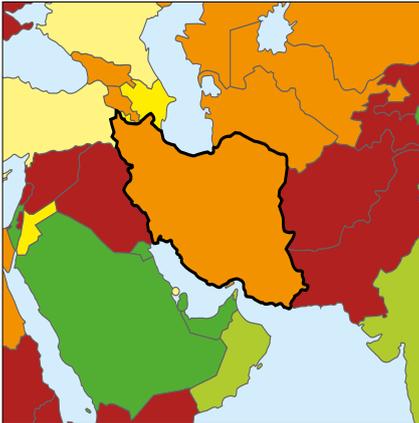




The country risk categories are arranged on a scale of 0 to 7. The lower figure, the better the country's creditworthiness.



CONTACT

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BASIC FACTS

Population: 79 million
Nominal GDP: USD 390 billion (2015)
GDP/capita: USD 4,908 (2015)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Nuclear agreement put to the test

The lifting of sanctions in January 2016 gave a boost to Iran's economy. Oil exports increased substantially and growth is up. However, the remaining sanctions continue to restrict trade and investment, and delay Iran's full integration into the international financial system. The uncertainty concerning the next US president's position on Iran makes European companies and banks hesitate to resume business relations with Iran. The ability to finance large and long-term export transactions is still missing. 2017 will see the stability of the agreement on Iran's nuclear programme and the easing of sanctions on the country put to the test. A more critical position from the US poses a risk of undermining the nuclear agreement and reducing Iran's incentive to meet its obligations under the agreement. Interest in the Iranian market is high, especially from Swedish companies. EKN opened up for new guarantees to Iran in January 2016 and has guaranteed new export transactions during the year.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Agreement on nuclear programme implemented and sanctioneased.
- + Strong willingness to pay.
- + Low debt and substantial oil and gas reserves.

WEAKNESSES

- Remaining US sanctions deterring trade and investment.
- Companies and banks still suffering from the effects of the sanctions.
- Weak business climate with government interference and extensive regulations.

SWEDISH EXPORT TO THE COUNTRY

Iran	MSEK
2015	2, 546
2014	2, 104
2013	1, 227
2012	971
2011	6, 675
2010	5, 331

Source: Kommerskollegium

EKN'S EXPOSURE

	MSEK
Guarantees	SEK 746 million
Offers	SEK 4,312 million

EKN'S POLICY

EKN opened up for new guarantees to Iran after the EU sanctions were eased in January 2016. EKN classifies Iran in country risk category 6 out of 7 – an assessment made in collaboration with the OECD. The country was upgraded to country risk category 6 in June 2016, after Iran paid off the majority of its debt to EKN and other export credit agencies.

EKN is open to cover risks on the Iranian government and on the country's banks. Payment risks associated with Iranian companies can be accepted if the counterparty has its own hard-currency earnings or if external financial assistance can be expected.

EKN'S EXPOSURE AND EXPERIENCE

EKN has issued around 50 guarantees for a total amount of more than SEK 1 billion since EKN began insuring new export transactions with Iran in January 2016. The guarantees are for short-term transactions where EKN mainly insures letters of credit issued as payment instruments for the export transaction. Historically, exports to Iran have been made using letters of credit and this will probably continue to be the norm.

In spring 2016, EKN recovered the outstanding claim on Iran of approximately SEK 600 million which was incurred due to the sanctions and the difficulty of finding a payment channel for old transactions. The recovery of this claim demonstrates that Iran has a strong willingness to pay and that payment channels have opened up.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

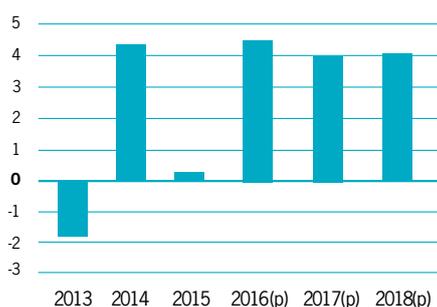
THE POLICY MAY BE MADE LESS RESTRICTIVE IN THE EVENT OF:

- The nuclear agreement being respected and creating long-term stability.
- European banks returning to Iran and financing options increasing.

THE POLICY MAY BE MADE MORE RESTRICTIVE IN THE EVENT OF:

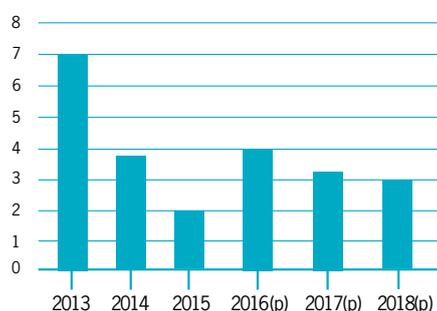
- Heightened tensions between Iran and the US undermining the nuclear agreement.
- Reinstated sanctions causing new payment problems.

GDP-GROWTH (% PER ANNUM)



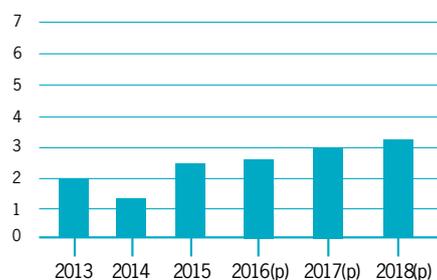
Source: IMF WEO

CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO

EXTERNAL DEBT (% OF GDP)



Source: IMF

COUNTRY ANALYSIS

BACKGROUND

International sanctions and economic mismanagement have had a major negative impact on the Iranian economy since 2012. The sanctions on the oil and banking sectors had a particularly negative impact. The economy has stabilised since 2014 thanks to a more austere economic policy under President Rouhani in conjunction with the easing of the sanctions. The public finances and balance of payments are strong thanks to low debt and little need for foreign financing. Iran has almost no external debt and a current account surplus in spite of a low price of oil.

