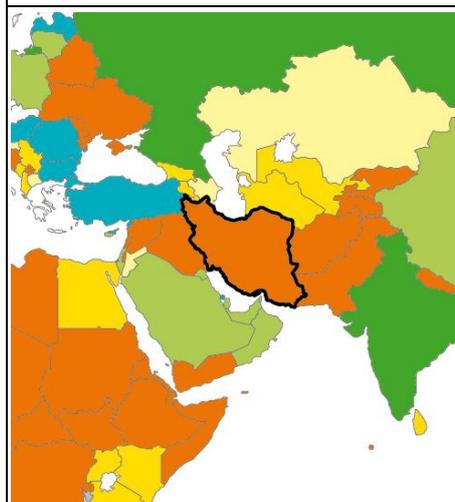


Iran



COUNTRY RISK CATEGORY

7/7

The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.



EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY

Short-term transactions: SEK 0 million

Medium and long-term transactions: SEK 936 million

EKN'S POLICY

Sovereign risks: No provision of guarantees

Other public risks: No provision of guarantees

Bank risks: No provision of guarantees

Corporate risks: No provision of guarantees

See "EKN'S POLICY" section

DATE

15/5/2014

Easing of sanctions within reach

For over two years, sanctions against Iran have gradually weakened the country's economy. The recession, currency depreciation, inflation and unemployment have impacted the country's economic development. But optimism has increased with the election of President Rouhani and the opening up to the west. The interim agreement on Iran's nuclear programme and the ongoing negotiations on a final agreement are an opportunity to break Iran's increasing isolation. The outcome of the negotiations is uncertain. Both sides have a lot to gain from an agreement, but domestic political considerations make it hard for both the US and Iran to compromise. An agreement and easing of sanctions would create positive conditions for the country's economy. Failure will lead to the reinstatement of sanctions and an additional weakening of the economy. The coming year will be decisive for Iran's potential for political and economic normalisation.

STRENGTHS

- Interim agreement in place and negotiations on a final agreement ongoing.
- Small amount of foreign financing needed.
- Low debt and large oil and gas assets.

WEAKNESSES

- Corporate and banking sector suffering from the effects of the sanctions.
- Sanctions preventing payments from Iran.
- Failed negotiations will have serious consequences, in the worst case, military consequences.

POLITICS

Agreement with west possible

President Hassan Rouhani is trying to steer Iranian policies back on a moderate path and heal the political wounds following Ahmadinejad. He has a tough balance to strike where he has to listen to the conservative forces and simultaneously meet the expectations of the reform-oriented forces which he is a part of. Rouhani's good relationship with the Supreme Leader Ali Khamenei and his long-standing experience of Iran's multipolar political system increases his chances of success. The interim agreement between Iran and the world powers from November 2013 concerning the country's nuclear programme is a success that gives Rouhani domestic political capital that he can use to provide the reform-oriented voices with more scope. The agreement has reduced tensions with the west and shown that Iran has a government that the US can negotiate with. But key political issues, such as the nuclear programme and Iran's involvement in Syria will remain in Khamenei's hands, which reduces the likelihood of a major change in Iran's policies.

The ongoing negotiations on a final agreement on Iran's nuclear programme have a reasonable chance of succeeding. Such an agreement would result in an easing of sanctions by the west in exchange for restrictions on and monitoring of Iran's nuclear programme. Both sides have a lot to gain from coming to an agreement. President Obama sees a potential deal with Iran as a key foreign policy success from his term of office and will use his veto if congress tries to introduce new sanctions. Rouhani's mandate rests on his ability to create better relations with the west and consequently improve the prospects for the domestic economy. The Iranian leadership therefore has compelling reasons to compromise in exchange for the easing of sanctions. The negotiations will continue during the coming year. The interim agreement expires in July 2014, but it may be extended once and potentially twice. If the negotiations break down, it will lead to new sanctions and an additional weakening of the economy.

