



# Iran

Country Report March 2019

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# **1.0 Executive summary**

Iran has accused the US of creating a “war” situation with its [reintroduction of heavy sanctions on November 5](#) designed to force the Iranians to the table to renegotiate their Middle East policies and activities. **The second-phase sanctions target Iran’s oil, gas, petrochemical, shipping and banking industries**, dealing a potentially crippling blow to an economy already [plunged into recession and crisis](#) by the first-phase sanctions that took effect on August 7. Those sanctions have for three months been undermining the country’s automotive sector, purchase or acquisition of US banknotes, trade in gold and other precious metals, graphite, aluminium, steel, coal, and software used in industrial processes, transactions related to the Iranian rial (IRR) and activities relating to Iran’s issuance of sovereign debt.

The sanctions bring to an end all the economic benefits the Barack Obama administration granted Tehran after the US and five other major powers, along with Iran, signed the nuclear deal in late 2015. The accord is supposed to shield Iran from crippling sanctions in return for the Iranians limiting their enrichment of uranium to close off their potential road to the development of a nuclear weapon. But, despite the strong protests of all the other signatories—Iran, the UK, France, Germany, Russia and China—and with the vocal backing of Israel, Donald Trump unilaterally withdrew the US from the multilateral pact in May, determined to force further concessions on Iran’s role and activities in the Middle East.

The US initially pushed hard to rapidly bring crude shipments down to zero, but on November 5, the US confirmed that **180-day exemptions allowing for the continued importing of Iranian oil had been granted to eight countries—China, India, Italy, Greece, Japan, South Korea, Taiwan and Turkey**. However, the waivers have been granted on the condition that the countries endeavour to gradually end the purchasing of crude from Iran.

Some internationally renowned economists, such as Steve Hanke at Johns Hopkins University in Baltimore, have estimated that **Iran’s annual inflation rate is running at more than 270% compared to the official claim of just 13.5%**.

**The IMF predicted on November 13 that inflation in Iran would grow to more than 40% at the end of 2018.** In a report on Middle Eastern economies, the Fund also repeated [a previous forecast](#) released in its latest World Economic Outlook on October 8 that [the ultra-aggressive US sanctions regime](#) would push Iran’s economic output down by 1.5% in 2018 and 3.6% in 2019.

**Pressure from the sanctions has also led to the collapse of the rial in 2018, but towards the end of the year it made a remarkable half-recovery** as the Iranian central bank [made interventions](#) and the markets realised Trump’s plan to strangle Iran’s economy was not yet in top gear. By the market close on February 17, 2019, bonbast.com reported that a dollar was selling at IRR130,000 on the free market and in mid-December there were even anecdotal reports of trades just below the IRR100,000 threshold. Those rates starkly contrast with the situation in late September when the rial to the dollar rate approached 200,000. At the start of 2018, the rial stood at around 30,000 to the USD.

January 31 brought some good news in the fight to fend off the Trump administration's attempts to throttle the Iranian economy – Europe [finally announced the registration of a special purpose vehicle it intends to use to help build up sanctions-shielded trade between Iran and EU member states.](#) However, the mechanism—named Instex (Instrument In Support Of Trade Exchanges)—will start off with very modest targets and opinion is divided on how far it can progress.

## **2.0 Politics**

### **2.1 Europe inches forward with Instex plan to circumvent US sanctions on Iran**

**It's three months late, will at least initially only deal with food and medical products not affected by sanctions and has been dismissed by US officials as a "paper tiger"—but will the new non-dollar payments system announced by the UK, Germany and France on January 31 to allow European businesses to trade with Iran without falling foul of US sanctions have enough symbolic political value to give a shot in the arm to Tehran?**

Establishing the payments system, a special purpose vehicle (SPV) named the Instrument In Support Of Trade Exchanges (Instex), proved very challenging because a European Union member state willing to host it could not be found. The British, French and Germans overcame this difficulty by devising a model that shares the risk of US reprisals—the payment channel is based in Paris, is managed by a German banker—Per Fischer, Head of Financial Institutions at Commerzbank between 2003 and 2014—and comes with a board with UK decision-making participation.

Iran's deputy foreign minister Abbas Araqchi said in response to the registering of Instex that the success of the mechanism would now depend on expert meetings that Iran is set to have with the Europeans, including between central banks. "It is a first step taken by the European side ... We hope it will cover all goods and items," Araqchi told Iranian state TV.

But it is not just the Iranians who hope Instex—unlikely to become operational for several more months—will produce some tangible success. Europe too attaches real importance to expanding trade with Iran in the face of the US sanctions given that it intends to assert European economic sovereignty in response to the Trump administration's unilateral foreign policy directed at the Iranians, policy it is seeking to impose on the Europeans. The EU, meanwhile, stung by the unilateralism of the current White House, is studying plans to challenge dollar dominance in world trade.

#### **Far cry from original plans**

After Instex was announced, EU foreign policy chief Federica Mogherini was quick out of the blocks to state that the plan is for the vehicle to eventually expand to allow European firms to trade more freely with Iran in a range of goods, including those subject to US sanctions. **But Instex, as it stands, is a far cry from original purported plans to make it a clearinghouse for Iranian oil bartered in exchange for goods from Europe via ports in Italy**

**and Greece.** Oil, Iran's big export earner, is for now entirely out of the equation.

"It won't change things dramatically, but it's an important political message to Iran to show that we are determined to save the JCPOA [Iran nuclear deal] and also the United States to show we defend our interests despite their extraterritorial sanctions," one European diplomat was quoted as saying by Reuters.

The news agency also cited Rob Malley, a former Middle East director at the US National Security Council under President Barack Obama and now at the International Crisis Group think tank, as saying that although the payment channel's economic impact would be modest there was hope the political symbolism could help persuade Tehran to stick to the nuclear deal. Hardliners in Iran have always fiercely opposed the decision of Iran's centrist, pragmatic president, Hassan Rouhani, to sign up to the multilateral accord in late 2015. They resisted the move saying that the US could not be trusted to not back out of the required commitments.

### **Toughest ever sanctions**

**The sanctions regime imposed on Tehran by US President Donald Trump since last year is the toughest ever with which Washington has gone after the Islamic Republic.** [Trump wants to strangle Iran's economy](#) to the point that the Iranians come begging for a deal which would see big concessions on their activities in the Middle East as well as on their nuclear and ballistic missile development programmes.

He announced his sanctions policy in May last year when he pulled the US out of the nuclear deal that shielded Iran from crippling sanctions in return for compliance with measures designed to ensure Tehran does not move towards the development of a nuclear weapon.

Trump maintains that the accord is not demanding enough on Iran but the other signatories—Iran itself, the UK, France, Germany, Russia and China—were at pains to point out that Iran was honouring a deal that had been struck after years of painstaking negotiations (something that, to Trump's ire, even his own intelligence chiefs this week implied was the case). Sticking with the principled line of international diplomacy that there were no grounds for abandoning the nuclear deal, the remaining signatories have stayed in the agreement, while pushing back, where they can, against the sanctions assault.

Nevertheless, great numbers of foreign traders and investors, fearing they would be hit with secondary sanctions by the US, have pulled out of post-nuclear accord deals made with the Iranians, and, according to the IMF, Iran's economy has [sunk back into recession](#). Trading with Iran is now precarious as so many available payment channels have financial system links to the US, making any party connected to such trade vulnerable to Trump administration penalties.

European banks generally back off from any suggestion that they involve themselves in business linked to Iran.

### **US: No impact expected**

Responding to the announcement of Instex, the US Embassy in Berlin said: "As the President has made clear, entities that continue to engage in sanctionable activity involving Iran risk severe consequences that could include losing access to the US financial system and the ability to do business

with the United States or US companies."

It added that **the US did not expect that Instex would "in any way impact our maximum economic pressure campaign" against Iran.**

Belgian Foreign Minister Didier Reynders reacted to the formation of Instex by saying that while Europe did share some US concerns about Iran "at the end of the day it will be companies that decide whether or not they want to work in Iran, bearing in mind the risk of American sanctions".

Analysts have said that the US could define Instex as a legitimate target for its sanctions on the basis that any European entity with US connections, or which uses US dollars, that trades with Iran could expose itself to big fines.

Instex was expected to receive the endorsement of the entire EU at a meeting of European foreign ministers in Bucharest late on January 31.

In 2017, Europe's drug exports to Iran were worth \$884m, according to UN data. Those from China and India were valued at \$194m and \$52m, respectively.

*The Guardian* reported that if Europe placed a high-level diplomatic representation on the Instex supervisory board that may act as a firewall preventing the Trump administration from imposing sanctions.

## **2.2 Iran's Khamenei hits out at "criminal" US and "untrustworthy" EU states**

**Iran's Supreme Leader Ayatollah Ali Khamenei on February 13 hit out at the "criminal" US and some "untrustworthy" European states in his latest comments on the big challenge the Islamic Republic faces in overcoming Washington's attempt to strangle its economy with sanctions.**

"With regard to America, no problem can be resolved and negotiations with it have nothing but economic and spiritual loss," Khamenei wrote on his official website.

He added: "Today, the Iranian people see some European countries as cunning and untrustworthy along with the criminal America. The government of the Islamic Republic must carefully preserve its boundaries with them. "Iran must not retreat a single step from national and revolutionary values."

Iran has slipped back into recession as a result of the sanctions, introduced in two phases between August and early November last year. The Iranian rial (IRR) has lost around 60% of its value against the dollar since the start of last year. The official annual inflation rate in Iran has grown to nearly 40%, around 30pp up since a year ago. Europe opposes the US sanctions and has said it will give Iran assistance enabling the continuation of some trade. But its efforts to date have been meagre in the eyes of Tehran.

In his remarks, Khamenei made an apparent jab at pragmatist, centrist President Hassan Rouhani by noting that "weakness in management" was one of the biggest domestic challenges faced by the country.

## 2.3 Iran's foreign minister Zarif returns to work after resignation rejected: reports

**Two days after announcing on social media that he had submitted a request to resign, Iran's Foreign Minister Mohammad Javad Zarif has returned to work, Iranian state news agency Press TV reported on February 27.**

The nation's top diplomat resumed his duties after Iran's President Hassan Rouhani rejected the resignation, saying it would be "against the country's national interests", the semi-official Mehr news agency reported. Zarif reportedly thanked the Iranian nation and government officials for their backing in the wake of his announcement.

"As a modest servant, I have had no concern other than elevating [our] foreign policy and the credibility of the Foreign Ministry as the person in charge of advancing foreign policy and protecting national interests and people's rights in the international arena," Zarif wrote, according to Press TV.

After Zarif offered his resignation, reformists in Iran [mounted a rearguard action](#) to keep him as foreign minister, fearing that the loss of centrist, pragmatic politician from the world stage would play into the hands of hardliners at home and US hawks. Some observers see Zarif as having gone through the resignation move in order to strengthen the non-hardline power base in the foreign ministry.

## 2.4 Iran summons Pakistan ambassador over terrorist attack in southeast

**Iran has summoned the Pakistani ambassador to Tehran over a deadly terrorist incident near the city of Zahedan in Sistan and Baluchistan province, Mehr News Agency reported on February 17.**

The suicide bomb attack on the road outside [Zahedan on February 13](#) killed [at least 27](#) Revolutionary Islamic Guards Corps. (IRGC), and shocked Iran, which was quick to point the finger at the US and its allies who were holding [a US-led conference on the Middle East taking place in Warsaw](#), Poland.

Riffat Masood, Islamabad's representative to Tehran, was summoned to the foreign ministry in downtown Tehran to answer about his country's lax attitude in allowing terrorist groups to operate in its Baluchistan region over the border.

"During this meeting, the increase in terrorist moves from inside Pakistan, including the recent terrorist incident on Zahedan-Khash road, was mentioned and our country's complaint was announced. It was clearly stressed that the Islamic Republic of Iran expects the Pakistani government and army to take serious actions against the terrorist groups' headquarters in border areas with Iran," foreign ministry spokesman Bahram Qassemi said following the meeting between the two.

The Sunni Muslim militant group, Jaish al-Adl (Army of Justice), which is linked to al-Qaida, has claimed that it was behind the bombing.

Jaish al-Adl has since 2012 waged an armed campaign for what it says are the rights of Iranian Sunnis, who complain Iran's Shia establishment discriminates against them.

The group has carried out several recent attacks against security personnel in Sistan-Baluchestan. The region has a mainly Sunni ethnic Baluchi community.

## 2.5 Iran's judiciary attacks rising star IT minister for internet freedoms

**Mohammad Javad Azari Jahromi, Iran's Minister for Communications and Information Technology, has been accused by the country's hardline judiciary of "allowing Iranian data to be vulnerable to espionage".**

There is mounting concern in reformist circles over what fate awaits President Hassan Rouhani's youngest minister, a 37-year-old politician who is a rising star. The judiciary has singled him out as among several top-flight officials who have allegedly acted against the Islamic Republic's interests.

According to the judiciary, 2,000 people in the southwestern city of Ahvaz, which suffered a terrorist attack last September, and the general prosecutor's office have lodged a complaint against Jahromi. It is a move that could see him pushed out of office.

"Someone in the judiciary says they'll lodge a complaint against a young minister. Well, he is not at all intimidated and is doing his job," centrist, pragmatist Iranian President Hassan Rouhani remarked, without naming Jahromi.

"Ok, then, lodge a complaint! The young minister is working for the benefit of the people and pays no heed to pointless orders," he added defiantly.