The Iranian banks are undercapitalised and their asset quality is weak due to deficient risk management and supervision. The payment risks associated with the country's banks are limited by the central bank's control over the country's foreign exchange assets and international payment flows. EKN is open to guaranteeing risks associated with both the Iranian government and the country's banks.

THE MOST RECENT TRENDS

The lifting of the nuclear sanctions on Iran in January 2016 enabled Iran to raise its oil production and exports to pre-sanction levels. Activity in sectors such as agriculture, the automotive industry and trade has picked up as well. The economy's rate of growth is forecast to be relatively solid at just over 4 per cent in 2016 and 2017. Inflation, which was over 30 per cent a couple years ago, has decreased thanks to fiscal austerity. The difference between the official and parallel exchange rate decreased up until the US presidential elections, but then increased again due to greater uncertainty surrounding future sanctions. Combining the exchange rates is a key priority and part of the government's efforts to reduce corruption and raise economic stability.

Although growth is on the rise, the government's austerity policies and a weak banking sector have caused liquidity problems in certain sectors. For example, the trend in the construction industry, which historically is a key driver of the economy, is weak. Thanks to the government's low debt, there is scope for the government to step up spending and pursue more growth-friendly economic policies in the future. The government's economic plans for the coming years exhibit several factors of uncertainty, given that they are based on the nuclear agreement holding up and the nuclear sanctions remaining eased. The ability to export oil and access to the international payment system are especially important for the outlook of the economy and the public finances.

Iran gained access to frozen assets abroad following the easing of the sanctions. These assets are mainly in Asia and there are still difficulties using them in Europe considering the cautious position of European bankers toward Iran. The international reserves are high, but decreased slightly in 2016 due to the repayment of claims to export credit agencies and higher imports once the nuclear agreement went into force. Iranian banks can now resume making international bank transactions, albeit with a certain degree of difficulty because each transaction must be checked and approved against the remaining sanctions. The ability to finance long-term transactions is still missing.

LONG-TERM TRENDS

President Rouhani needs to be able to show the economic progress he promised would come from the easing of the sanctions by the May 2017 presidential elections. The moderate reformists who chose Rouhani in 2013 and gained greater influence in the parliament in 2016 still support Rouhani. Rouhani is expected to be re-elected in the absence of a strong conservative candidate. But he will face heavy resistance from conservative political opponents who allege that the agreement on Iran's nuclear programme has not benefited Iran. Supreme Leader Ayatollah Khomeini is expected to continue supporting Rouhani's more open economic policies, but will resist political, social and cultural changes.

The nuclear sanctions may be reinstated if Iran breaches the terms of the agreement on its nuclear programme. This risk is considered low in light of the determination with which Iran has met its obligations. However, the risk of unilaterally reinstated US sanctions will increase when Donald Trump takes office as President of the United States in January 2017. Trump has criticised the nuclear agreement and said he is willing to renegotiate or revoke it. There are no legal obstacles to any country from withdrawing from the agreement. A more critical US position poses a risk of undermining the nuclear agreement and reducing Iran's incentive to meet its obligations under the agreement.

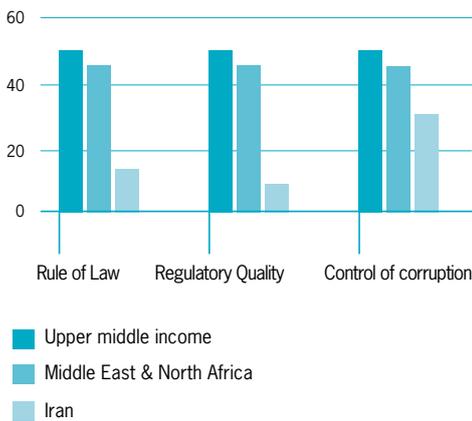
The fact that the nuclear agreement is a multilateral agreement ratified by the UN weighs against this. The agreement has support in the US military and security establishment as an effective means of restricting Iran's nuclear programme and avoiding yet another military conflict in the Middle East. If the US were to withdraw from the agreement or impose new sanctions, this would damage relations with the other parties to the agreement, especially Europe, which sees economic opportunities in Iran. New US sanctions will make European banks even more cautious toward Iran. In such a scenario, there is a risk of payment problems for companies exporting to or investing in Iran.

BUSINESS ENVIRONMENT

The Iranian business climate is weak, with deficiencies in regulations, the judiciary and bureaucratic obstacles. The World Bank ranks the Iranian business climate 120th out of 190 countries, behind many countries in the Middle East. The past sanctions against Iran have had a negative impact on the corporate sector. The shortage of hard currency has raised the costs of commercial activities and the currency depreciation has led to an increase in import costs. Companies have had trouble getting loans from local banks which themselves are suffering from a shortage of liquidity. Even with the easing of sanctions, it will take a couple of years until the corporate sector recovers.

The oil and gas sector is in need of major investments to compensate for underinvestment over the past decade. The Iranian government is also attempting to attract foreign investments in neglected and lucrative sectors such as petrochemicals and transport. The influx of foreign dignitaries and trade delegations demonstrates the high level of interest in Iran.

BUSINESS ENVIRONMENT



Source: Världsbanken

Several major investments in projects have been announced. In most cases, these are informal agreements where the financing is not yet in place. The companies that can provide own financing will be prioritised.

The remaining sanctions involving human rights violations and funding of terrorism create uncertainty for foreign companies and limit Iran's ability to attract substantial foreign investment. European companies will be cautious considering the risk of new US sanctions after Trump takes office as President of the United States. If European banks and companies are scared off from returning to Iran, Iran will continue turning to its trade partners in Asia, as the country did during the years of heavy sanctions.