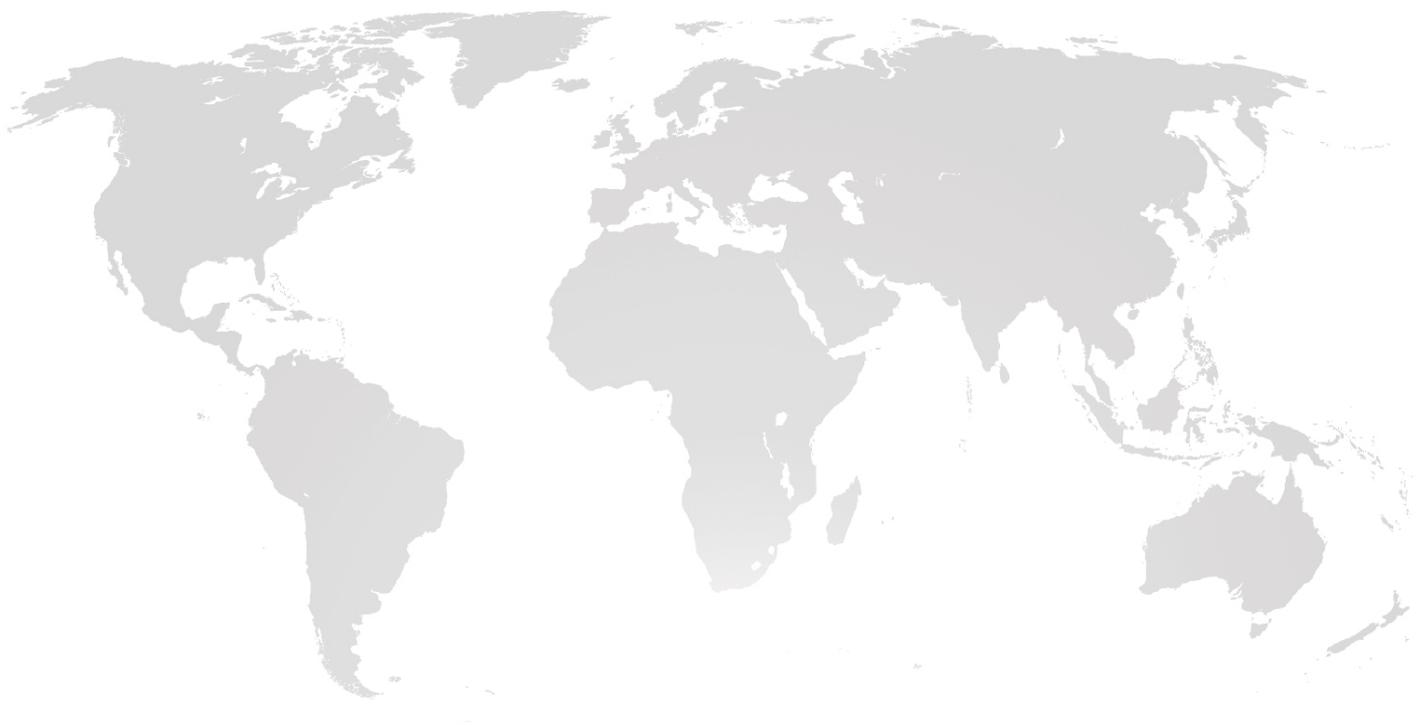


# Country Insight Snapshot

## Iran

February 2016





## OVERVIEW

**OVERALL COUNTRY RISK RATING: DB5A**

**High risk** : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

**R**

**Rating Outlook:** Stable 

## CORE OUTLOOK

- + The government is slowly liberalising the economy and adopting more business-friendly policies.
- + The lifting of sanctions will see investment and trade opportunities abound in all sectors of the economy.
- International sanctions and inappropriate government policies have undermined the country's long-term economic potential.
- Powerful companies linked to the state mean that the business environment is not a level playing field.

## KEY DEVELOPMENT

Dun & Bradstreet upgrades Iran's country risk rating by two quartiles following the lifting of most sanctions by the UN, US and EU.