**"Lack of safe space" on social media**

A "lack of safe space" on social media in Iran "drew [people] to Takfiri [Wahhabi fundamentalist] groups and eventually led to the terrorist incident at the armed forces parade [in Ahvaz]", Javad Javidnia, a cyberspace official at the prosecutor's office, told news agencies.

There is some speculation that the move to go after Jahromi is designed to lay shadowy groundwork for ending his career as a minister and stop him gaining a role in the next administration. Some commentators think Jahromi is a candidate for taking the mantle of Rouhani as president. He has previously stated that he is not seeking the top job. Nevertheless, he remains popular with young voters for dismantling internet barriers.

## 2.6 Erdogan says Turkey "ready" to establish own mechanism for Iran trade in defiance of US sanctions

**Turkey is "ready" to establish its own trade mechanism with Iran in defiance of US sanctions aimed at the country, Turkish President Recep Tayyip Erdogan said at a bilateral meeting on February 14 with Iranian counterpart Hassan Rouhani, according to Iran's Mehr News Agency.**

Referring to Europe's Instex (Instrument In Support of Trade Exchanges)

special purpose vehicle (SPV) which Brussels intends to put into operation and develop for European and Iranian parties who want to do business in which their identities will be shielded from the US, Erdogan reportedly said: "Turkey is ready to join the SPV and create a similar bilateral mechanism for trade cooperation with Iran."

Erdogan and Rouhani met on the sidelines of three-party talks on Syria in the Russian Black Sea resort city of Sochi, which Vladimir Putin also attended.

"Multilateral cooperation with Iran on different issues has had positive achievements and Turkey is ready to expand this cooperation to other countries in the region," Erdogan was also cited as saying.

The US is attempting to throttle Iran's economy with sanctions in order to secure concessions on Tehran's Middle East policy. But his strategy is opposed by Turkey, France, Germany, the UK, Russia and China among others.

Rouhani was quoted as saying that Tehran hoped that "obstacles" could be removed so that Iran and Turkey would be able to strengthen bilateral cooperation. Cooperation in the private sectors was also "very good", Rouhani added, noting that "deepening banking transactions is a prerequisite to development of these ties".

Iranian Minister of Petroleum Bijan Zanganeh has observed that Turkey is the only country in Europe that has not stopped buying Iranian oil since the reimposition of US sanctions. Greece and Italy have temporary waivers from Washington that would allow them to buy some Iranian crude without fear of sanctions, but they have not used them and have not provided any explanation for why that is the case.

Erdogan's comments on developing an Iranian-Turkish SPV will not go down well at all with the Trump administration.

They came as Poland and the US jointly hosted an international conference on the Middle East in Warsaw, at which US Vice President Mike Pence remarked that "some" of Washington's "leading European partners" have not been cooperative when it comes to confronting Iran.

"In fact, they have led the effort to create mechanisms to break up our sanctions," Pence said.

Referring to the European SPV, Pence told the gathering: "It is an ill-advised step that will only strengthen Iran, weaken the EU, and create still more distance between Europe and the United States."

Tehran has described the 60-country meeting in Warsaw as an anti-Iran "circus."

## 2.7 World Court rules it has jurisdiction to hear Iran claim to recover \$1.75bn of assets seized by US

**Judges at the International Court of Justice (ICJ) on February 13 ruled that the UN body has jurisdiction to hear a claim by Iran to recover \$1.75bn in assets frozen by Washington.**

The ruling opens the way for the court to hear the case on its merits. The process could take years and there is also the prospect that the US, on past form, will simply ignore any decision that goes against it.

The case filed in June 2016 is focused on assets from the Iranian central bank (or Bank Markazi) seized by US courts to compensate families of victims of a 1983 bombing of a US Marine Corps base in Beirut which Washington blames on Iran. Iran denies involvement in the attack which killed 307 people, including 241 US military personnel.

The US argued to the ICJ that Iran based its claims on an outdated 1955 Amity Treaty which Washington has said it will renounce. Iran has also argued that the heavy sanctions imposed against it by President Donald Trump last year also violate terms of the treaty.

In making its ruling, The Hague-based World Court also rejected pleas from Washington that Tehran would use the money to fund terrorism, AFP reported. Chief judge Abdulqawi Ahmed Yusuf said the court "unanimously rejects the preliminary objections to admissibility raised by the United States of America."

Tehran has protested at what it sees as the US illegally seizing assets, the form of which includes high-rise buildings in Manhattan purchased by Iran's last Shah before the 1979 revolution.

The US Supreme Court ruled in 2016 that Iran must give the money to survivors and relatives of victims of attacks it concluded were devised by Tehran, including the Beirut bombing and the 1996 Khobar Towers bombing in Saudi Arabia.

The ICJ was set up after World War II to resolve disputes between UN member states. Its rulings are binding and cannot be appealed, but it has no means of enforcing them.

## 2.8 Polls & Sociology

**Iran's standing on Heritage's Index of Economic Freedom little changed**

**Iran's standing on the 2019 edition of [The Heritage Foundation's Index of Economic Freedom](#) has improved by 0.2 of a point compared to the 2018 ranking, leaving the country with 51.1 points and ranked as the 155th most free of the 180 assessed nations.**

The Islamic Republic also placed 155th on the index two years ago, when [it moved out of the "Repressed" category for economic liberty](#) and into the "Mostly Unfree" section.

Rather than economic reform in the past year, Iran's focus has essentially

been on battering down the hatches to cope with the sanctions assault launched by the US.

Heritage, the US-based conservative think tank that released its index on January 30, said progress in judicial effectiveness, government integrity, investment freedom, property rights and monetary freedom had been recorded for Iran. However, the country lost marks on business freedom, labour reform, government spending, the tax burden and fiscal health. There was no change in financial freedom.

Heritage observed: "U.S. decertification of the JCPOA [Joint Comprehensive Plan of Action] nuclear deal in 2017 and reimposition of U.S. economic sanctions in 2018 caused inflation to soar and led to rapid currency depreciation. The sanctions will also hamper much-needed investment flows into the country."

It further noted: "Powerful interest groups, mostly linked to the security and religious establishments, are opposed to the pursuit of economic liberalisation and reengagement with the global economy."

The think tank added that there was concern over Iran's excessive reliance on the oil sector, and observed that "sustainable economic growth will remain a long-term rather than short-term objective [for Iran]."

The overall tax burden in Iran equals 8.0% of total domestic income, the report said, while government spending of tax and oil revenue amounted to 18.5% of GDP over the past three years. Those percentages marked increases from last year's figures of 6.4% and 15.5%, respectively.

Despite the downturn in Iran, Heritage noted that the government was moving ahead with plans to remove subsidies which it noted were "fiscally ruinous". It also criticised price controls which it saw as detrimental to the overall economy.

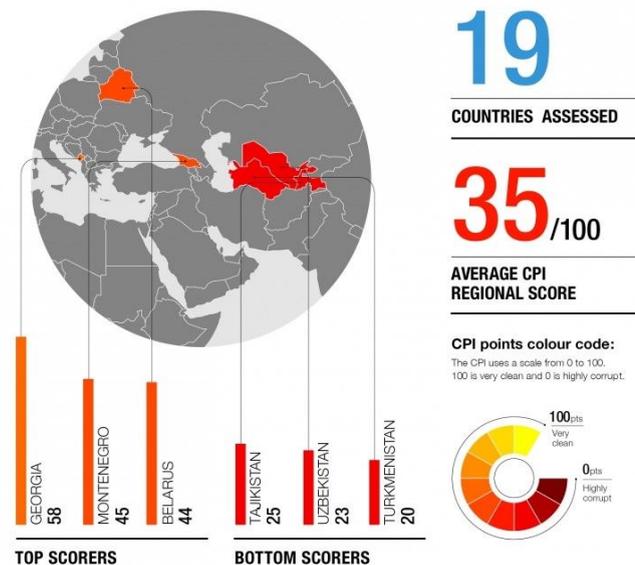
In a commentary of Iran as regards open markets, Heritage concluded: "The combined value of exports and imports is equal to 46.1 percent of GDP. The average applied tariff rate is 15.2 percent. Iran's intrusive state continues to hold back more broadly based economic development, undermining trade and investment flows. Stringent government controls limit access to financing for businesses. State-owned commercial banks and specialized financial institutions account for a majority of banking-sector assets."

**Iran drops eight places to 138th in Transparency International's Corruption Perception Index**

**Iran has dropped eight places to rank 138th of 180 assessed countries in Transparency International's Corruption Perception Index 2018 (CPI) released on January 29.** Its score worsened to 28 points from 30 points in last year's survey, giving it the same position as Guinea, Lebanon, Mexico, Papua New Guinea and Russia. Immediately behind this group of countries are nations including Comoros, Guatemala and Kenya (all on 27 points) while immediately ahead are countries including Paraguay, Myanmar, Laos and Kyrgyzstan (all on 29 points).

The index ranks countries and territories by perceived levels of public sector corruption as relayed by experts and businesspeople. It uses a scale of zero to 100, where zero is highly corrupt and 100 is very clean. Denmark took first place with 88 points.

Iran—like Turkey home to around 81mn people—has seen its reform efforts complicated by the fact that it has come under a sustained sanctions-led economic attack from the US. A big concern for Iran presently is fighting profiteers and speculators seeking to exploit criminal opportunities presented by the market turmoil generated by the Trump administration sanctions regime. Seeking to curb public anger over such crimes, Iran has even set up special courts to deal with such offenders.



## 3.0 Macro Economy

### 3.1 Macroeconomic overview

**IMF sees inflation in Iran breaching 40% by year's end**

On November 13, the IMF predicted that inflation in Iran will leap to more than 40% by the end of 2018. In a report on Middle Eastern economies, the Fund also repeated [a previous forecast](#) released in its latest World Economic Outlook on October 8 that [the ultra-aggressive US sanctions regime](#) would push Iran's economic output down by 1.5% in 2018 and 3.6% in 2019.

"This [recession] largely reflects the expected impact of the reimposition of US sanctions on Iran, which is likely to reduce Iranian oil production and exports significantly over the next two years at least," the IMF said.

Iran's economy expanded by 12.5% in 2016 after global sanctions were removed under the Islamic Republic's 2015 nuclear deal with six major powers (including the US which unilaterally walked out of the accord in early May this year). The country's GDP expansion was measured at a much less impressive 3.7% last year after Donald Trump came to power and showed immediate hostility to Iran, thereby reversing a lot of previously positive investor sentiment on its economic prospects.

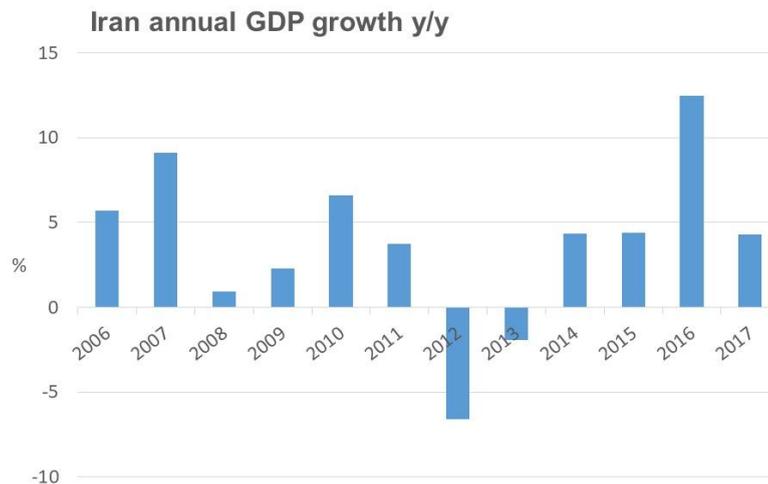
In the new report, the IMF's Middle East director, Jihad Azour, said one of the most urgent issues facing Iran as it deals with the consequences of the Trump administration's sanctions was the need to align the official currency-exchange rates for the rial with black market rates.

**Iran records Persian Q1 GDP growth of 1.8%**

**Iran's GDP grew 1.8% y/y in the first quarter of the Persian year (ended June 21), the Central Bank of Iran (CBI) said on September 16.**

Iranian economic growth is expected to move into negative territory in the second Persian quarter because the worst effects of the collapse of the Iranian rial (IRR) set in during that three-month period. The currency has lost more than 70% of its value over six months with the economic pressure generated by Washington's reimposition of sanctions on Tehran taking a heavy toll.

The anaemic growth rate seen in the first quarter stands in stark contrast to the figure recorded for the same period of the previous Persian year, namely 4.6%.



## **4.0 Real Economy**

| Iran - Main Macro Indicators                            | 2012      | 2013      | 2014      | 2015      | 2016      | 2017      | Mar-2018           | Jun-2018  |
|---|-----------|-----------|-----------|-----------|-----------|-----------|--------------------|-----------|
| Annual GDP (y/y)  | -6.6      | -1.9      | 4.3       | 4.4       | 12.5      | 4.3       | 2.9                | 1.8       |
| GDP (per capita) (USD)                                  | 7,719.77  | 7,931.07  | 6,007.46  | 5,579.25  | 4,899.68  | 5,230.09  | 5,492.19<br>(2018) | /         |
| GDP: Final consumption expenditure: Private (IRR bn)    | 3,208,428 | 4,505,167 | 5,262,427 | 5,656,000 | 6,236,000 | 7,032,000 | 1,908,000          | 1,991,000 |
| GDP: Final consumption expenditure: Government (IRR bn) | 713,990   | 868,334   | 1,160,266 | 1,301,000 | 1,700,000 | 1,952,000 | 665,000            | 469,000   |
| GDP: Gross fixed capital formation, (IRR bn)            | 1,809,515 | 2,386,025 | 3,048,276 | 2,606,000 | 2,552,000 | 2,885,000 | 994,000            | /         |
| GDP: Exports, (IRR bn)                                  | 473,222   | 376,386   | 376,240   | 421,236   | /         | /         |                    |           |
| GDP: Imports, (IRR bn)                                  | 449,701   | 345,821   | 281,210   | 265,210   | /         | /         |                    |           |

Source: CEIC; Central Bank of Iran

## 4.1 Industrial production

**Iranian government offers industrial facilities IRR200tn to help with economic downturn**

**Iran's Rouhani administration has created a special emergency fund with capital of IRR200tn (€1.29bn) to assist industrial enterprises struggling to cope amid the country's recession, IRNA reported on February 27.**

Iranian industry in Iran has been ravaged in recent months by the collapse in the value of the Iranian rial (IRR) and consequent increases in raw materials prices, a situation sparked by the reimposition of heavy sanctions against Tehran by the US last year. Several thousand companies have either cut their workforce or shut down completely due to supply chain failures and clients that proved unable to pay invoices.