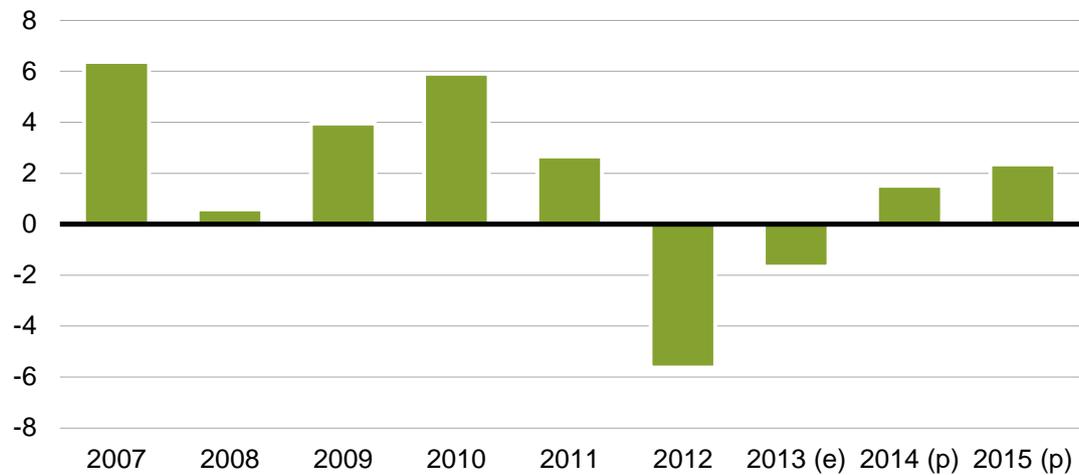
ECONOMY

The recession is over, but growth still weak

International sanctions and mismanagement of the economy have had a large negative impact on Iran's economy growth over the past years. The trade sanctions have led to a reduction in oil exports and a recession. Oil exports, which account for 80 percent of currency earnings, were cut in half after the US and the EU tightened sanctions on Iran's oil and financial sector in the middle of 2012. These disruptions have exposed the economy's structural problems in the form of oil dependence, a weak business climate and deficiencies in fiscal policy. The latter is illustrated by the ambitious but non-financed social reforms that have weakened the country's public finances.

Increased confidence on the part of investors and consumers, as a result of improved relations with the west, has stabilised the economy to a certain extent and will increase economic activity going forward. Inflation is around 30 percent, but has started falling and currency fluctuations have been brought to a halt. Given that the oil and bank sanctions will remain in place in the short term, growth will be low in the coming years. GDP is expected to increase by just over one percent in 2014 and two percent in 2015.

GDP GROWTH (% PER YEAR)



After two years of recession, the economy is now growing again slowly. Data: IMF.

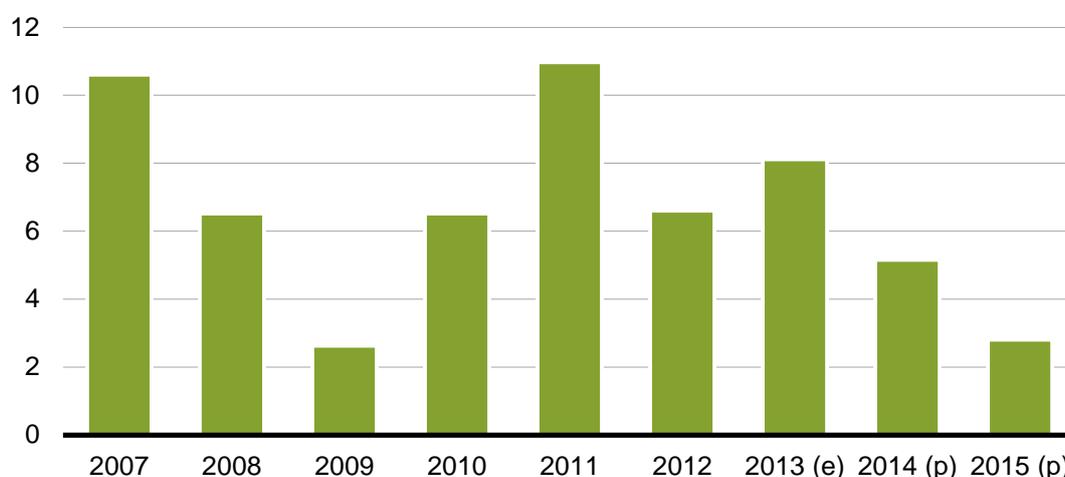
Rouhani has assembled a broad political coalition that is in favour of economic reforms. The challenge will be securing public approval for higher energy prices and changes in subsidies. The parliament pushed through Rouhani's first budget in February this year. In comparison to past years, the budget is somewhat austere. Increased oil and tax revenues are intended to finance current spending, while structural reforms are to bring the economy out of recession. The budget presupposes an easing of sanctions, which is risky, since further easing during the year is not probable. Public finances will remain strained as long as sanctions are in place. Domestic financing and a small national debt makes the risk of a financial crisis low in spite of this.

