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## Continued Uncertainty of Iranian Economy

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Since the inauguration of President Trump, the US has been reviewing its diplomatic ties with each country in the world. President Trump signed an executive order on January 27, 2017 to limit the entry of people from the specified 7 countries in Middle East and Africa (namely, Iran, Iraq, Libya, Somalia, Sudan, Syria, and Yemen). This order prompted a vigorous debate not only outside the US but also within the US. Among others, the president has maintained a tough stance to Iran, suggesting the possibility to review the Nuclear agreement reached in 2015 (see below).

Iran, which was suspected for developing nuclear weapons, had faced with economic sanctions of western countries and the United Nations which were strengthened along the enactment in June 2010 by the US of Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010 (CISADA). In the meantime, in 2013, moderate conservative Mr. Rowhani took the office of president and started to make dialogues with international society. In July 2015, Iran reached a final agreement (so-called Nuclear Agreement) with 6 major countries including the US and Europe toward settlement of nuclear development problems. In January 2016, part of the sanctions was lifted by the western countries and the UN, which promoted the comeback process of Iran to the international society.

At a time president Rowhani took office, the Iranian economy had experienced a negative growth influenced by the economic sanctions, but it is expected to recover in fiscal year 2016<sup>1</sup>, growing by around 6.6% owing to the partial removal of economic sanctions (Chart 1). Also the currency sharply dropped against the US dollar due to a declining credibility of Iran in international markets, pushing up its average inflation rate in FY2013 to a double digit level. But the inflation rate has been falling to stay at a single digit level in FY2016. Oil production, which fell to around 3million barrels a day during the sanction years, has been increasing to almost 4 million bpd in 2016.<sup>2</sup>

Despite the increased production, however, the fiscal conditions of Iran have been

<sup>1</sup> As the Iranian year end in March, the fiscal year 2016 refers to from April 2016 to March 2017.

<sup>2</sup> In the backdrop of continued stagnant oil prices, OPEC agreed in November 2016 to reduce oil production. Although Iran was also required to cut production, it was allowed to increase a certain amount of production to recover the market share lost by the economic sanctions.

deteriorating due to stagnant oil prices, with the fiscal balance in FY2016 expected to be in red. Many companies in cars, energy, and infrastructure related business have been visiting Iran from Europe and Japan since 2015, eyeing the removal of sanctions, and the momentum for active transactions was heightened for a while, but as of the end of 2016, there is no sign of a large recovery of imports from such countries.(Chart 2) As the primary sanctions of the US has been still applied to Iran<sup>3</sup>, major financial institutions, mainly of Europe, seem to be taking cautious attitude to reopen the transactions with Iran, with no clear sign seen of recovery in settlement environment with the European countries. It will take some time before the trade volume recover the level prior to the sanctions, since companies in Europe and Japan are still cautious about the activation of snapback clause of the Nuclear Agreement of 2015 which defines that the sanctions can be imposed again whenever the defaults of Iranian government to the nuclear agreement become apparent.

On January 30, 2017, Iran conducted a test launch of ballistic missiles, in an attempt to put a brake on the US which is rapidly taking an anti-Iranian attitude. Responding to the test, the US has decided to impose additional sanctions on the groups and individuals that are involved in the development of missiles and support of terrorism, increasing the tension between the two countries.

The Iranians will have a presidential election in May. They had expected a revival of active trading transactions with foreign countries upon the removal of sanctions, but as was seen above the economy is still on the way to recovery, and the people have not come to fully enjoy the benefit of the recovery. In addition, if the nuclear agreement were to be scrapped by the tough stance of the US, complaint will spread among the people to the incumbent government that is adopting conciliatory stance toward foreign countries. It will also give a momentum to the hard line conservatives, jeopardizing the reelection of President Rowhani. In case he was not re-elected, the road to recovery of Iranian economy through active foreign transactions will become much foggy and uncertain.

**Chart 1 Iran's Macroeconomic Indicators**

Fiscal year	Before Sanction 2010	Start Rouwhani's presidency 2013	After Sanction 2016
GDP Current price (USD bil)	464	379	377
GDP percent change y/y	6.6%	-1.9%	6.6%
GDP per capita (USD)	6,227	4,899	5,124
Inflation rate (average)	12.4%	34.7%	8.9%
Unemployment rate	13.5%	10.4%	12.5%
oil production (K barrel/day)	4,080	3,113	3,946
Current account (% GDP)	4.4%	7.0%	6.3%
Fiscal balance (% GDP)	0.0%	-0.9%	-2.8%

(Source) IMF and EIA

(Note) Forecasts by the IMF for 2016, except oil production which refers to the average production of January to October.

<sup>3</sup> The lift of economic sanctions of January 2016 by the US mainly included transactions, actions, and activities with Iran by non-U.S. persons, and therefore the primary sanctions by US persons on such transactions, actions and activities related to Iran have been still maintained.

**Chart 2 Imports of Iran (in US\$ million)**

	Before Sanction 2010		During Sanction 2015		After Sanction 2016 Q1~Q3	
1	United Arab Emirates	22,446	United Arab Emirates	34,741	United Arab Emirates	21,693
2	China,P.R.: Mainland	5,733	China,P.R.: Mainland	19,616	China,P.R.: Mainland	13,160
3	Germany	4,484	Korea	4,104	Turkey	4,197
4	Turkey	3,806	Turkey	4,030	Korea	2,778
5	Korea	3,687	India	3,481	India	2,064
6	Switzerland	3,568	Germany	2,518	Germany	2,050
7	France	2,063	Brazil	1,833	Russia	1,567
8	Italy	1,825	Italy	1,476	Brazil	1,438
9	India	1,774	Russia	1,121	Italy	1,257
10	Japan	1,555	Kazakhstan	1,060	Kazakhstan	690
			Japan	317	Japan	409
	Total	66,395	世界合計	87,905	Total	61,052

(Source) IMF

(Note) Shaded boxes refer to European countries and Japan

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