According to Minister of Industry, Mining and Commerce Reza Rahmani some "10 trillion tomans [IRR100 trillion] have been allocated from the resources of the banks and 10 trillion tomans from the resources of the National Development Fund [NDF]".

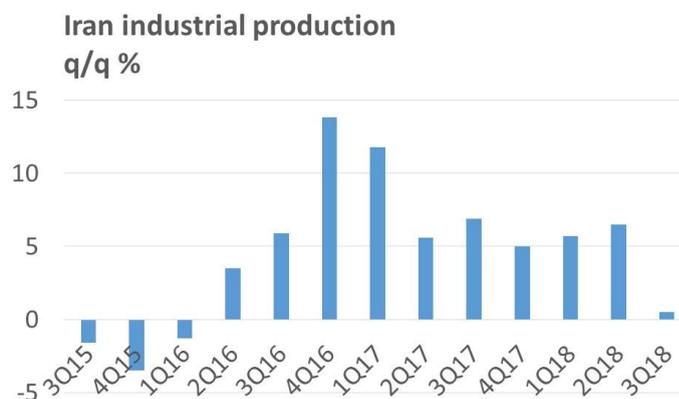
The funds will be offered in the form of five-year loans with interest rates below the rate of inflation. Two applicable rates will be 14% for enterprises in large cities and 12% for industries seen as facing particular hardship.

Twelve repayments on the loans will be expected annually, with a six-month grace period allowed at the beginning of the loan period

The programme will be operated with the website [www.behinyab.ir](http://www.behinyab.ir).

The government has been forced to dip into the NDF in recent months because income from its usual sources, including oil export sales, has diminished in the face of what President Hassan Rouhani has referred to as Washington's "economic war".

**Iran's industrial production fell 0.5% in the third quarter of 2018, down from 6.5% y/y in the previous quarter and 5.7% y/y in the first quarter, CEIC data showed. Major industrial production includes oil, petrochemical products and automobiles.**



## 4.2 Inflation

### 4.2.1 CPI dynamics

**Iran's central bank decides to stop publishing inflation data as CPI hits 42% y/y**

**Iran's consumer price index (CPI) inflation rate in the 10th Persian calendar month (ended January 20) reached 39.6% y/y, according to the Statistical Centre of Iran (SCI).**

The collapse in the value of the Iranian rial (IRR) in the face of the reimposition of the heavy sanctions regime aimed at Tehran by the US has pushed up the rate by more than 20 percentage points in the 2018/2019 Persian year to date. The currency stood at around 60% weaker against hard currencies by the market close on January 23, compared to where it was at the start of this year. One dollar on the free market cost IRR120,000, according to Bonbast.com. A recent lira rally had seen the rate approach IRR100,000.

Inflation in the ninth month of the Iranian year (ended December 21) was 37.4%, SCI data shows. Month on month rises in inflation are slowing at least. Rural areas in Iran have been worse hit by inflation in recent months. The SCI figures determine a 10th month annual rate of 42.7% for rural areas, while urban inflation was seen at 39%. The figures do not include property prices, which rose 90% y/y, according to another SCI report.

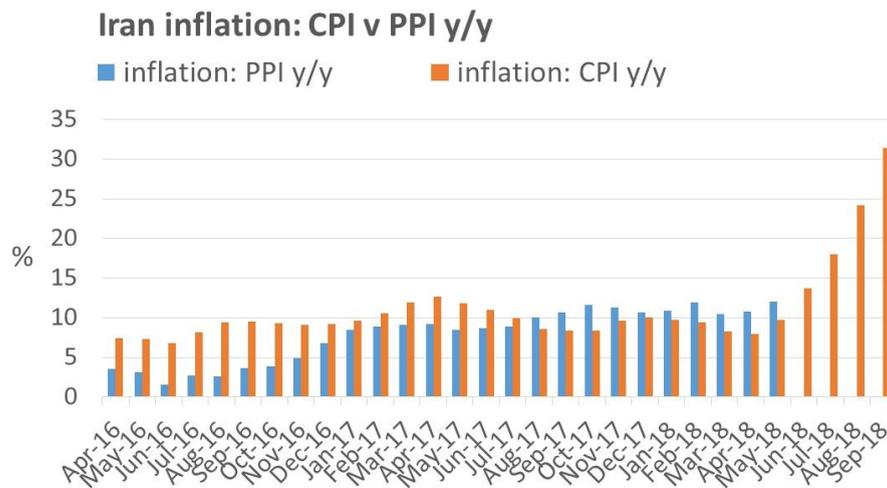
"Food and beverages and tobacco" CPI inflation stood at 56.1% y/y, the statistical body's inflation report noted.

**Central bank yanks figure**

Until lately, the Central Bank of Iran (CBI) each month published its own set of inflation data. But that practice came to an abrupt halt recently. The CBI website briefly advised that [CPI inflation in Iran had touched 42%](#). The page with the figure was suddenly yanked, after which the national lender said it would be releasing inflation data no more.

Some foreign academics claim that realistically Iran's annual inflation rate should be measured as running at beyond 200%. For instance, on November 27, Johns Hopkins University economist Steve Hanke recorded the rate at 218% y/y. However, he has come under some criticism for basing his calculations solely on the Bonbast.com free market exchange rate. Some observers say the site is providing unreliable unofficial data and that more nuanced data is needed when calculating inflation.

In mid-November, [the IMF predicted](#) that annual inflation in Iran would leap to more than 40% by the end of 2018. At the time of the forecast, various data from official statistics agencies in the country showed Iran's inflation rate [running just north of 30% y/y](#). The IMF measured Iran's 2017 consumer price growth at 9.6%.



## 4.2.2 PPI dynamics

**Iran's PPI up 53.9% y/y in 10th month of Persian year**

**The SCI announced that its analyses showed that the current PPI rate in the country stood at 53.9% in the 10th Persian calendar month. That indicates that Iran is entering hyperinflation territory.**

This is in comparison to just an increase of 15.2% y/y in the fifth month of the 2018/2019 Persian calendar year (ended August 22).

The rise in the PPI can be partly ascribed to the [severe devaluation of the Iranian rial \(IRR\)](#) seen in recent months, with producers raising their prices to compensate for the feed-through into inflation.

## 4.3 Labour and income

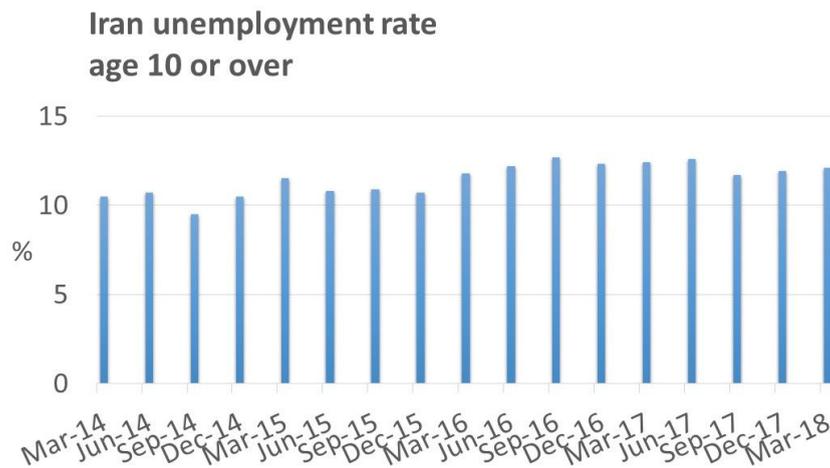
### 4.3.1 Labour market, unemployment dynamics

**Unemployment rate stood at 12.4% in last fiscal year**

**According to the Statistical Centre of Iran (SCI), the country's unemployment rate in the last fiscal year (ended March 20) stood at 12.4%, 1.4% up on the previous year. Youth unemployment (covering the 15-29 age range), stood at 25.9%, 2.6% up y/y.** Despite the many times the government has stressed the need to boost employment, overall youth unemployment has risen more than 5% in the past three years.

**The minimum monthly salary in Iran stands at IRR9.3mn (\$240), while the average monthly salary stands at IRR23.3mn (\$617) per month, according to a report from the *Financial Tribune* on April 15.** The report shows that living conditions in the country have improved following several years of a drop in the quality of life, due to the removal of sanctions.

The average Iranian earns IRR278.8mn (\$7,416) per annum. However, the report noted the average family spends on average 262.3mn (\$6,978) per year so little is made in savings. The report also added that the average household consists of 3.4 members and that families of four now account for 30.4% of the society. The majority of families (59.8%) have only one breadwinner. Housing costs account for the biggest slice of income expenditure.



## **5.0 External Sector & Trade**

### **5.1 Balance of payments and current account**

**Smuggled goods moving into or out of Iran in last Persian year valued at \$12bn or more**

**Smuggled goods with a value of at least \$12bn flowed into and out of Iran during the 2017/2018 Persian calendar year (ended March 21) a just-finalised report concludes, the Islamic Republic News Agency (IRNA) reported the head of the Iranian Anti-Smuggling and Currency Trade Commission as saying.**

Iran's borders with Iraq, Pakistan, Azerbaijan and Afghanistan are seen as rather porous, while the country of 81mn also has a large maritime border on the Persian Gulf. Smugglers' boats often conduct night runs from the tip of Oman on the Arabian peninsula with pre-purchased goods delivered to order.

Commission head Ali Moudi Khorramabadi reportedly declined to outline the composition of the smuggled goods at an Iranian interior ministry meeting on the issue, but it is clear that [given a toughening of registration rules on mobile phones](#), the attraction of smuggling smartphones and other handsets into Iran must have been greatly reduced this year. The unique international mobile equipment identity (IMEI) number of any mobile phone purchased in the Islamic Republic must be declared to a national mobile registry. Phones that are not registered are blocked from the telecom networks.

The value of goods smuggled from or to Iran during the 2012-13 Persian calendar year was estimated by officials of the time at somewhere between \$17.5bn to \$25bn.

A new phenomenon is smuggling by profiteers who are exploiting market export opportunities opened up by the severe devaluation of the Iranian rial versus the dollar caused by the reintroduction of heavy sanctions by the US against Tehran.

On November 20, [it was reported that](#) Iran had started issuing petrol rationing cards following excessive smuggling abroad of fuel made cheap by the collapse in value of the rial. Many items produced in Iran, including petrol, have been smuggled out of the country by profiteers to Iraq, Armenia, Turkey, Azerbaijan, Pakistan and Afghanistan.

Iran presently has some of the cheapest retailed fuel in the world because the petrol price is fixed at the government rate of IRR15,000 (€0.07) per litre, while liquefied natural gas (LNG) is priced at IRR10,000 (€0.06). In Iraq, a litre of petrol sells for €0.55, while in Azerbaijan and Turkey the prices are €0.41 and €1.04, respectively.

### 5.1.1 current account dynamics

| Iran current account, USD mn      | 2011    | 2012    | 2013    | 2014    | 2015   | 2016   | 2017   |
|-----------------------------------|---------|---------|---------|---------|--------|--------|--------|
| Balance of payments overall       | -947    | 21,436  | 12,213  | 13,189  | 8,561  | 2,233  |        |
| Current account balance           | 27,554  | 58,507  | 23,362  | 25,105  | 15,861 | 1,237  | 16,388 |
| Current account balance: % of GDP | 5.66    | 10.08   | 3.87    | 5.43    | 3.12   | 0.32   | 3.92   |
| Current account: Goods            | 37,330  | 67,779  | 28,563  | 29,326  | 21,392 | 5,354  | 20,843 |
| Current account: Exports          | 112,788 | 145,806 | 97,296  | 92,910  | 86,471 | 64,597 | 83,978 |
| Current account: Imports          | 75,458  | 78,027  | 68,734  | 63,584  | 65,079 | 52,419 | 63,135 |
| Current account: Services         | -10,040 | -9,771  | -7,359  | -6,820  | -6,985 | -4,472 | -5,941 |
| Current account: Income           | 79      | 93      | 1,649   | 2,034   | 943    | 241    | 928    |
| Current account: transfers        | 185     | 406     | 509     | 565     | 511    | 427    | 558    |
| Capital and financial account     | -24,296 | 40,741  | -22,161 | -22,510 | -8,002 | 113    | /      |
| Errors and omissions              | -3,259  | -17,766 | -1,2j01 | -2,595  | -5,635 | -1,350 | -5,766 |

Source: CEIC, Central Bank of Iran

**Iran running a current account surplus and has over \$100bn of gross official reserves, says IMF**

**The International Monetary Fund (IMF) estimated in March that the government held \$112bn of foreign assets and reserves. It also indicated that Iran was running a current account surplus.** The figures imply that Iran might withstand the sanctions without an external payments crisis.

