

## Lifting of sanctions enables new guarantees

The lifting of sanctions on Iran's oil sector and banking system will give the country an economic boost. The economy has been hampered by the sanctions, economic mismanagement and the low oil price. Lower transaction costs, an increase in investments, access to foreign assets and higher confidence among companies and households give Iran a more favourable economic outlook. The main risk, although improbable, is reinstatement of the sanctions in the event that Iran fails to meet the terms and conditions of the agreement on its nuclear programme. Interest in the Iranian economy is high, not least from Swedish companies. EKN is now reintroducing the provision of guarantees for Iran.

### THE COUNTRY'S STRENGTHS AND WEAKNESSES

#### Strengths

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

#### Weaknesses

- Economy dependent on oil and gas.
- High inflation and currency instability.
- Corporate and banking sector still suffering from the effects of the sanctions.
- Weak business climate with government dominance and extensive regulation.

### **New guarantees**

EKN categorises Iran in country risk category 7 – an assessment made in collaboration with the OECD. The country was downgraded from category 6 in early 2012 when EKN suspended the provision of new guarantees. Since then, the EU sanctions have prevented EKN from issuing new guarantees on Iran.

The easing of sanctions will now enable the provision of new guarantees. EKN mainly guarantees letters of credit issued by Iranian banks. These letters of credit can either be confirmed or unconfirmed by a Swedish bank or another approved bank. Other risk types, e.g. direct corporate risks, are subject to a restrictive policy.

### WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY?

#### **The policy may be made less restrictive in the event of**

- Macroeconomic and financial stabilisation.
- Payment of outstanding claims.

#### **The policy may be made more restrictive in the event of**

- Reinstated sanctions.

### EKN'S EXPOSURE AND EXPERIENCE

#### **Payment problems during the sanction period**

In the period from 2008 to early 2012, EKN issued guarantees for 232 transactions totalling SEK 12 billion for Swedish companies exporting to Iran. The exports went to sectors such as telecom, power and transport.

EKN's exposure on Iran has been phased-out since 2012. No new guarantees have been issued since then. Payment problems emerged in old transactions due to the sanctions and the difficulty in finding a functioning payment channel. EKN has over SEK 600 million in outstanding claims on Iran. These claims are expected to be paid now that the sanctions have been eased.

### COUNTRY ANALYST



EKN's country analyst for Iran:  
Victor Carstenius  
Telephone: +46 (0)8-788 00 65  
email: victor.carstenius@ekn.se

---

## 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.

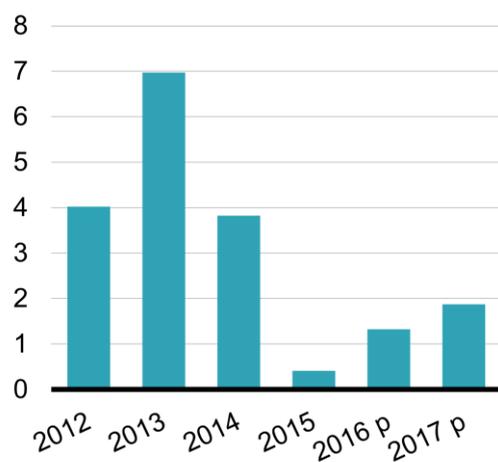
## RISK DEVELOPMENT

### Economic boost in store for Iran

Since 2012, international sanctions and mismanagement of the economy have had a major negative impact on the Iranian economy. The sanctions on the oil sector and the banking sector had a particularly negative impact. The economy has stabilised over the past two years thanks to an improvement in economic policies under President Rouhani, along with some easing of sanctions under the past two interim agreements. Growth is once again positive, inflation has declined and the difference between the official exchange rate and the exchange rate on the black market has decreased.

The nuclear sanctions against the country have been lifted now that the International Atomic Energy Agency (IAEA) has confirmed that Iran has taken measures to limit its nuclear programme. The easing of sanctions will enable Iran to increase its oil production and exports to pre-sanction levels within a short period of time – an increase of up to one million barrels per day. Iran will get access to frozen assets abroad, estimated at between USD 60 and 100 billion. The difference between the official exchange rate and the black market exchange rate is expected to disappear in the long term, which should boost confidence in the economy. Economic growth is estimated to increase from one per cent in 2015 to around five per cent this year and next year. Higher exports and private investments are the driving factors.

CURRENT ACCOUNT BALANCE



Current account surplus in spite of low oil price. Data: IMF

The public finances and the balance of payments are strong thanks to low debt and extensive public assets, especially large international reserves which Iran has now regained access to. The need for external financing is low, given that the country barely has any external debt, and Iran has maintained a current account surplus in spite of a low oil price. The country's favourable starting position reduces the risk of overconsumption and payment problems now when the country is opened up to the rest of the world and Iran has high demand for imports.

Iranian banks will now once again be able to execute international banking transactions. The banks are undercapitalised and their asset quality is weak due to weak risk management and bank supervision. Increased lending and recovery of some problem loans will decrease the high share of non-performing loans. Access to previously frozen assets is expected to increase liquidity in the banking sector. 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.

EU sanctions concerning human rights remain intact and the US is retaining sanctions for US citizens and companies. The nuclear sanctions may be reinstated if Iran is deemed to have breached the terms of the agreement on its nuclear programme. In such a scenario, there is a risk of payment problems for companies exporting to or investing in Iran. Given the speed and determination exhibited by Iran in meeting its obligations under the nuclear agreement, this risk is considered low.

#### BUSINESS ENVIRONMENT

##### **Significant interest from foreign companies, in spite of weaknesses**

The country's business climate is weak, with deficiencies with respect to regulations, the judiciary and bureaucratic obstacles. The World Bank ranks the Iranian business climate 118th out of 189 countries, behind many countries in the Middle East. The EU and US 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's 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 a final nuclear agreement and lifted sanctions, it will probably take a few years for the corporate sector to recover.

Iran's infrastructure is deficient in due to years of sanctions. The oil and gas sector is in need of major investments in the coming years in order to compensate for underinvestment over the past decade. There is significant foreign interest in the Iranian economy and European and Asian oil companies will return to the Iranian market. The Iranian government will also probably attract foreign investments in neglected, but lucrative, sectors such as petrochemicals and transport. The easing of sanctions will step up economic relations with neighbouring countries, especially the United Arab Emirates and Turkey. Dubai in particular will play a key role in facilitating trade and investments in Iran. Historically, exports to Iran have been made using letters of credit as the instrument of payment and this will probably continue to be the norm.