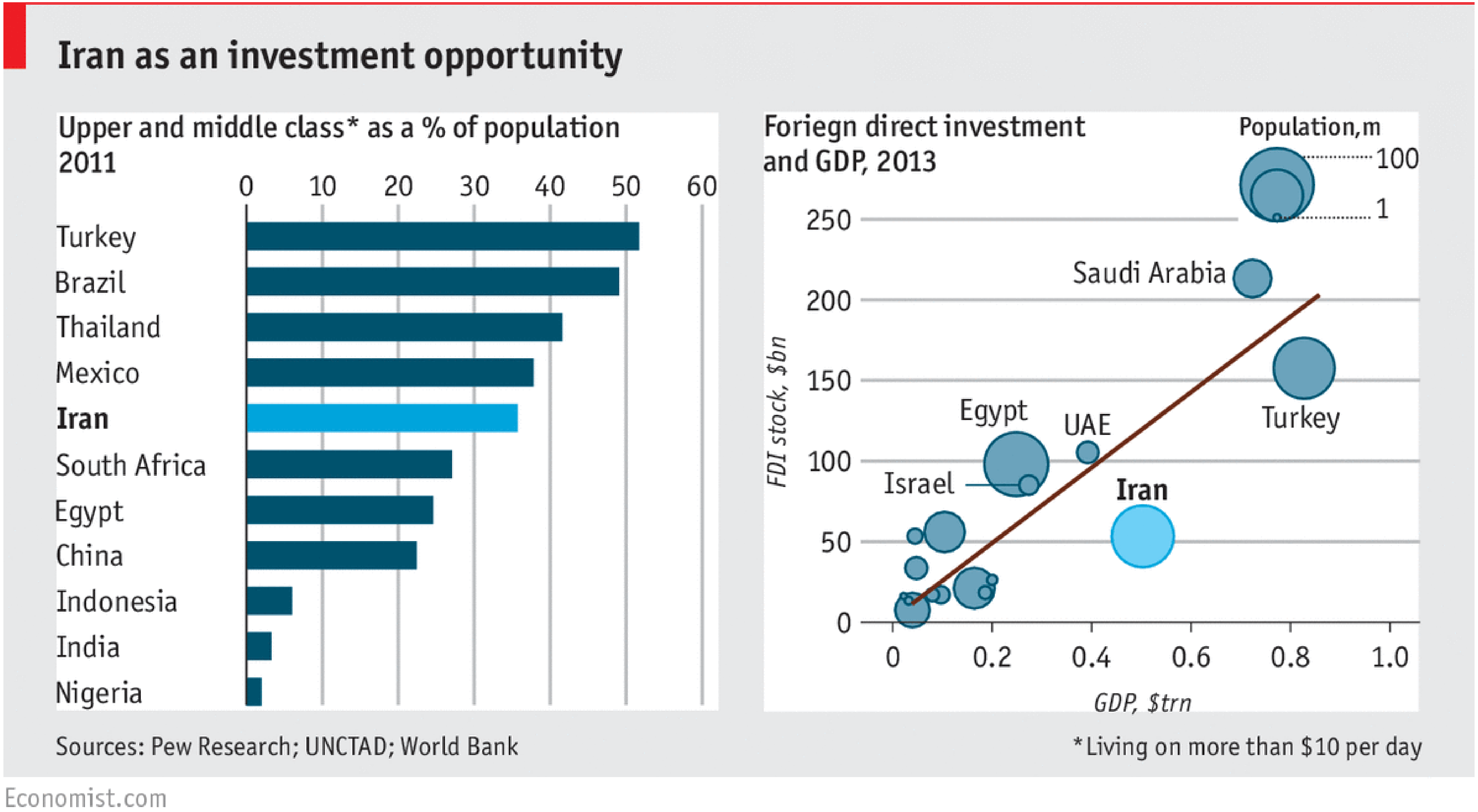
A Glance at Iran and US prior to the Nuclear Deal