BALANCE OF PAYMENTS AND DEBT ISSUES

Oil exports beginning to increase again

The sanctions from the US and the EU have weakened Iran's balance of payments, although it is once again in surplus. Reduced oil and gas trade and banking sanctions that closed out Iran from the global financial system have been particularly harmful to the economy. The sanctions against the country's banking system have raised the costs of trade for Iran significantly, which has forced Iran to seek alternative payment methods or switch to bartering. Iran's oil exports were cut in half in 2012/13 in comparison to the previous year and the current account surplus is on a downward trend.

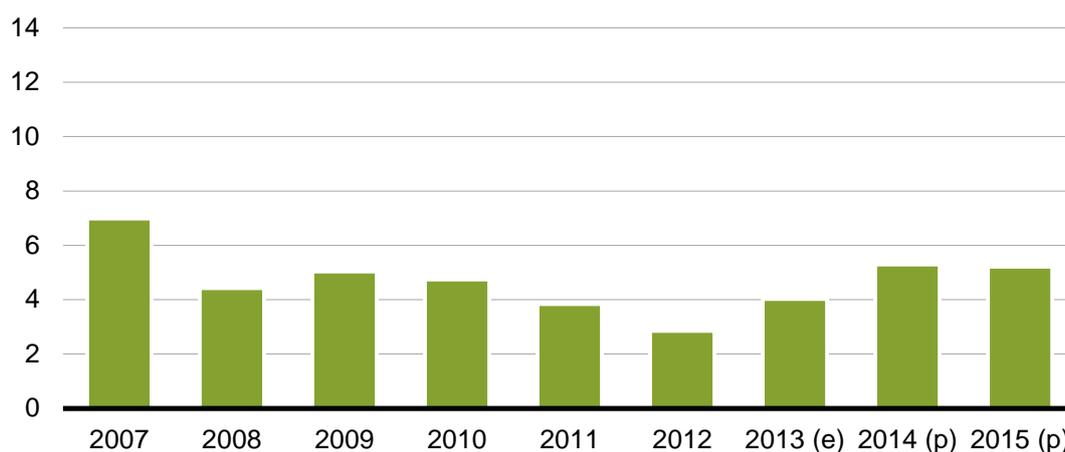
CURRENT ACCOUNT BALANCE (% OF GDP)



Current account surplus falling in the coming years. Data: IMF.

The country's international reserves have been surprisingly stable in spite of the falling exports. But more than half of the reserves are not available, since sanctions prevent Iran from repatriating oil export revenues. The available international reserves, around USD 40 billion, are being held in currencies belonging to Iran's most important trade partners, such as India, Japan, China and South Korea. These reserves are still equal to six months of imports of goods and services. Iran's strength is that a low amount of foreign financing is needed, since the country hardly has any external debt, and simultaneously has a current account surplus. This makes the country, in spite of everything, able to withstand the sanctions and the risk of a balance of payments crisis is small.

EXTERNAL DEBT (% OF GDP)



Iran's external debt is very small, around five percent of GDP. Data: Datastream.