### CREDIT ENVIRONMENT OUTLOOK

**R**

Key Development has had a positive impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

**A**

Key Development has had a positive impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

**A**

Key Development has had a positive impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

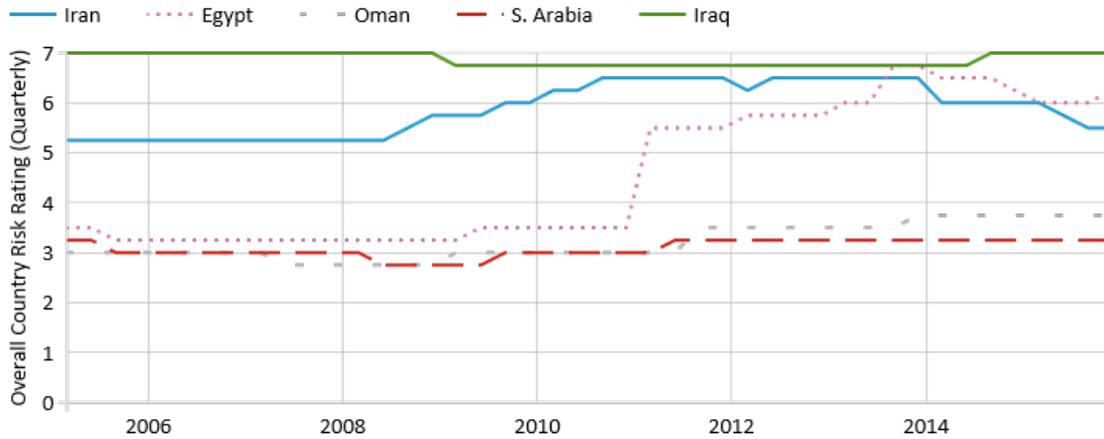
**A**

Key Development has had a positive impact on the outlook.



## KEY INDICATORS

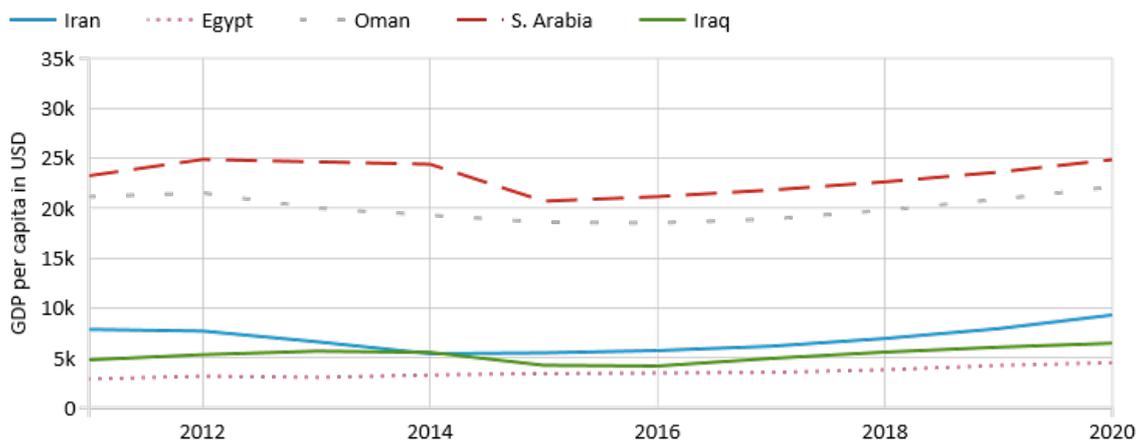
### Rating History and Comparison



Source : Dun & Bradstreet

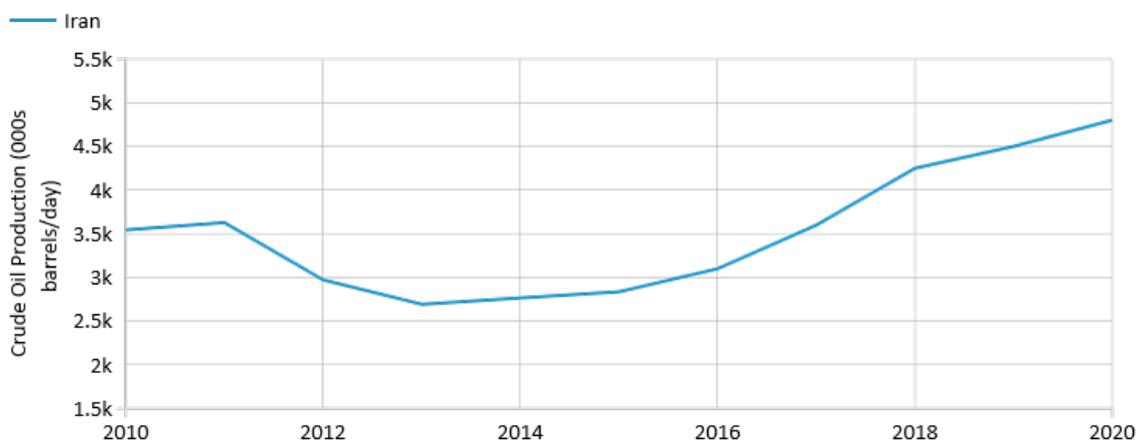
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Crude Oil Production