But the IMF also noted that Tehran was having difficulty accessing some of its reserves as its relations with foreign banks were constrained by the threat of US sanctions. Meanwhile, sanctions could cut the current account surplus sharply given the severe disruption they are causing to trade.

### 5.1.2 Import/export dynamics

**Iran to import Indian sugar in oil-for-rupees deal**

**India is to export raw sugar to Iran for March and April delivery, sources in Mumbai told Reuters on February 26.**

The two batches to be delivered will be the first in five years after Iran ceased importing the raw food item. The deliveries also mark the first part of an oil-for-rupees deal whereby Iran sends oil and receives Indian items priced in rupees in return. Reimposed US sanctions against Tehran expose India to penalties if it trades in dollars with Iran.

Indian trading houses have contracted to export 150,000 tonnes of raw sugar for shipments arriving in March and April at \$305 to \$310 per tonne on a free-on-board basis, sources close to the deals reportedly said, with one source saying: "Oil payments have piled up in UCO Bank. Iran is keen to utilise

the payments to buy sugar and other food items.”

The order was placed by Iran’s Government Trading Corporation (GTC) to shore up supplies inside the country.

According to the spot price paid by Iran, the country is paying a hefty \$7 per tonne premium compared with the average market rate due to the ongoing risks associated with the country.

**Iranian non-oil exports to Russia increase 36% y/y in 2018**

**Iran’s non-oil exports to Russia rose 36% in 2018 compared with the previous year, reaching \$533mn, the Iranian embassy in Moscow said on February 16.**

Iran, which [will soon accede to the Russian-led Eurasian Economic Union \(EEU\)](#), is continuing to move into the Russian sphere of influence due to the throttling of trade with Western countries following the implementation of US sanctions on the country.

Exports to the northern country included [pistachios, raisins, dates, apples, cucumbers, potatoes, fish, shrimp, cement, plastics and petrochemical products](#), Iran’s data said.

The announcement was made by the economic attaché to Russia Farhad Parand, who said: “Iran exported commodities to the Russian Federation worth \$533mn in 2018, while 2017 sales stood at \$392mn.”

To continue trade with Russia, Iran said it dropped using the dollar as an international trade currency and has reverted to the ruble and rial as well as euros.

Bilateral trade between the two in 2018 stood at \$740mn, indicating a 2% increase y/y.

**Iranian ports load, unload 13.5% less non-oil goods in first 10 months of Persian year**

**Roughly 111mn tonnes of non-oil goods were loaded and unloaded at Iranian ports during the first 10 months of the 2018/2019 Persian calendar year, marking a 13.5% y/y decline, Tehran’s *Financial Tribune* daily has reported.**

Iran’s trade volume has taken a huge hit since the US reintroduced heavy sanctions on Tehran last year. It has gradually ratcheted up its sanctions regime, threatening secondary sanctions against countries and foreign companies that continue to do business with the Islamic Republic.

Data from Iran’s Ports and Maritime Organisation (PMO) also shows oil consignments dealt with by the ports in the 10-month period (ended January 20) down by 11.7% y/y.

PMO officials said the decline was primarily down to Iran—which in the face of the renewed sanctions attack has increasingly reverted to ‘resistance economy’ policies partly to stop outflows of hard currencies—banning the import of 1,339 different items deemed luxury goods and for which Iran-made alternatives can be found. The PMO did not discuss whether the US blockading of trade with Iran played a role in the decline of processed goods. Mohammad Shariatmadari, a former minister for industry, mines and business minister, who now serves as an advisor in that field, said that the import bans applied to a wide variety of items including cars, vans, tractors, powdered milk, bras, cookers, cameras and even musical instruments. Fast moving consumer goods (FMCG) such as teabags, ketchup, soap and even pencils are also on the list.

“Imports of some goods will be restricted by increasing customs duties while certain other goods will be altogether banned as imports,” a senior government official was quoted as saying by IRNA at the time the list of banned import items was released.

**TankerTrackers sees Iran's oil exports 60% down from peak under sanctions pressure**

**Iran's crude oil exports were 60% down in December compared to the April peak of last year as buyers cut purchases due to US energy sanctions aimed at Tehran, TankerTrackers.com reported on January 15.**

The volume of crude oil exports still being achieved by Iran is a topic of hot debate among oil watchers, with the Iranian is often accused of massaging its figures.

TankerTrackers, based in Europe, is a new technology company that tracks individual tankers via satellite technology from loading to destination.

According to its statistics, Iran exported 1.1mn b/d in December, down from April's 2.5mn b/d.

Observers say some exports of Iranian oil may be going under the radar, sometimes because smugglers are tapping into oil purchase deals arranged through Iran's relaunched energy bourse.

With the Brent oil price lately stabilising at around \$60 per barrel, Iran has continued to offer large discounts to buyers if they purchase in bulk. However there is fierce competition with other producers chasing bargain-hunting buyers.

**Bilateral trade between Turkey and Iran falls 10% y/y to \$8.2bn in 10-month period**

**Bilateral trade between Iran and Turkey in the first 10-months of this year fell 10% y/y to \$8.2bn, the Turkish Statistical Institute (TUIK) said.**

It's early days for gauging how much respect Turkey is showing, and will show, towards the US sanctions targeted at trade with Iran, with the outcome in that area dependent on how Ankara's multifaced rift with Washington evolves.

However, Turkey has protested that there is no way it can countenance entirely ending the acceptance of gas or oil exports from Iran. Gas flows from Iran at this time of the year are particularly crucial to the Turks given the winter cold and Turkey is a big energy importer, thus it will take a lot of persuading to give up the convenience of taking crude from its next-door neighbour. In the meantime, Turkey is one of eight countries worldwide awarded a 180-day waiver permitting the purchase of Iranian oil shipments without fear of secondary sanctions kicking in.

In 2017, bilateral trade between the two neighbours from January to October stood at \$9.12bn, according to TUIK.

Turkish exports to Iran in the first 10 months of 2018 decreased by 22% y/y. For the assessed 10 months of this year, Iran was ranked as the 20th largest export destination for Turkish products, and the seventh biggest sender of exports to Turkey.

**Iran reports non-oil trade surplus of \$2bn for first seven Persian months**

**Iran recorded a non-oil trade surplus of around \$2bn for the first seven months of the current Persian calendar year (March 21), according to the Islamic Republic of Iran Customs Administration (IRICA).** The surplus, calculated at the official exchange rate of IRR42,000 to the dollar rather than the free market rate which stands at IRR116,000, might suggest the country is still doing relatively well despite the US move to strangle its economy with renewed heavy sanctions. However, the IMF says the sanctions have sent Iran into recession.

Iran's non-oil exports over the period stood at \$31.4bn, up 13% y/y, IRICA said. The Administration also noted that during the seven months Iran's imports fell by 12.5% y/y to \$29.5bn. Since the sanctions were announced, many Iranian companies have struggled to bring in the goods they require given the reluctance of trade counter-parties abroad to expose themselves to secondary US sanctions.

Iran's non-oil exports include gas and condensates. Condensates was the largest exported product from the country in the seven-month period at a value of \$2.7bn. Liquefied propane exports reached \$1.3bn, light oil products

excluding petrol \$1.1bn and methanol \$1bn.

The US introduced its sanctions targeted at Iran's oil, gas and petrochemicals on November 5. The period reported on only extends to October 22.

Imported feed corn stood at \$1.2bn in value, auto parts \$1.1bn, rice \$1.1bn and soybeans \$0.9bn. Soybean imports included shipments from the US due to lost orders in China amid the two countries' trade battle.

Iraq remained the biggest buyer of Iranian products. Goods worth \$6.7bn were exported to the neighbour, up 66.5% y/y.

Despite the hostility of the United Arab Emirates, which supports the US sanctions campaign, Dubai imported some \$5.9bn in Iranian goods. China took in items worth \$6.4bn.

Among the biggest exporters to Iran were China (\$7.3bn), the UAE (\$4.4bn), South Korea (\$1.7bn) and India (\$1.6bn).

### 5.1.3 Gross international reserves

**Iran's gold Imami sovereign breaks IRR25mn barrier amid dwindling hard currency supplies**

**Iran's gold sovereign of choice, the Imami, has again broken the IRR25mn barrier as buyers continue to purchase remaining stocks of the officially minted 18-carat coin, IBENA reported on June 18.**

Iranians' attraction to gold as a safe haven has intensified with hard currency supplies dwindling in Iran following legal changes suddenly brought in in early April to arrest the stark descent of the Iranian rial (IRR), hit by souring sentiment over Iran's economic prospects in the face of hostility from the US Trump administration. The move banned open market trading of foreign exchange and made unofficial rates illegal.

In early May, a World Gold Council report said that [gold coin and bar demand in Iran shot up to a three-year high of 9.3 tonnes](#) in the first quarter as Iranians—correctly—anticipated that the consequences of deteriorating relations with the US would cause Tehran to introduce currency controls.

The Azadi gold coin, the former number one sovereign sold by the Central Bank of Iran (CBI), also reached a historic high on June 18, topping IRR24mn a coin, while smaller half-sovereigns increased in price accordingly.

**According to the IMF in its Regional Economic Outlook on May 4, the value of Iran's gross official reserves will reach \$108.4bn in 2018.** The country's gross official reserves will experience a \$13.3bn jump in the current year rising from last year's \$95.1bn.

**CBI has over €70bn in hard currency reserves**

**The Central Bank of Iran (CBI) has more than €70bn in hard currency reserves, according to the National Development Fund of Iran (NDFI).** However, as restrictions continue on trade and withdrawal of cash from forex reserves, the country is looking for ways to find new revenues of hard currency.

## 5.2 FTAs

**EEU member states approve roadmap to bring Iran into free trade zone**

**An agreement was signed at the Astana Economic Forum on May 17 to begin the process of Iran's economic integration into the Russian-led Eurasian Economic Union (EEU).** Trade between the EEU—which groups Russia, Kazakhstan, Kyrgyzstan, Armenia and Belarus—reached \$2.7bn last year.

The Russian Ministry of Industry and Trade has said that a fully fledged

agreement on a [free trade area \(FTA\) between Iran and the EEU](#) would be concluded by early 2022.

In April last year, [Russian Prime Minister Dmitry Medvedev](#) approved a draft interim agreement establishing the FTA that will embrace Iran.

Since it was founded in 1979, the Islamic Republic of Iran has never managed to conclude a free trade agreement (FTA) with [another country or economic bloc](#). In recent months, Tehran has repeatedly pushed Moscow to enable the sealing of the EEU deal. Iran sees access to Russia and the EEU as a major step to expanding its trading area to the north.

The applicable FTA list of goods for EEU countries in the deal with Iran would include meat and fat-and-oil products, certain types of confectionery, cosmetics and electronic and mechanical equipment. Iran on the other hand would enjoy tariff preferences on items including vegetables, fruits, dried fruits and building materials. Iran's deal with the EEU will include most commodity groups, however, there remains a doubt whether automotive and industrial machinery will be covered by the deal.

## 5.3 FDI

| Iran FDI                       | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  | 2016  |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|
| FDI net inflows (BoP) (USD bn) | 3.649 | 4.277 | 4.662 | 3.05  | 2.105 | 2.05  | 3.37  |
| FDI net inflows (% of GDP)     | 0.749 | 0.733 | 0.778 | 0.653 | 0.485 | 0.531 | 0.805 |
| FDI net outflows (% of GDP)    | 0.049 | 0.044 | 0.226 | 0.04  | 0.001 | 0.031 | 0.025 |

source: World Bank

### Iran offers residence '\$250K' investors

**Foreign investors who invest a minimum of \$250,000 in Iran are to be offered a five-year residence permit, Mehr News Agency has reported.**

The threat of renewed US sanctions has seen many foreign investors in Iran make for the exit in recent months, with even EU efforts made so far in fighting back against Washington's policy failing to dissuade a slew of big European companies from leaving the country. Air France and British Airways are among the latest big companies [to announce they are ending their Iran operations](#). Turkey, which like Iran is fighting economic turmoil, recently made a similar offer to foreign business people. Qatar and the United Arab Emirates, meanwhile, have lately stepped up their efforts to woo those who can bring foreign investment.

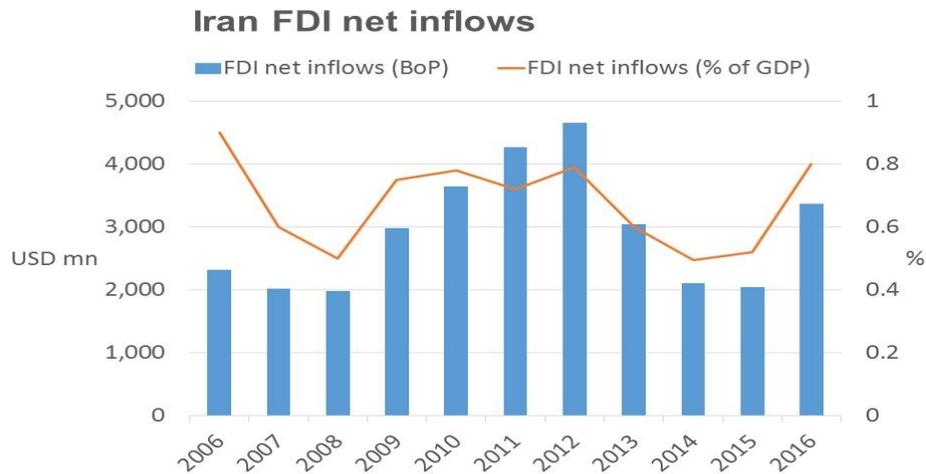
The Iranian announcement was made following a meeting of the Supreme Council of Economic Coordination, chaired by President Hassan Rouhani. The Council's composition includes senior cabinet members, as well as the heads of the judiciary and parliament.