The interim agreement on Iran's nuclear programme is intended to lead to a final agreement in the second half of 2014, which would result in an easing of sanctions in the long term. But oil exports have already begun to increase following the temporary interim agreement. Exports in the first three months of 2014 were significantly higher than the year before and show increased faith on the part of Iran's Asian buyers that the restrictions on the oil sector will be

eased soon. A substantial increase in exports is still improbable this year, since it is only possible if the sanctions against the oil sector are removed completely.

CURRENCY POLICY**Heavy currency weakening temporarily stopped**

The official exchange rate was devalued by as much as 50 percent in July 2013. Currency regulations and multiple exchange rates could not compensate for the limited currency inflows and the lack of hard currency. The black market exchange rate simultaneously experienced heavy depreciation in 2012 and in the beginning of 2013, as people began exchanging their rials for other currencies and assets. The exchange rate has since been stabilised thanks to increased optimism following the election of President Rouhani. The difference between the market exchange rate and the official one has also been reduced. Financial or monetary initiatives are unlikely to restore confidence in the currency and the black market will continue to exist. Only rising oil revenues and access to frozen funds abroad via easing of sanctions would help Iran stabilise its exchange rate.

FINANCIAL SECTOR**Sanctions against banks still in place**

According to the interim agreement, the sanctions against Iran's banking sector remain in place. The country's banks will therefore continue to be closed off from the international capital markets. The banking sector's borrowing and lending has fallen dramatically in recent years. Both borrowing and lending interest rates are way below the rate of inflation. As a result, it has been difficult for banks to attract depositors, who instead preferred to invest in the property sector and other real assets. The low interest rates reduce the banks' incentive to lend as well. According to estimates, non-performing loans make up 15-25 percent of total lending. Capital contributions from the central bank will be available for banks in need of support.

The current situation is unsustainable, which will force the new government to reform the banking system. Above all, it is expected that the government will try to reduce the dominance of the state-owned banks. For example, the 17 private banks in Iran have a total of 2,780 branches, which is less than one of the large state-owned banks. Greater private influence would make it possible for the central bank to reduce its banking support, and also lead to a more effective distribution of capital in the economy. Structural reforms are expected to have an effect in the long term and Iran's banking sector will remain weak in 2014.

BUSINESS ENVIRONMENT**The energy sector will be attractive as soon as the sanctions are dropped**

The country's business climate is weak, with major deficiencies with respect to regulations, the judiciary and bureaucratic obstacles. The EU and US sanctions against Iran have had a negative impact on the corporate sector. The lack of hard currency raises the costs of conducting trade and the currency depreciation has led to increased import costs. Companies

have trouble getting loans from local banks which themselves are suffering from a lack of liquidity. Even in the event of a final nuclear agreement, it will probably take a couple of years before all sanctions are removed. Since there is hardly any scope for additional easing of sanctions before a comprehensive agreement, the business environment will probably remain very difficult in the short term.

Sanctions and economic mismanagement have caused most foreign companies to delay or halt new investment in exploration and production. Add to this the problems that have emerged due to the Iranian Revolutionary Guard strengthening its grip on the economy by taking control of many larger companies. The World Bank ranks the Iranian business climate in 152nd place out of 189 countries, behind the vast majority of countries in the Middle East.