Source : Dun & Bradstreet



## Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	5.2	3.7	-1.9	-3.5	-2.5	-0.8	-0.6	0.1
Govt balance, % GDP	-5.1	-4.2	-4.5	-3.8	-3.5	-3.2	-1.4	1.0
Inflation, annual avge %	39.5	17.5	14.5	8.8	6.1	5.9	5.5	5.1
Oil Price, USD/b	108.6	99.2	52.4	35.0	46.6	53.0	58.0	75.0
Real GDP Growth, %	-1.7	2.8	0.3	2.0	4.5	5.3	4.8	5.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

In January 2016, international sanctions applied against Iran because of its nuclear enrichment activities were finally lifted. However, the sanctions can be reapplied at any time if Iran is found to be in contravention of the agreement. Sanctions would then be reapplied for a minimum of ten years. In addition, a number of sanctions remain in place, including a UN arms embargo for the next five years. More importantly, a number of US sanctions predate the nuclear dispute, while sanctions remain in place against persons and companies with links to the Revolutionary Guards. Both these sets of sanctions are unlikely to be lifted in the medium term. Indeed, we expect the Republican-dominated Congress to continue to try and impose further sanctions, although it is likely that any far-reaching measures would be overturned by President Obama. However, a Republican president would be likely to support further sanctions, ensuring that risks for US businesses dealing with Iran remain elevated.

## TRADE TERMS AND TRANSFER SITUATION

### Minimum Terms: LC

*The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.*

### Recommended Terms: CiA

*Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.*

### Usual Terms: 30-180 days

*Normal period of credit associated with transactions with companies in the stated country.*

### Local Delays: 2-3 months

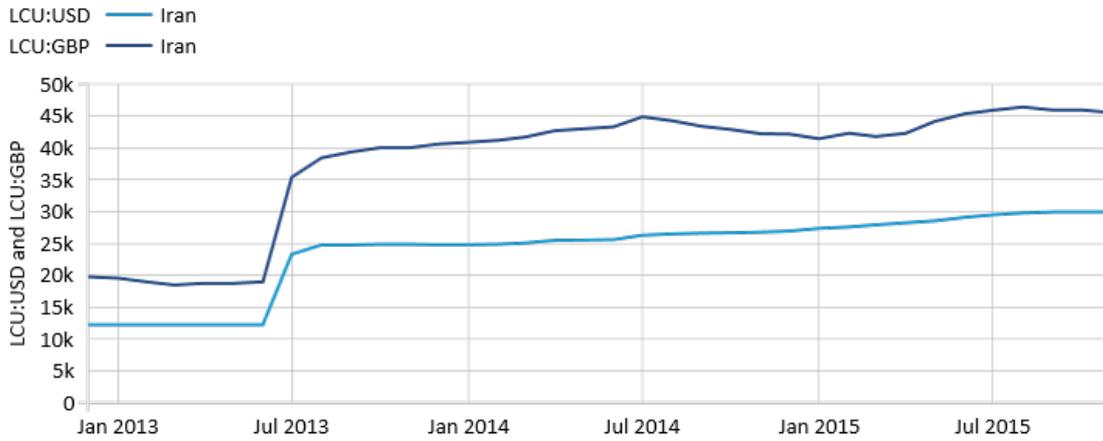
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### FX/Bank Delays: 2-4 months

*The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.*



## Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

*LCU = Local Currency Unit*

## Credit Conditions



Source : Export Credit Agencies

*Insured export credit exposures, USDm*



## RISKS AND OPPORTUNITIES

### Short-Term Economic Outlook

#### ***Risk rating upgraded***

Following the January 2016 nuclear agreement we have upgraded Iran's risk rating by two quartiles from DB5c to DB5a (still in the high risk category). This takes the improvement to six quartiles since January 2014. The deal opens the world's 28th largest economy to significant trade and investment opportunities. However, the economy remains weak and growth is being undermined by low oil prices. We estimate real GDP grew by only 0.3% in 2015, and with oil prices to remain low until at least 2017, real GDP is forecast to grow by 2.0% in 2016 and 4.5% in 2017.

### Long-Term Economic Potential

#### ***Lifting of sanctions is a game-changer***

The lifting of the sanctions regime will have a positive effect on growth over the next decade, as will the new oil contract which was unveiled in late 2015 (although the contract does not meet the international norms in the sector). Growth over the next decade will be heavily influenced by activities in the hydrocarbon sector. Despite the weak oil price, the government is targeting about USD30bn in investment for 70 projects, as part of ambitious plans to attract more than USD100bn over the next five years to reinvigorate the energy and petrochemical sectors. Oil minister Bijan Zanganeh wants to raise production from around 3.5m b/d at present (although according to OPEC data the output is actually 2.8m b/d) to 4.2m b/d by end-2016 and 5.7m b/d in 2018; a target we feel is optimistic, in part because of the weak oil price which will deter investment into the medium term. Furthermore, impediments to long-term growth are still strong, including the domination of the economy by quasi-state organisations such as the bonyads (charitable foundations), controlled by the clergy and the business wing of the Revolutionary Guards, which discourage other companies from investing. Other challenges include building a financial sector that meets the needs of international business and has the ability to set interest rates without government involvement, while addressing issues such as corruption, transparency and the rule of law.