### EU provides €18mn in aid to Iran to offset the impact of US sanctions

**The European Union on August 23 decided to provide €18mn in aid to Iran to offset the impact of US sanctions.** "This is a package that will help both sides have communication with each other and it doesn't have anything to do with the nuclear agreement and other hype," Iranian Foreign Minister Mohammad Javad Zarif said, according to ISNA.

The recently-appointed top US envoy on Iran, Brian Hook, criticised the EU aid to Tehran on August 24. It sent “the wrong message at the wrong time”, he said. “Foreign aid from European taxpayers perpetuates the regime’s ability to neglect the needs of its people and stifles meaningful policy changes,” Hook said in a statement.

The European funding is part of a wider package of €50mn earmarked in the EU budget for Iran. The aid will be split between Iran’s private sector, environmental projects and fighting harm caused by drugs. About \$9.26mn will support Iranian small and medium sized enterprises as well as Iran’s Trade Promotion Organization. Another \$9.26mn will support environmental efforts and \$2.3mn will counter the effects of drug use.



## **6.0 Public Sector**

### **6.1 Budget**

**Hard-pressed Iranian state workers promised Persian new year pay rise by vice president**

**State workers in Iran who have felt the brunt of the collapse in value of the Iranian rial (IRR) have been promised a pay rise at the start of the 2018/2019 Persian year (starts March 21, 2019) by Iranian Vice President Mohammad Bagher Nobakht, according to *Banker Magazine*.**

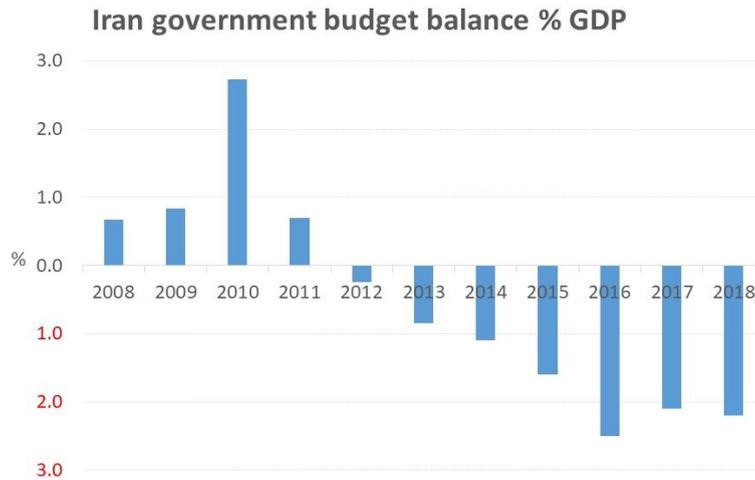
Such workers largely have fixed and generally low-paid salaries, thus they have particularly suffered during the severe devaluation of the currency—presently running at around 60% against the dollar in the year to date—brought about by the sanctions-led economic attack mounted against Iran by the US. In dollar terms, the average salary in Iran in January, prior to the onset of the currency woes, worked out at around \$750 per month, compared to the \$180 it is worth now.

Nobakht, who is also the head of Iran’s Plan and Budget Organisation, reportedly said: “We have enacted a draft law on raising the salaries of state employees and retirees, and this issue is currently under final review.” “The increase in the salaries of state employees and retirees will be finalised within a week or two, and I will announce it,” he added.

The Rouhani Administration is under immense pressure to alleviate some of the pain felt amid the economic turmoil and recession triggered by the

sanctions, which have also effectively cut off the country from the international banking system, despite Washington's claims that the sanctions are "targeted".

The government has been under pressure to award mid-Persian year salary increases, but fixed annual budgets set months in advance make that a complicated proposition. To partly get around the issue, some state employees have been given gift vouchers, free or reduced dental and medical insurance and food packages including rice and other staples.



### 6.1.1 Budget dynamics - tax issues

**Iranians spending IRR100tn on cigarettes annually academics say**

**The latest data provided by the Central Bank of Iran (CBI) shows that the government tax office earned some IRR2.6tn from cigarette taxes during the first seven months of the 2018/2019 Persian calendar year (March 21 – October 22). This suggests that in the past year, the government earned an extra 34% y/y.**

At the turn of the current Iranian year (March 21, 2018), the Rouhani administration increased the income from tax on cigarettes by IRR75 (€0.004) per pack.

The number of smokers in Iran is not known, while the government also does not have figures on those smoking smuggled cigarettes or on how much tax it loses because of this illicit part of the market.

The tax office and police have stepped up efforts to clamp down on the import and distribution of smuggled and counterfeit cigarettes in the past year.

The increase in revenues over the past year is partly seen as stemming from efforts made to stop smuggled cigarettes coming into the country via routes running from the United Arab Emirates, Iraq and South Caucasus region.

Some estimates show that 40% of all cigarettes smoked in Iran are smuggled into the country from these neighbouring countries.

**Iran out to catch tax cheats through point-of-sale levies**

**Iran's National Tax Administration (NTA) has announced it is to levy a corporate tax through transactions conducted through point-of-sale (POS) terminals, the *Financial Tribune* reported citing IBENA on September 16.** The method would allow the Central Bank of Iran (CBI) and the NTA to comb through the accounts and transactions of shopkeepers and offices that use POS devices to assess how much business they are conducting, rather than rely on traditional paper accounting.

Both private and state-owned Iranian banks issue POS machines in connection with linked bank accounts. However, they are not always issued in relation to business accounts. That gives people an opportunity to circumvent

tax payments in their books.

Due to the collapse in the value of the Iranian rial (IRR) in recent months, digital payment rates in Iran have skyrocketed. Prices for items including vehicles and electronic goods have leapt, forcing consumers to use their bank cards to make payments. Currently, and despite announcements to the contrary, Iranian ATMs can not dispense a sum beyond a limit of IRR2mn (\$14 at free market rates).

Under a previous CBI regulation, a shopkeeper with a POS device does not pay a charge per transaction, unlike in more globalised economies. That allows transactions of any amount to go ahead.

The new tax levy to catch tax cheats will come into effect in the next Persian year (starts March 21, 2019).

According to NTA calculations, once shopkeepers and companies have had their accounts checked by the tax authority, they will on average likely face a tax bill four times what it presently stands at.

#### **Iranian tax revenues up 10% y/y in 4-month period**

**Iran's tax revenues rose by 10% y/y in the first four months of the current Iranian year (started March 21), translating to growth of IRR300tn, tax inspectors have told Iran Labour News Agency.**

Tax authorities have been given reinforced powers in recent years with the Rouhani administration attempting to claw back cash from businesses used to avoiding their fair share in contributing to the national coffers. In 2015, the government announced tax inspectors had been granted the legal right to check the bank accounts of family members of business owners under investigation.

Kamel Taqavi-Nejad, director of the National Tax Administration, was cited by the news agency on July 30 as saying that authorities had stepped up investigations into suspect taxpayers in recent years and had forced businesses in the country of 80mn to enhance their transparency.

Taqavi-Nejad added that by the end of the last Iranian fiscal year (it arrived in April), some 4.86mn tax returns had been filed digitally. In the previous fiscal year, IRR531.5tn was paid into state coffers, an increase of 7.5% y/y.

### **6.1.2 Budget dynamics - funding, privatisation**

#### **Iran parliament agrees to release IRR10 trillion in assets to pay debt**

**The Iranian parliament has agreed to release IRR10 trillion (\$67mn at the free market rate) from the sale of assets and shares owned by the state, according to IBENA on February 18.**

The Rouhani administration has been looking at several options to raise cash to pay for essential services and investment in infrastructure while US sanctions remain on the country. Many assets previously thought of as unsellable have been proposed for privatisation including state-owned refineries [and football clubs](#).

However, at the official government rate of IRR4,700 to the euro the assets released would be valued at €212.7mn, which will be the figure the government states.

The release of assets come as part of a raft of packages included in the 2019-20 year budget which begins at the start of the Persian New Year on March 21.

The parliament did not specify which shares or firms it will release to the market as part of its agreed proposal.

## 6.2 Debt

| Iran - Gross external debt | 2010   | 2011   | 2012  | 2013  | 2014  | 2015  | 2016  | 2017  | 2018   |
|----------------------------|--------|--------|-------|-------|-------|-------|-------|-------|--------|
| External debt (USD bn)     | 20.030 | 17.344 | 7.406 | 7.006 | 5.441 | 6.322 | 7.475 | 8.481 | 10.910 |
| External debt (% GDP)      | 4.281  | 2.929  | 1.258 | 1.366 | 1.277 | 1.577 | 1.9   | 2.0   | 2.4    |

Source: World Bank, CEIC

**Iran's external debt stood at \$10.9bn in 2018, up 28.6% compared to the figure in 2017, due to sanctions placed on the country, according to CEIC data. The ratio of external debt to GDP stood at 2.4% in 2018.**

The World Bank (WB) said in its *International Debt Statistics 2017* report that Iran's foreign debt stood at \$6.3bn in 2015, falling substantially by almost 64% compared to the figure in 2011, thanks to the post-sanctions country being able to access frozen assets in several nations, including the US.

The report said that in 2015 Iran's long-term foreign debt was \$2.3bn, its foreign short-term debt was \$2.0bn and its debt owed to international financial organisations was also \$2.0bn. The ratio of external debt to GDP stood at 1.6% for 2015, down from 2.9% in 2011.

## 7.0 FX

| Iran - FX                      | Sep-16 | Dec-16 | Mar-17 | Jun-17 | Sep-17 | Dec-17 | Mar-18 | Jun-18 | Sep-18 |
|--------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Currency (units per EUR) (eop) | 35,339 | 34,056 | 34,859 | 37,057 | 39,666 | 43,273 | 46,522 | 49,268 | 48,754 |
| Currency (units per USD) (eop) | 31,460 | 32,375 | 32,422 | 32,489 | 33,805 | 36,064 | 37,743 | 42,590 | 42,000 |

**US dollar breaks 130,000 rial barrier as slide continues apace**

**The Iranian rial continued its slide on February 17, hurtling past the IRR130,000 barrier, according to local sites like bonbast.**

Traders familiar with the situation blame the government for losing its grip on its previously heavy-handed approach to keeping markets calm. Some in Tehran are suggesting the rial could surpass the IRR150,000 mark by the end of the trading week on Wednesday.

Iran's rial has been on a rollercoaster ride in recent months with its weakest point heading towards IRR200,000 to the dollar, causing the government to effectively close down the local foreign exchange market for several months. The IRR is weaker by around 60% against the USD compared to February of last year. For the past month, the dollar has been trading at between IRR110,000-120,000 on the open market.

Despite the drop in the rial, the Central Bank of Iran (CBI), which claims it has control over the street forex market, assured citizens it has more than enough in reserves and is in control of the local foreign exchange market to stem the loss.

CBI governor Abdolnasser Hemmati [said on February 17 the country was facing "unique conditions"](#) as it is engaged in a "financial war" with the US. IRNA previously reported.

Accordingly, other currencies including the euro and the British pound followed suit, reaching IRR148,700 and IRR169,950 respectively on February 18 (up 4.5% d/d), in the third trading day of the Iranian week which starts on Saturday.

Gold sovereign coins are also following the bullish trend down on Ferdowsi Street in Tehran, where one Emami gold coin now retails for IRR44,500,000, up 3% d/d, and the Azadi currently trades at IRR42,500,000.

The local TEDPIX, the all-star index on the Tehran Stock Exchange (TSE), was up 550.33 points (0.35%) to reach 156,705.3 by close of trade in the Iranian capital.

The CBI and police are running ongoing campaigns to force speculators out of the forex market.

It appeared in December that the CBI had got a grasp of the often wild forex market, however, this latest slip is likely to make citizens uneasy as it appears their grip may be beginning to loosen.

The IRR had strengthened against hard currencies in recent months partly due to the central bank flooding the market with foreign currency while also limiting transactions per person.

An Iranian economist who prefers to remain anonymous but goes by the name Hooroozan said on February 17 that the CBI's inadequate supply including shrinking oil income, exporters' refusal to deliver their profits back to the so-called NIMA local forex platform, in addition to speculating and rent seeking were the likely reasons for the continued decline.

## 7.1 Forex rate platform

**Iran to launch new OTC forex trading platform to quell black market turbulence**

**Iranian officials have announced that a new over-the-counter (OTC) trading platform will commence in the next few weeks in a bid to quell the black market trading of currencies, the *Financial Tribune* has reported.**

Developed by the Money and Credit Council and Central Bank of Iran (CBI), the OTC platform will accept cash deposits and then be converted into an electronic platform. The move amounts to the latest attempt by authorities to pull in foreign currency reserves floating around the informal market.

Details of currencies to be on offer remain limited, however; so far it has been reported that the trading of five to six popular currencies will be hosted on the OTC platform.

Location-wise, the new trading floor will be based in the heart of Tehran's forex market on Ferdowsi Street in the main lobby of the former CBI building.

CBI governor Abdolnasser Hemmati was quoted as saying that the market would be launched with the participation of banks and certified exchange shops under central bank supervision.

He added that exporters could also enter the regulated forex market, returning part of their profits to the OTC centre.