Iran’s Key Indicators: Impact of Sanctions



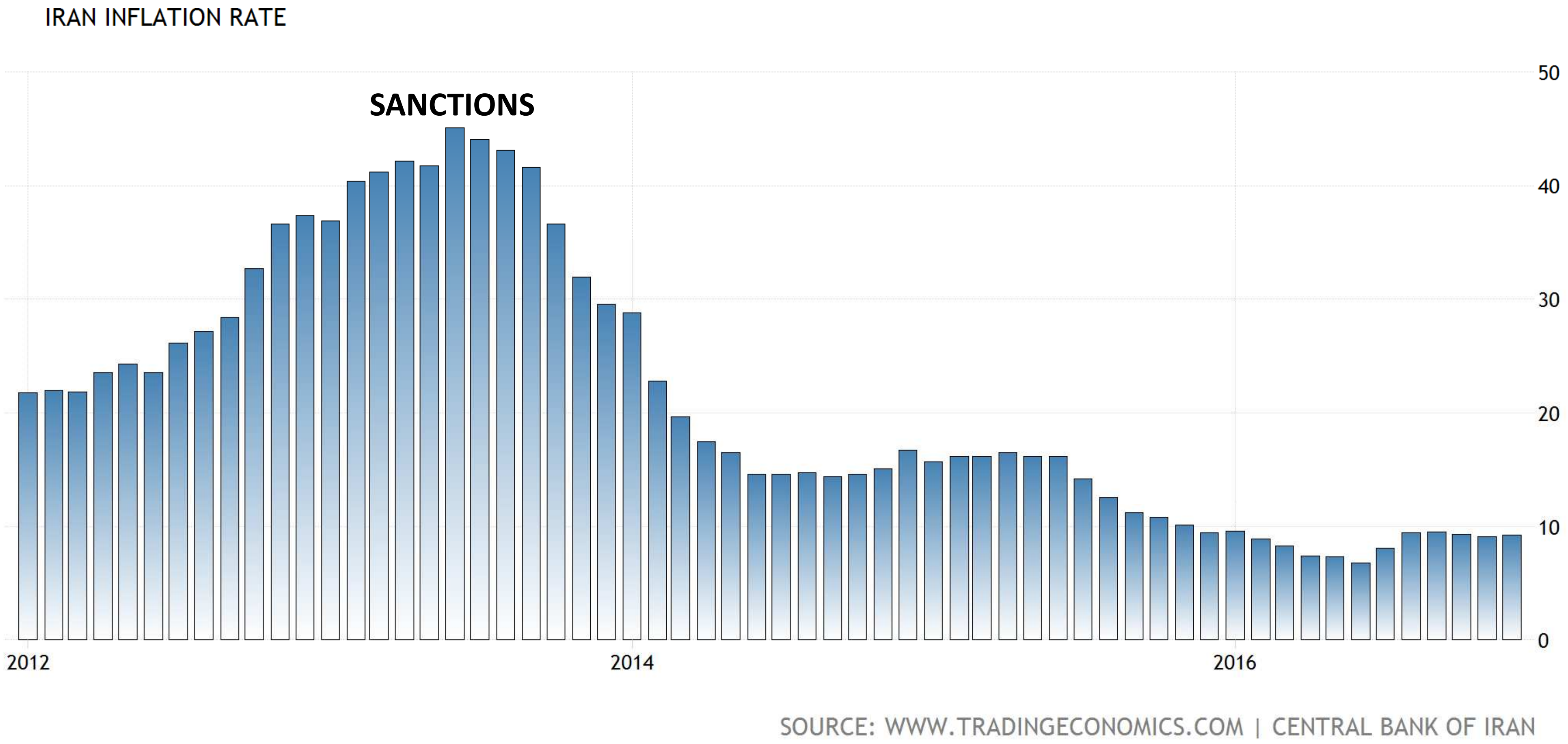
Iran and FDI Opportunities



Investing in Iran

- Value of foreign investment in new projects: $11.5 billion.
- Different conditions of regional states like Iraq, Afghanistan, Syria, Yemen, etc. makes Iran the safest haven in the region for capital and investors.
- Besides neighbors, a number of European states, including Germany, Italy, Spain and the Netherlands, have obtained licenses needed for investment.
- Knowledge and technology is flowing into the country.
- Iran experienced 6.5% economic growth in the first half of current Iranian calendar year.
- IMF and World Bank have confirmed Iran’s economic growth and the sustainability of country’s economy in the region.
- Countless benefits offered by the Iranian government to protect investors (including FIPPA).