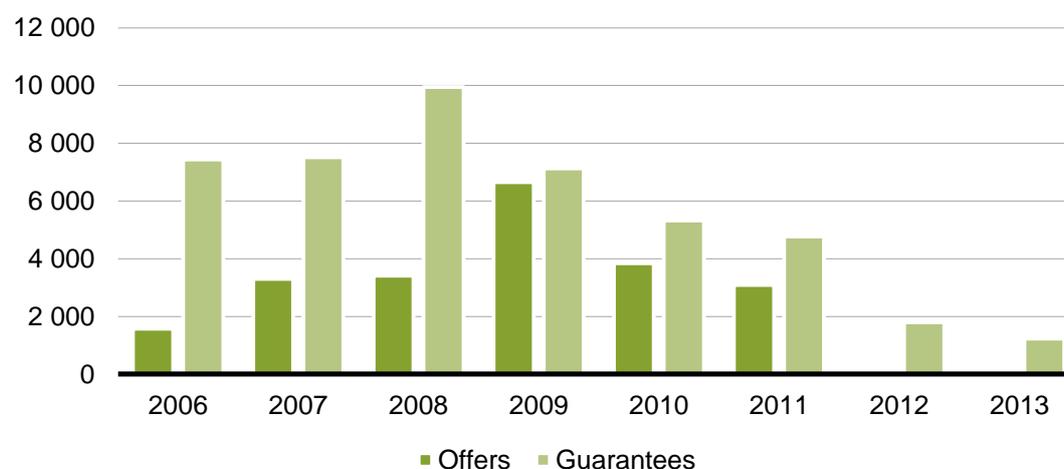
Foreign interest in Iran's economy, especially the energy sector, will nevertheless grow as Iran and the west move toward a final nuclear agreement and eased sanctions. Many European and Asian oil companies will return to the Iranian market if the sanctions are revoked. The government will also probably attract foreign investments in neglected, but lucrative, sectors such as petrochemicals and transport.

EKN'S EXPOSURE

Exposure being phased out

EKN's exposure in Iran is being phased out. EKN suspended the provision of new guarantees in 2012 and no offers are issued. Before then, Iran was EKN's largest country in the Middle East. In the period from 2008 until the beginning of 2012, EKN issued guarantees for 232 transactions totalling SEK 12.1 billion for Swedish companies exporting to Iran. Exports have gone to sectors such as petrochemicals, power and transport. All guaranteed transactions have been made in accordance with applicable sanctions and in line with statements from the ISP, the Swedish Agency for Non-Proliferation and Export Controls.

EXPOSURE AT 31 DECEMBER (SEK MILLION)



Guarantees are being phased out and no offers are issued.

PAYMENT EXPERIENCE

Sanctions obstructing payment

The current situation where buyers and banks want to pay and have the money but cannot complete the transaction because of sanctions is unique. EKN has visited Iran several times in recent years to meet banks and government authorities. The money is there, but the banks cannot find correspondent banks willing to transfer the payments. There are around six billion euros in frozen Iranian assets in the EU.

EKN has extensive experience with payments from Iran. Previous payment problems go as far back as the early 1990s. At that time, Iran had liquidity problems due to the very low oil prices. The claims were renegotiated and repayment, including interest on arrears, was made in full after a few years. At present, claims are expected to be paid once the sanctions have been eased.

EKN'S POLICY

EKN classifies Iran in country risk category 7, an assessment undertaken in collaboration with the OECD. The country was downgraded from category 6 in early 2012 when EKN also suspended the provision of new guarantees. The sanctions create payment problems that justify a continued closed country policy. EU sanctions prohibit further financial support for trade with Iran, including export credits, guarantees and insurance.

NORMAL RISK ASSESSMENT

There are not any limitations to the risk assessment or preconditions for risk assessment stipulated in advance.

RESTRICTIVE RISK ASSESSMENT

EKN places higher demands on the risk assessment to guarantee a transaction. EKN may have specified special criteria that are central to the risk assessment of the debtor category in question.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATINGS	
Area: 1,648,000 km ² (3.7 times Sweden)		
Population: 80.8 million (2013)		
Population growth: 1.2% (2013)		
GDP: USD 549 billion in 2012 (Sweden USD 524 billion in 2012)		
GDP/capita: USD 7,207 in 2012 (Sweden USD 54,815 in 2012)		
	Moody's:	
	S&P:	
	Fitch:	
	COUNTRY CEILING	SOVEREIGN RATING
	-	-
	-	-
	-	-