The [announcement comes as the Iranian rial](#) (IRR) comes under renewed pressure amid the economic turmoil caused by the reimposed US sanctions. It broke the IRR130,000 to the dollar free market rate on February 18 and stood at IRR135,000 in early afternoon trading in Tehran on February 28.

The [CBI initially announced](#) its plan to get a grip on the wild foreign currency market in November. It said it would set the bar at which free market trading must be done.

Hemmati, who took the reins from predecessor Valiollah Seif in June, has so far managed to ride out the worst shocks dealt Iran's foreign currency market by the sanctions.

He has ordered central bank interventions into the forex market, unlike Seif, who instead attempted to lock down the market by closing exchange bureaux across the country following the first severe 2018 nosedive of the rial experienced in April and May.

## **8.0 Financial & capital markets**

### **8.1 Bank sector overview**

**US economic sanctions and their impact on Iran's banking system**

**Iran's economy ministry is poised to establish an "anti-sanctions management room" to combat the heavy US economic sanctions introduced against Iran and most particularly their impact on the Iranian banking system, Tasnim News Agency has reported.**

Several key institutions in the Islamic Republic have previously said they had made clear preparations for the Trump administration's economic war on the country, although several ministers have fallen at the hands of parliamentarians dissatisfied with the response to the consequences of the sanctions, while the governor of the central bank was fired during the summer after the Iranian rial (IRR) went over the cliff edge.

The US has sanctioned almost every important area of Iran's economy, with the first wave of sanctions triggered in early August and the second wave—which crucially hit Iran's lifeline oil exports and banking sector—kickstarted in early November. In recent weeks, the central bank, which is among the institutions saying it made long-term plans to deal with the new sanctions regime, has intervened in the hard currency markets. That has helped Iran recoup towards two-fifths of the losses made by the IRR against the dollar in the year to date. The currency stands at around 60% weaker than it was at the start of 2018.

Mohammad Reza Pour-Ebrahimi, chairman of the Iranian parliament's economic commission, said the economy ministry planned to create its anti-sanctions 'war room' in the next few weeks, along with banking officials.

"The formation of the anti-sanctions management room in the economy ministry aimed at monitoring the Americans' measures in the banking sector and our moves to strengthen our banking system was discussed at a meeting," he said.

He said he could not give more details due to the sensitivity of the issue over which a gag order has been placed.

### 8.1.1 Liquidity / assets

**Iran's facing a liquidity crisis, says US official**

The US special representative for Iran, Brian Hook, was cited as saying on January 12 at an oil industry conference in the United Arab Emirates capital Abu Dhabi that **sanctions were choking off Iran's income streams and that Tehran was "facing a liquidity crisis"**. Washington wants to see Iran's oil exports reduced to zero as it continues with its strategy of throttling the nation's economy to force Tehran to the table to negotiate concessions on its Middle East activities and policies.

Stringent government controls limit access to financing for businesses. State-owned commercial banks and specialized financial institutions account for a majority of banking-sector assets.

### 8.1.2 Loans

**CBI pushing for loan-friendly banking**

**Interest rates on Iranian bank loans were lowered in line with the Rouhani administration's plan to switch the banking system from savings-based to loan-friendly.**

Peyman Ghorbani, CBI Vice Governor for Economic Affairs, said that commercial loans must be set from 18 to 19% from September 2. Loans were locked at 20% and above before the proposal to cut rates.

As it is, the banks are struggling with the current rates forced on them by the CBI as their business plans were previously based on high-interest savings accounts.

The lowering of interest rates was also set to come into direct conflict with the upgraded capital adequacy ratio outlined by the CBI. Banks that did not meet the ratio were at risk of losing their licence, the central bank said.

### 8.1.3 Deposits

**Saving rates fall to 15%**

**Deposit rates on Iranian bank accounts were lowered to 15% with daily short-term interest rates fixed at 10% since last September in accordance with the plan set out by the CBI, Banker.ir reported.**

During the past decade, interest rates have historically been above 20% with some credit institutions in Iran offering over 30% for savers. The average loan rate at its highest was 33% in 2009.

### 8.1.4 NPLs

**CBI gives Iran's NPL rate as 10%**

**The Central Bank of Iran (CBI) calculates that Iran's overall bad debt now stands at 10% of the total debt market in the country, according to a late May *Iranian Banker Journal* report.**

Around IRR1 trillion of bad debt existed in Iran; however other figures suggest the figure of non-performing loans is higher, with banks struggling to retrieve assets due to old-fashioned regulations which mean it takes a very long time to clear debts.

Iran's overall NPL figure stood at 18%, according to prior CBI statistical releases. The reason behind the supposed improvement in NPL clearance is

the Rouhani cabinet's move in February to approve the penalty waiver for loans amounting to IRR1bn.

## 8.1.5 Banks specific issues

**SWIFT reportedly disconnects Central Bank of Iran from interbank network**

Iran suffered a wounding blow in early November when SWIFT, the world's biggest interbank-transfer network, announced under pressure from the US that it was [taking the "regrettable" step](#) of suspending some Iranian banks' access to its messaging system "in the interest of the stability and integrity of the wider global financial system".

Fearing a blanket ban on Iranian banks being connected to SWIFT, [French officials have been working to keep at least one Iranian bank connected to the financial telecommunication system.](#)

Belgium-based SWIFT (Society for Worldwide Interbank Financial Telecommunication) did not specify which "certain Iranian banks" it was referring to in its disconnection announcement. The move came as a disappointment to those trying to protect Iran's trading activities, particularly given the potential disruption the loss of the system [could cause to supplying the country with basic foods, medicine and other humanitarian shipments.](#)

Iran's central bank has claimed the SWIFT disconnection will "have no effect on Iran's bank accounts and its foreign exchange settlements since it is "only an interbank messaging system". Its governor Abdolnasser Hemmati told reporters that the regulator had made preparations for the disconnection, but did not explain what alternatives to the system would be employed.

## 8.1.6 Bank news

**Iranian port refuses to release Brazilian beef due to banking problems**

**Iran's Bandar Abbas port authorities in the southern region of Hormozgan have said they are keeping hold of 5,000 tonnes of frozen Brazilian beef due to payment issues, Fars News Agency reported on February 19.**

The failure to release the beef, which has been held in freezer containers for the past four months, is the latest consequence of Iran's banking problems as well as country's struggle with the devaluation of the Iranian rial which by 11:00 a.m. GMT on February 19 depreciated to IRR133,500 to the US dollar. This latest hurdle due to the banking problems was announced by Moslem Nasser, deputy director of the Fresh Produce Association of Iran.

"Despite banks having received payments from importers, they have not been able to deposit the money in the exporters' account for the past 80 days."

He added: "We've been having problems with [international] money transfers and foreign currency payments for protein products."

He warned that if not alleviated the problem could spread to other essential imports in the next two to three months.

The issue appears to be intermediary banks unwilling to take payment from Iranian banks for essential products, with recent instances of banks previously working with Iran getting cold feet due to US threats of disconnection.

China's Kunlun Bank and the Turkish state-owned Halk Bank, which previously handled the bulk of Iran's international money transfer and foreign currency transactions, stopped providing those services after the new set of US sanctions went into effect in November.

According to some reports including on social media, meat supplies at

affordable prices are becoming a scarce commodity, with people lining up to buy affordable protein at supermarkets and butchers.

**Iran's national lender celebrates revolution anniversary with new 500,000 rial bank cheque**

**The Central Bank of Iran (CBI) is to launch a new-design Iranian rial (IRR) 500,000 bank cheque as part of celebrations surrounding the 40th anniversary of the Islamic Revolution on February 11,** IBENA has reported.

Iran currently has two such bank cheques, the IRR500,000 and the IRR1,000,000 cheques, although the latter is much less frequently put into circulation given fears of an explosion of liquidity. Though not classed as legal tender in the regular sense, informally the cheques have been used as regular currency for more than a decade due to the depreciation of the rial.

The obverse and reverse sides of the notes feature a "50" denoting the unofficial currency in operation in Iran, the toman—it operates on a 1 toman to 10 rial basis.

Following months of depreciation triggered by the return of heavy US sanctions, the IRR500,000 note is now only worth the equivalent of €3.66, much less than when it was officially introduced more than 20 years ago.

The note was originally designed as a bank teller's cheque.

**Iran, Syria sign banking cooperation deal but details are sketchy**

**The central banks of Iran and Syria signed a banking cooperation agreement on January 29 in a bid to connect the two countries' banking systems, Syria's SANA has reported.**

How the two countries would go about creating their own banking system separate from the international system was not outlined, but, as the US continues to direct heavy unilateral sanctions at both Tehran and Damascus, they would likely have to link their central banks under the radar of Washington. The big and wider question faced by Syria remains how, once it can declare the Syrian Civil War over, it will raise enough finance to enter a meaningful post-war reconstruction phase.

The agreement was signed by the central banks' governors in Damascus. It is "aimed at serving stabilisation of the banking sector" and "enhancing it and facilitating trade exchange encouraging investment", the two sides said in a joint statement.

Central Bank of Iran (CBI) chief Abdolnasser Hemmati posted on social media that the agreement would enable the countries to restart brokerage relations in the run-up to opening a new bi-national bank.

Under the agreement, the central banks of the two countries will open bank accounts for each other and the transactions will be carried out using the their national currencies.

## **8.2 Central Bank policy**

**IRR1bn daily cap placed on Iranians by central bank**

**The Central Bank of Iran (CBI) has announced a daily spending cap of IRR1bn (\$9,434 at the free market rate) per person, according to a circular sent out to banks on December 9 as cited by Tasnim News Agency.**

Given the disruption caused to Iran's foreign exchange markets and the severe devaluation of the Iranian rial (IRR) by the new sanctions regime targeted at Tehran by the US, the CBI has for several months been trying to control cash in circulation and battle profiteering and speculation. It has also pushed profits from international trade into its designated NIMA payments system.

According to the memo, the new policy is aimed at combatting money laundering and further depreciation of the rial. Incidentally, it has had a significant impact on controlling currency fluctuations since its introduction earlier this week.

In large transactions, the IRR1bn maximum is applied to a person via their national ID number. That is tracked by the local banking payment system across all bank accounts.

Another regulation limits bank card to bank card payments to IRR30mn per day per person.

**Central bank says foreign banks with minimum capital of €5mn can open in Iran**

**Foreign banks meeting a minimum capital requirement of €5mn can apply for a licence to open in Iran, according to a Central Bank of Iran (CBI) announcement cited by Tasnim News Agency on November 25.**

Previously, the only foreign bank presence generally permitted under the CBI's rules was through a representative office, an entity not allowed to conduct regular banking but permitted to act as a simple intermediary. Banks such as Emirates NBD, Qatar's QNB and some Indian banks had operational offices in Tehran until recently. The loosening of the rules may be designed to encourage banks to enter Iran despite the heavy sanctions reimposed on Tehran by the US. The sanctions specifically targeted at banking kicked in on November 5.

The capital needed for a "first-type" bank branch opening in Iran is €10mn while a "second-type" branch must only satisfy the lower €5mn entry requirement, under the new rules.

The regulations suggest that a first-type branch is allowed to accept deposits after a 12-month period of presence in the Islamic Republic, while a second-type branch would remain strictly banned from accepting deposits. It would and act as a representative office.

A first-type branch would for a period of two years become entitled to accept interest-free deposits from legal persons. At the end of those two years, it would become permitted to take deposits from all real and legal persons, according to the CBI circular.

**FX outlets in Iran now permitted to sell €5,000 per person**

**The Central Bank of Iran (CBI) has announced in a directive that all foreign exchange outlets in Iran are now permitted to sell €5,000, or its equivalent in hard currency, per person, LIT media has reported. The figure was previously reduced to €3,000 from €10,000.**

The CBI has repeatedly changed the rules on selling and purchasing FX in recent months following the devaluation of the Iranian rial (IRR) by around 70% in the year to date, largely due to the economic downturn and turmoil caused by the reintroduction of heavy US sanctions.

According to the directive, all purchases must be registered in the SANA system, which is the official mechanism for the secondary FX market. Iran's policies on depositing foreign currencies at Iranian banks remained unchanged.

All dollar deposit accounts receive 4% annual interest, while the rates for euro accounts and UAE dirham accounts are 3 and 2%, respectively.

The CBI said the offered rates scheme had brought an extra \$10mn into accounts at the country's banks.

## 8.3 Cryptocurrency

**'Gold-backed' cryptocurrency Peyman launched in Iran**

**The gold-backed Peyman (PMN), Iran's first cryptocurrency endorsed by its government, was on January 30 given a launch before a crowd of banking, judiciary and financial officials in Tehran, IBENA reported.**

Iran has mooted the idea of a cryptocurrency to get around stringent US sanctions which have seriously hampered trade between the country and the outside world. However, whether the new crypto will be widely used for

international trade or even for trade conducted inside Iran remains to be seen.

Peyman (“Covenant” in Persian), unveiled by private company Ghoghnoos Co., is the first non-banking firm in Iran to launch a cryptocurrency. It has done so in conjunction with four banks in the country. Banks Mellat, Melli, Pasargad and Parsian are backing the project. The Iran Fara Bourse (for over-the-counter exchange trading) will be the first trading centre to provide for transactions in the digital currency.

Unusually for a cryptocurrency, there will be no initial currency offering (ICO) for Peyman. Those behind it intend to use the existing resources and excess properties of the supporting banks to raise funds for the currency through token creation.

Valiollah Fatemi, a director of Ghoghnoos, told Iranian media outlets: “The token can function as a wallet and channel [banks’] excess properties into sellable tokens.”

According to the company, one billion units of Peyman will be released by the participating banks and financial technology group TOSAN.