### Transfer Risk

#### ***Transfer risk falls but still elevated***

The lifting of sanctions, which specifically targeted the Iranian financial sector, has reduced transfer risk, although it will remain elevated by international standards. The situation will improve as the Iranian banks re-enter the interbank settlement organisation SWIFT. However, US sanctions remain in place in relation to financing of terrorist activities, and the threat of legal action in the US may deter European banks from becoming involved. Furthermore, transfer risk will remain elevated due to the inherent weakness of the banking system, in which the majority of transactions are undertaken by inefficient and largely state-operated banks, with large and potentially under-reported non-performing loans.



## COUNTRY PROFILE AND STATISTICS

### Overview

Iran is strategically located at the crossroads of the Middle East and Central Asia; it is bordered by Iraq, Turkey, Azerbaijan, Turkmenistan, Afghanistan and Pakistan. It also has a long coastline on the Persian Gulf.

Iran is a theocratic republic. The political system is a highly complex network of elected (president, parliament and the Assembly of Experts) and unelected bodies (the supreme leader and the Expediency Council), who compete with each other for dominance. Outside the formal system, a number of interest groups, including the Revolutionary Guards and bonyads (charitable foundations run by the clerics), also have considerable influence.

The economy is highly dependent on hydrocarbon revenues (it has the second-largest gas reserves in the world). The majority of international sanctions, which served to undermine the economy, were lifted in January but can still be reapplied. In addition, a number of US sanctions remain extant and could be increased.

### Key Facts

Key Fact	Detail
Head of state	Supreme Leader Ali Hoseini-KHAMENEI
Capital	Tehran
Timezone	GMT +03-30
Official language	Farsi
Population (millions)	79.1
GDP (USD billions)	436.7
GDP per capita (USD)	5,521
Life expectancy (years)	75
Literacy (% of adult pop.)	83.6

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	0.11	-5.89	-1.7	2.81	0.3
Nominal GDP in USDbn	592.04	587.21	511.62	425.33	436.75
Nominal GDP in local currency (bn)	6,285,300.0	7,149,600.0	9,421,200.0	11,034,000.0	12,671,000.0
GDP per Capita in USD	7,875	7,711	6,631	5,443	5,521
Population (year-end, m)	75.18	76.16	77.15	78.14	79.11
Exchange rate (yr avge, USD-LCU)	10,616.0	12,176.0	18,414.0	25,942.0	29,012.0
Current Account in USDbn	58.51	23.42	26.44	15.86	-8.5
Current Account (% of GDP)	9.88	3.99	5.17	3.73	-1.95
FX reserves (year-end, USDbn)	92.2	104.4	107.7	112	115
Import Cover (months)	14.18	18.23	21.13	20.65	19.17
Inflation (annual avge, %)	20.6	25.7	39.5	17.5	14.5
Govt Balance (% GDP)	-5.3	-4.5	-5.1	-4.2	-4.5

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	2	4.5	5.3	4.8	5
Nominal GDP in USDbn	460.3	500.9	569.8	656.7	776.6
Nominal GDP in local currency (bn)	14,039,000.0	15,527,000.0	17,266,000.0	19,045,000.0	20,968,000.0
GDP per Capita in USD	5,751	6,188	6,965	7,948	9,311
Population (year-end, m)	80	80.9	81.8	82.6	83.4
Exchange rate (yr avge, USD-LCU)	30,500	31,000	30,300	29,000	27,000
Current Account in USDbn	-16.1	-12.3	-4.5	-3.7	0.5
Current Account (% of GDP)	-3.5	-2.46	-0.79	-0.56	0.06
FX reserves (year-end, USDbn)	118	125	132	145	156
Import Cover (months)	17.27	17.05	17.03	17.58	17.02
Inflation (annual avge, %)	8.8	6.1	5.9	5.5	5.1
Govt Balance (% GDP)	-3.8	-3.5	-3.2	-1.4	1

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Iran	Egypt	Oman	S. Arabia	Iraq
Income per Capita (USD)	5,521	3,442	18,608	20,711	4,283
Country Population (m)	79.1	91.5	4.5	31.5	36.4
Internet users (% of population)	39.4	31.7	70.2	63.7	11.3
Real GDP Growth (% p.a., 2016 - 2025)	2 - 6	3.5 - 6	2.5 - 4.5	3 - 4.5	2 - 6

Source : Various sources/Dun & Bradstreet



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