COUNTRY ANALYST

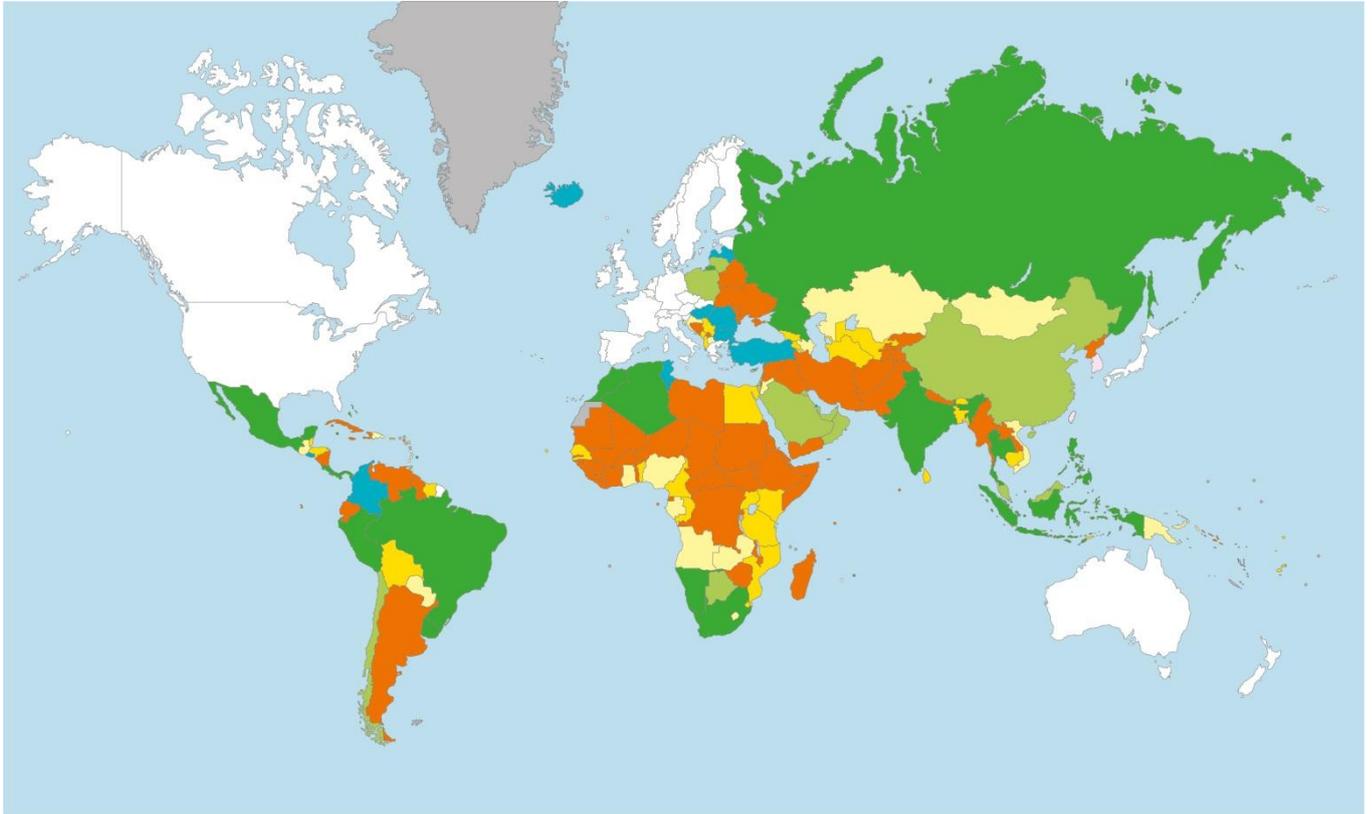
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DISCLAIMER

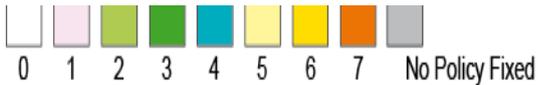
The country analysis is based on a range of sources and reflects information that is relevant to EKN at the time of publication. The responsibility for how the information is used or interpreted rests solely with the user, and EKN cannot be held responsible for any loss or damage.

EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.



EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management.

Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

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