The timing of the announcement of the Peyman cryptocurrency debut came a little less than 24 hours after the Iranian government removed restrictions on trading digital money.

**On January 29, an initial 13-page draft on regulating the use of cryptocurrencies in Iran [was released by the country’s central bank](#).**

The draft reportedly suggests heavy oversight should be exercised by the Central Bank of Iran (CBI) while the market develops. “Version 0.0”, as the drafted rules have been dubbed, is meant to bring clarity to the utilisation of the global digital payment method and “allow traders to plan for their future”.

After initially banning the use of cryptocurrencies such as Bitcoin, the CBI now recognises the digital payment method as legitimate. It is also laying the groundwork for a future Iranian digital currency that it intends to launch.

## 8.4 Stock market

**Iran getting set to launch International Energy Bourse on Kish Island**

**Iran’s government is reviewing regulations and permits for the launching of the International Energy Bourse (IEB) on Kish Island in the Persian Gulf, the *Financial Tribune* has reported, citing Morteza Bank, director of the Supreme Council for the Free Trade Zones of Iran.**

Bank told reporters that an initial bylaw for the IEB was written in coordination with the Securities and Exchange Organisation and gained the approval of the High Council of Securities and Exchange. Afterwards, it was sent to the Central Bank of Iran (CBI).

The international exchange would have the ability and capacity to attract non-Iranian rial financial resources within a framework provided by Iranian authorities on the mainland, he reportedly added.

The IEB would be open to international investors as well as Iranian businesses looking to enter the energy sector via an investment, Bank also said. He hinted that the language of the IEB would be supervised in English at all levels in order to attract foreign investment.

Iran has pushed for more people to enter its energy market since the US introduced heavy sanctions against the country’s oil, gas, petrochemical and

other energy sector industries in early November last year.

The IEB would follow the [Iran Energy Exchange](#), which was relaunched for crude oil trading soon after the introduction of the sanctions.

The state's National Iranian Oil Company (NIOC), which has offered crude on the exchange, first lowered its base price to \$67.10 and then to \$65.22, and finally to \$64.97 per barrel as demand remained tepid in the first few days of trade. However, Iran's oil ministry has claimed there has been a big improvement in the level of trading activity in the past month.

**Tehran Stock Exchange on bullish trend as ordinary investors struggle to find investment options amid economic difficulties**

**The local TEDPIX, the all-star index on the Tehran Stock Exchange (TSE), was up 550.33 points (0.35%) to reach 156,705.3 by close of trade in the Iranian capital on February 17.**

Gold sovereign coins are also following the bullish trend down on Ferdowsi Street in Tehran, where one Emami gold coin now retails for IRR44,500,000, up 3% d/d, and the Azadi currently trades at IRR42,500,000.

| Iran - Financial market                             | as of Sep 2018 | as of Jun 2018 | as of Mar 2018 | as of Dec 2017 |
|---|----------------|----------------|----------------|----------------|
| Equity market index: Tehran Stock Exchange (TEDPIX) | 195,104.0      | 111,528.2      | 96,938.8       | 95,561.5       |
| Market capitalisation: % of GDP                     | 23.9% (2017)   | 23.9% (2017)   | 25.6% (2016)   | 22.7% (2015)   |
| Market cap: Tehran Stock Exchange (TSE) (USD bn)    | /              | 100.66         | 102.15         | 105.98         |
| PE ratio: TSE                                       | 11.04          | 6.76           | 6.49           | 7.01           |

Source: CEIC

## 8.5 Fixed income

### 8.5.1 Fixed income - bond news

**Iran prepares Islamic bond, warrant and insurance-linked securities products**

**Iran is developing a range of new financial products, from Islamic bonds to warrants and insurance-linked securities, in an effort to give local firms more funding options as sanctions put pressure on the economy, Reuters reported on October 2.**

But Iran's financial system has been able to ride out past periods of sanctions, and officials told the news agency that they are working on new products to stimulate capital markets activity. All the products are structured to obey Islamic principles, such as a ban on interest payments.

The capital market regulator, the Securities and Exchange Organisation (SEO), reportedly said it had started work on a new structure for Islamic bonds. The sukuk will use an agency format known as wakala, which is widely used in Asia and the Middle East but not yet offered in Iran, said Majid Pireh, senior Islamic finance expert in the SEO's research, development and Islamic studies department.

"This will be a new financing instrument for companies," Pireh was cited as saying, adding that regulations could be ready in six to nine months.

Wakala sukuk pay a variable rate, giving them equity-like features compared with other sukuk in Iran, which pay fixed rates.

The SEO also plans to introduce warrants—contracts giving the option to buy underlying shares at a later date—following the earlier introduction of put and call options. The SEO’s religious board is reviewing a proposal for warrants, which must be structured to obey Islam’s ban on pure monetary speculation. “The derivatives market has a lot of room to grow. Options were introduced in 2013, but the first trades were done in 2016,” Payam Afzali, managing partner and head of investment banking at Tehran-based Kian Capital Management, was quoted as saying.

Warrants may not attract major investment in the short term but could be used to make bonds and equities more appealing to investors, he added. Meanwhile, the SEO is considering whether to introduce insurance-linked securities so that domestic insurers can offload some portfolio risk in the capital markets, Pireh said.

LS are typically tied to natural catastrophes such as earthquakes and offer high yields; investors can lose their principal if a catastrophe loss is triggered. They could serve as an alternative to reinsurance cover, which is scarce as sanctions mean Iran is shut out of global reinsurance markets such as Lloyd’s of London.

## **9.0 Industry & Sectors**

### **9.1 Sector news**

#### **9.1.1 Oil & gas sector news**

**An Iranian official has claimed the country is 90% self-sufficient in the construction of petrol station equipment but admitted that many existing sites need significant investment, Mehr News Agency reported on February 18.**

Despite a relaxation of ownership rules in petrol stations in Iran during the Rouhani administration, the majority of locations currently operational remain in the hands of government owned-players and semi-state-owned companies. All petrol stations, either government-owned or in private hands, receive petrol from the National Iranian Oil Company (NIOC) and its subsidiaries.

Ali Monshi, the director of the Planning and Studies Centre for Filling Stations in Iran, said that the majority of equipment in the construction of creating petrol stations is made locally.

There are some 7,000 currently operational filling stations across Iran, with several dozen more planned for intercity highways currently in the pipeline, he said at a recent fair in Tehran promoting the industry.

He pointed to the job generation through launching more filling stations in the country and said, “filling stations can provide 70 different jobs.”

He added that due to a lack of investment in the industry some modern technologies used abroad were not available in Iran. Monshi further added that at least three-quarters of Iranian filling stations need complete overhaul and renovation.

Petrol prices in Iran remain heavily subsidised and are officially the second cheapest on the planet for a litre of petrol due to the heavy devaluation of the rial over the past 12 months.

Iran presently has some of the cheapest retailed fuel in the world because the petrol price is fixed at the government rate of IRR15,000 (€0.07) per litre, while liquefied natural gas (LNG) is priced at IRR10,000 (€0.06).

**Iran has discovered a new oil field containing reserves of “very light and sweet” crude near the southwestern city of Abadan, IRIB cited the country’s oil minister as saying on January 22.**

The minister, Bijan Namdar Zanganeh, has previously pointed to how Iran can look forward to tapping as-yet-undiscovered oil and gas fields. That is partly because the country halted much of its hydrocarbon exploration activities following the 1979 Islamic Revolution. Iran has the world’s fourth largest oil reserves and second largest gas reserves.

The discovery was reportedly made on Minoo Island. Nearby Abadan is the century-old home of Iran’s original oil refineries created by British Petroleum (BP), previously known as the Anglo-Persian Oil Company (APOC). The site, situated to the west of the city’s airport, would be easy to tap, with all the required equipment pretty much on hand.

**Petroleum Minister Bijan Zanganeh told Iran’s parliament on January 20 that the country should see the objective of roughly doubling the annual output value of its petrochemical industry to \$40bn as “totally doable”, IRNA reported.**

There will be plenty of scepticism in response to Zanganeh’s words in the current circumstances. Iran was relying on foreign investment to drive up its petrochemical production rates, but investors from abroad have been exiting the Iranian petrochemical industry in droves given the return of heavy US sanctions targeted at the Islamic Republic’s economy. Specific sanctions against Iran’s oil, gas and petrochemical industries were kickstarted by Washington last November 5.

France’s Total, when last year abandoning multi-billion-dollar plans to help Iran develop resources in the giant South Pars gas field in the Persian Gulf, also simultaneously gave up on petrochemical production ambitions in Iran.

Early-stage planning work had been started by the French energy maker on investing in petrochemical facilities that would have used gas from South Pars as cheap feedstock.

**Turkey resumed imports of Iranian crude oil following a one-month hiatus in November, the month when US sanctions on Iran’s energy industries were reimposed, trading and shipping sources told Reuters on January 8.**

The US granted Turkey and seven other countries 180-day import waivers in early November. Turkey said it was permitted to take 3mn tonnes a year, equivalent to about 60,000 barrels per day (bpd), under the waiver. It used to import about 200,000 bpd of Iranian crude before Washington announced in May last year that it would pull out of the 2015 Iran nuclear deal and [reimpose sanctions on Tehran](#).

Turkey reduced its imports from Iran in the months prior to sanctions coming into force on November 5 and then its imports fell to zero in November.

In December Turkey took delivery of two tankers carrying Iranian crude, equivalent to about 54,000 bpd during December, according to a shipping and trading source familiar with the matter spoken to by the news agency.

The Solan tanker delivered into the port of Aliaga, while the Sea Topaz I discharged at Tutunciftlik.

So far in January, Turkey is set to receive a cargo from the Iranian-owned tanker Sinopa, the sources and Refinitiv Eikon ship tracking showed.

**Armenia remains in discussions on the potential for gas deliveries from Iran, Armenia's Acting Prime Minister Nikol Pashinian told reporters on January 7 as Armenians digested news that Russia has pushed up the price of gas it sells to their country by 10%.**

Pashinian's comments appear to be a move to place some pressure on Russia not to go ahead with the [politically painful](#) price hike. Talks over the gas price were seen as [key in assessing evolving relations](#) between the new post-revolution government in Yerevan and Moscow, the small, impoverished nation's big strategic partner. Prior to the announcement of the increase, the Armenian government had several times said it was aiming to have the gas price reduced.

"The issue of Iranian gas deliveries is always on the agenda. We will keep discussing this matter until we find a practical and advantageous solution," Pashinian said, according to Tass.

He added that Yerevan would maintain negotiations with Moscow over the Russian gas price. Under the price increase announcement, in 2019 Russian state gas giant Gazprom will sell gas to Armenia at \$165 per thousand cubic metres. The previous price was \$150 per thousand cubic metres.

**The Iranian government estimates Iran can sell an average of 1.5mn barrels of oil per day (b/d) in the next Persian calendar year (starts 21 March, 2019), a spokesman for the presiding board of the Iranian parliament said on December 3.**

The prediction comes despite the US aiming to use sanctions to gradually squeeze Iran's exports of oil to as near to zero as possible. Washington introduced sanctions on Iranian crude, gas and petrochemical shipments on November 5. However, it then awarded eight countries—China, India, Turkey, Japan, South Korea, Taiwan, Greece and Italy—180-day waivers allowing them to continue purchasing consignments without fear of secondary sanctions in return for a promise to work to lessen their purchases. The parliamentary board's spokesman, Behrouz Nemati, said that the US dollar would likely be officially priced at around IRR57,000 in the budget bill for the next Persian year. The official rate is only available to the government or at the government's discretion.

The current official rate is IRR42,000, but at street bureaux de change the free market rate is above IRR110,000.

The government also forecasts that the price of Iranian crude will remain below \$60 per barrel in the 2019/2020 Persian year.

## **9.1.2 Automotive sector news**

**Iran's automakers assembled and constructed 57,627 vehicles in the eighth Persian calendar month (ended November 21), marking a 57% y/y drop, Iran Student News Agency reported on December 16 citing official figures.**

In the same month of the 2017/2018 Persian year, Iran's vehicle producers made 135,402 units. In the first eight months of the calendar year as a whole (the 2018/2019 Persian year began on March 21), car production decreased by 24.9% y/y, dropping to 721,363 units from 960,003 units.

Renewed US sanctions directed at Tehran have caused severe currency devaluation and surging inflation, while they have also disrupted parts supply chains and driven up the cost of available components. Iranian car buyers have thus been hammered by price increases in the past six months. Some

brands have undergone price jumps of around 100% for both new and used vehicles. Making the situation worse, many parts makers that supply companies like Iran's number one and number two automakers—Iran Khodro (IKCO) and SAIPA, respectively—have collapsed due to producers failing to debts from months back.

### 9.1.3 Transport sector news

**A second Indian container ship has reportedly docked at Iran's sole oceanic port of Chabahar, under development as a trade hub in a deal between Tehran and New Delhi that enjoys protection from US sanctions.**

Iranian media reported the arrival on February 12.

India and Iran have created a shipping line to help develop the Gulf of Oman port's processing of imports and exports. Indian goods are to reach as far as Europe after moving along the 7,200-kilometre multimodal International North-South Transport Corridor (INSTC) which, like the port, is under development.

Behrouz Aghaei, a director general of the Ports and Maritime Organisation (PMO) of Sistan and Baluchistan province, made the announcement that the "Inter Sydney" was the second Indian ship to enter Chabahar.

"The Islamic Republic of Iran Shipping Lines has arranged for the ship to sail once every two weeks to the port of Chabahar. Now, the direct export, import and transit of goods from the port of Chabahar has been made possible," the official said.