Achievements: Inflation Rate



The Man in the Street

- Earnings for many come from bank interests on savings (reduced all the way down to 15%)
- Taxes rising and becoming more common and mandatory
- Too much expectation, and results taking time to show is an issue
- Government paying for previous mistakes, slow in paying wages, pensions

Caveats: Unemployment Figures

Tangible Gains of the Agreement and its Limits

- Most tangible changes:
- increase in oil exports (doubled since sanctions were lifted on Jan. 16)
- Negotiations for dozens of foreign trade and investment deals (the unthinkable example of $17 billion deal with Boeing).

- One year after the deal, some international firms are still hesitant to do business in Iran:
- Corruption, a lack of transparency make Iran’s business environment challenging for investors.
- Also risk of incurring penalties from remaining US sanctions on Iran
- Without FDI and international banks willing to underwrite projects in Iran, the fruits of the nuclear deal will elude the Iranian public.

External Barriers to the Agreement

- While the deal lifted EU and UN sanctions on Iran’s banking and energy sector, unilateral US sanctions on the Iranian economy remain, which forbid US citizens and companies from conducting most forms of business with Iran, but companies outside the US affected as well.
- European and Asian conglomerates that would otherwise invest in the Iranian market do not want to run afoul of existing U.S. sanctions, which extend to organizations and individuals with ties to the Iranian Revolutionary Guard Corps: 40 percent of the Iranian economy.
- Companies can be cut off from conducting business in the United States – the world’s largest economy. Such regulations remain a powerful reason for businesses to avoid expanding operations into Iran.

Internal Barriers to the Agreement

- The deal also has yet to yield significant benefits for the average Iranian.
- Unemployment increased in 2016.
- Only 46% of Iranians believe the country's economic situation is good as of March 2016, compared to 54% in May 2015 (poll by CISSM).
- Iranian businessmen complained that foreign investment primarily channeled to large state-run enterprises rather than small businesses in the private sector.
- Hardliners question President Hassan Rouhani's focus on foreign investment over domestic production, accusing Rouhani of undermining Ayatollah Khamenei's call for a "Resistance Economy".
- Big importers with important links against change (tariffs increasing to attract FDI and production, stricter laws against smuggled imports), also to avoid competition with locally produced better quality foreign products (lower price)

Economy Health Watch: Interest Rates

- Lower inflation and interest rates will add to that momentum by encouraging capital investment
- Banks resistant in reducing the interest rate as planned:

- they need to attract new savings to pay up previous deposits
- also creates discontent for those whose earnings mainly come from bank interests

- Liquidity over 50%, like a blood clot. Releasing it does not necessarily direct it to the right destination, goes instead to speculative market not production: foreign currency, gold, etc., creating new issues by increasing their value

- Challenge: Money should flow from savings accounts towards productive investment, difficult at high borrowing rates (compared to tax-free automatic interest earnings in the bank)

Economy Health Watch: Exchange Rate

- Iranian currency was devaluated to one-fourth its value during the Achmedinejad era. Also now arguments dollar value should increase
- Due to a large proportion of imports taking place under smuggling and the black market, government cannot rely on tariffs for revenue
- Devaluation also a way to increase import prices and thereby also to protect domestic industries
- In principle this also encourages exports, but not very relevant in the case of Iran because of the lack of non-oil exports

Economy Health watch: Tax

- Only around 6% of GDP
- If the taxation system is to work it has to include large state organizations such as bonyads currently exempt from paying (40% of potential revenue), where a large proportion of the resources and businesses lie
- Also other professions where transactions mostly conducted off the book (20%), such as medical doctors
- Large black market

Limited Growth

- The agreement has brought not only a positive growth rate this year, but also one above historical averages
- However, this is not repeatable because:

- It came mostly from the boost in oil exports (production and price) after removal of sanctions, which cannot be repeated once a cap is reached.
- Most non-oil benefits came from the automotive industry (stopped during sanctions). Subsidies for public to afford newly produced cars, limited capacity. Exports? Not likely low quality and high price
- Also the agriculture industry thanks to the ban of fruit and vegetable imports. Any further changes in this sector is likely to be marginal.

Where the Key for Progress Lies

- Housing Market: in recession for the last 5 years
- Tourism: has increased four times, but started from a very low base and requires more time
- Mining: large amount of unexploited resources
- Also investments to improve infrastructure
- Rouhani's correct counterfactual argument: Where would we be without the agreement? Negative growth, zero propensity to export?
- Hope: Prospects for Foreign Investment
- Mckinsey: Iran as the $1 trillion growth opportunity by 2035?