He added that the PMO was making sure that the ship would be unloaded as a matter of priority for the port.

The first ship [arrived on January 27](#). It carried grain from India for the Iranian market.

The INSTC is to connect India to northern Europe via a corridor running through Iran, Azerbaijan and Russia with direct Indian Ocean sea routes between western India and Chabahar forming the first stage of transit. Rail routes running from Iran and through Azerbaijan to Moscow are also to be core features of the INSTC.

Crucially, last November, the US State Department [exempted the port project in Chabahar from sanctions](#) in recognition of its importance to landlocked Afghanistan's growth and development as well as to India's need to bypass Pakistan to trade with both Afghanistan and Central Asia. In potential trade terms, the project is also seen as very important by Iran's remote neighbour Turkmenistan.

Chabahar, designated a free trade zone, is seen as [India's direct response](#) to China and Pakistan's joint investment in the Pakistani Arabian Sea port of Gwadar, located just 80km from the Iranian port. Gwadar is a key element of a corridor linking Pakistan, Afghanistan and China under the huge multi-continental Belt and Road infrastructure project.

**Iran has become able to buy planes via "a special financial channel" and "very good ones" too, Iranian Minister for Roads and Urban Development Mohammad Eslami was reported as saying by Mehr News Agency on February 13.**

Offering scant detail, Eslami said flagship carrier IranAir developed the channel and was in the process of acquiring "new" aircraft.

Together, IranAir and other Iranian airlines have in the past year seen orders

for hundreds of new and nearly-new planes shelved by manufacturers including Boeing and Airbus. The reintroduction of heavy US sanctions targeted at Tehran caused the aircraft producers to back away from supplying Iran. Non-US plane makers, such as Airbus, are subject to the threat of secondary sanctions because their planes contain major components supplied by US companies.

Facing the question as to whether the planes being bought were brand new, Eslami reportedly responded that "new or used does not make sense in aircraft purchases; they are very good planes, nonetheless".

The last delivery of new planes to Iran was ATR's dispatching of [13 turbo-prop regional airliners to Iran](#) before sanctions reimposed by the US kicked in last August.

Any plane with at least 10% of its components sourced from the US falls foul of the sanctions regime if delivered to Iran. Russia's Sukhoi, which has been exploring supplying Iran with short-haul airliners, faces that dilemma.

However, there have been local reports of Russian officials saying Sukhoi is working on scaling down the number of US parts with an eye on winning an Iranian order for up to 100 aircraft.

Iranian officials have previously pointed out that there is a humanitarian angle to aircraft supply, in that if Iranian airlines cannot get hold of new civilian aircraft there is a higher risk of accidents occurring.

"Our main concern is being able to serve our passengers better [and] we hope that the EU can get the OFAC [Office of Foreign Assets Control at the US Treasury] licences for delivery of purchased Airbus planes," IranAir CEO Farzaneh Sharafbafi was cited by ISNA as saying in December.

#### 9.1.4 Construction sector news

**Iran has signed a contract with conflict-devastated Syria to construct 200,000 new dwellings, Tasnim News Agency reported on February 25.**

The deal between the government of Bashar al-Assad and the Islamic Republic is the latest in a string of post-civil war contracts signed between the allies following the Syrian army's success, backed by forces including Russian and Iranian military, in defeating more than 90% of the opposition it has faced in the country. It is clear Damascus is quite prepared to give Iran something of a post-war dividend for its backing, though where the financing will come from for the wider, and massive, reconstruction that Syria needs is not yet at all worked out.

The deputy chief of the Mass Construction Association of Tehran province, Iraj Rahbar, said Iran and Syria have recently signed a number of agreements on civil construction, tourism and agriculture industry projects.

The deal states that Iran will build 200,000 dwellings in Syria in the form of "multifamily residential complexes", mainly in Damascus, he added.

Iranian state construction firms have become adept at building apartment blocks in recent years at home and abroad, with several thousand projects sprouting up across Iran as well as Iraq.

#### 9.1.5 TMT sector news

**Around 72% of Iranian homes are connected to the internet, according to a Statistical Centre of Iran (SCI) report, the *Financial Tribune* has reported.**

Statistically speaking, Iranian households and mobile phone users have been catapulted into the position of the most connected society in the wider Middle

East and Central Asia. They enjoy low Internet set-up costs. A succession of policies introduced by the Rouhani administration opened the floodgates to 3G and 4G technologies. An entirely new digital economy, including food and ride-hailing applications, as offered by the Snapp Group, for instance, has been created.

An SCI survey that took a snapshot last March 28 concluded that some 24mn homes in Iran and 17.9mn families had access to "superfast internet" connections. The results indicated a 10.5% year on year increase nationally. The figures also suggest that by March 2018, at least 69.7% of homes in Iran had at least one computer, and that within each of 17.2mn families someone had the ability to use a computer (up 8.4% y/y).

Overall, the number of Iranian Internet users now stands at 46.3mn people, or 64 % of the population.

The survey also delved into social media in the Islamic Republic. The obtained figures suggest that some 53% of Iranian Internet users above the age of 15 years-old were active on social messaging apps like [Telegram](#) and Whatsapp. Despite [being officially blocked](#), Telegram via proxies remains a popular application. It took pole position in the popularity stakes for communications applications in Iran.

The statistics suggesting foreign messaging apps remaining dominant will not be music to the ears of those running local messaging apps in Iran. Iranians generally remain unconvinced by local messaging apps, fearing they are the work of their country's intelligence organisations.

Alternative local application Soroush has been ridiculed and slammed by Iranians as insecure and liable to hacking by government agencies. There have been claims it was developed by Iranian intelligence operatives.

Since the introduction of 4G internet in Iran, the main players in the mobile market have pushed their fast internet connectivity.

The SpeedTest Global Index, an international internet speed checker, ranked Iran as the 58<sup>th</sup> fastest of 107 countries, Mehr News Agency reported last September.

The index's latest calculations for Iran's mobile internet speeds were 23.79Mbps (download) and 9.34Mbps (upload). The global averages were 22.81 Mbps (download) and 9.13 Mbps (upload).

### **Many foreign brands are to be banned from advertising in Iran following a ruling passed by the country's parliament, Iran Labour News Agency reported on January 6.**

The legislation leaves wiggle room for products made to at least a degree with the use of Iranian production facilities.

Some 155 lawmakers voted in favour of the ban, with 19 against and nine abstaining.

The push against foreign brands is part of a bid to support local counterpart products struggling in a recession-hit economy, weighed down by the severe devaluation of the Iranian rial (IRR) in the face of US sanctions, and against the popularity of brands from Europe and East Asia.

National television channels, print media, web and social media and billboard companies will be banned from providing advertising platforms for foreign brands.

If an advertiser is caught breaching the law, they could be fined 10 times the sale value of the advertisement, according to the ruling.

"According to the law, any TV and radio channel, newspaper and all kinds of print and visual media carrying advertisements of foreign products similar to those produced inside the country would be subject to a penalty," Tasnim News Agency reported.

Separately, the parliament reminded all governmental organisations and their affiliates that they remain obliged to only use and buy domestic products. Despite the push to support local products, many among Iran's large middle class continue to prefer purchasing brands like LG and Samsung over local alternatives including Pars Khazar and Pakshoma. The price differences between local-equivalent products and foreign items have greatly expanded in recent months due to the devaluation of the rial, currently down about 60% against hard currencies since the start of last year. According to one local price comparison site, emalls.ir, a top of the range Pakshoma washing machine currently retails for IRR53mn (€418) while a rival imported Samsung washing machine costs IRR106mn (€837).

## 9.1.6 Agriculture sector news

### **Iran has imported 2,000 sheep livestock via airfreight from Romania, Iran Student News Agency has reported.**

Iranian officials are increasingly looking for meat supplies from abroad with Iran's production dipping due to the price of animal feed. It has become expensive to the average Iranian farmer amid the country's US sanctions-hit economy.

The Romania cargo was reportedly part of a shipment of 50,000 livestock due to enter Iran through Imam Khomeini Airport City (IKAC).

The Iranian company bringing in the livestock was not named. It was reported as set to bring in around 2,000 live sheep a day. Before being exported to Iran from Romania, sheep must stay in quarantine for 21 days.

In [January, following a plane crash outside Tehran](#), it emerged that Iran's army had begun shipping in mutton from Kyrgyzstan to meet its demand.

**Iran, Russia and Kazakhstan are making progress in organising finance for a long-planned wheat deal that could double or triple supplies to Iran,** the secretary general of Iran's Federation of Food Industry Associations Kaveh Zargaran has told Reuters.

**Progress with the financing follows the signing of a wheat trading cooperation memorandum by the three nations on February 12** as part of a larger discussion on setting up a free trade zone between Iran and the Russia-led EEU countries. The talks on wheat trade started a year ago, but stalled due to a lack of funding. The deal would involve Russia and Kazakhstan exporting wheat to Iranian millers, who would, in turn, supply flour to Iraq.

Iran stood as one of the largest markets for Russian wheat until slashing imports in 2016 as part of Tehran's self-sufficiency drive. Iranian private millers, on the other hand, still need imported wheat as they are not allowed to use domestic wheat for exports. Russia exported 137,500 tonnes of wheat to Iran in the 2017/2018 marketing year.

"In the new agreement of the three sides, it is mentioned that the buyer can use a credit line opened by a bank, so funding [that was a main concern last year] will be settled," Kaveh Zargaran said without specifying any banks. "In this case, we will notice wheat transit and swaps will be increasing from Russia and Kazakhstan."

According to Zargan, this would "double or triple" Iran's wheat imports.

Iran also needs 7.5mn tonnes of feed maize and 3mn tonnes of barley a year - it expects to import 3mn tonnes of maize and 1.5 tonnes of barley from Russia in the next Iranian year, which begins in March.

## 9.1.7 Property sector news

**The number of Tehran residential apartment transactions during the first seven months of the current Persian year (period ended October 22) amounted to 84,300, marking a fall of 14.9% y/y, latest official figures show.** The number in the seventh month of the year was 9,400 residential units, down 32.3% y/y, the Central Bank of Iran (CBI) added. The average sale price per square metre amounted to IRR86.1mn (\$614mn) in the month, up 83.5% y/y.

Many of those Iranians who can afford to do so have turned to property assets [to shelter from the collapse in the value of the rial](#) amid the renewal of heavy US sanctions targeted at Iran. There has even been [a surge of Iranians](#) looking to pick up apartments and villas in Turkey.

During the seven-month period, the average price of one square metre of property sold by real estate agents in Tehran was IRR70.1mn, 55.4% higher year on year.

Residential units in the price range of IRR60-70mn per square metre accounted for the largest share of transactions, at 9.7%.

Second and third largest shares were taken by the IRR50mn-60mn and IRR40mn-50mn per metre price ranges, which had figures of 9.4% and 9.1%, respectively.

Flats sized at 50 to 60 square metres took the largest share of market transactions at 14.6% in the seventh month. Units with a size of 60 to 70 sqm and 70 to 80 sqm, placed second and third with shares of 14.5% and 11.5%, respectively. In total, residential units with a floor area of less than 80 sqm accounted for 53.2% of the total transactions in the month.

Residential units of up to 5 years-old were the subject of 44.5% of transactions in the seventh month, representing the largest traded segment.

## 9.1.8 Tourism sector news

**Big numbers of bargain-hunting Azerbaijanis attracted by the collapse of the Iranian rial (IRR) appear to have been a major factor in driving up Iran's foreign arrivals by 56% y/y in the first 10 months of the 2018/2019 Persian calendar year (March 21-January 20).**

Iran's definition of a tourist is "a foreigner who visits the country for a brief period", thus the figure includes those hopping over the border from neighbours including Azerbaijan, Turkmenistan and Turkey to take advantage of the severe devaluation of the rial caused by US sanctions.

The data was announced by Iran Cultural Heritage, Handicrafts and Tourism Organisation (ICHHTO) official Leila Azhdari.

The largest contributor to foreign arrivals in Iran was Iraq with 2.2mn people. It was followed by Azerbaijan from where 1.3mn visitors hailed. The figures also recorded 700,000 arrivals from Afghanistan.

Azhdari noted that the number of European visitors declined year on year but declined to give a figure on the decrease.

She added that "1,980 US citizens entered the country during the period". Most likely many were visiting Iranian relatives. Very few Americans would have made the trip to Iran for other reasons in the assessed period given the hostility between Washington and Iran over the sanctions-led economic attack which the Trump administration has launched against Tehran.

Looking to reduce fears of travellers to Iran anxious that they might be persecuted at their next destination—particularly with regard to the US and Israel—Iran announced last year that it would no longer stamp the passports of

foreigners entering the country.

Iran's tourism industry has been hit by foreign airlines, wary of getting hit by secondary US sanctions, scrapping their flights to the country.

There have been recent efforts to boost tourism from friendly countries, including Russia and India, but Iran has failed to turn the tide on its declining tourism trade.

In November, [Iran and Russia took another step towards mutually abolishing tourist visas](#).

### 9.1.9 Healthcare sector news

**A Swiss payment channel that will help Iran to import medicines is ready to operate but is awaiting capital to launch, Otagh Online ("Chamber" Online) has reported the president of the Iran-Switzerland Joint Chamber of Commerce as saying.**

Switzerland has for several years operated a distinct business channel for Iran-bound medical consignments, accounting for around 60% of Swiss medical exports sent to the Islamic Republic. However, with the reimposition of sanctions by the US last year, Switzerland found itself having to apply for a special sanctions-waiver to cover the trade mechanism from the US Office of Foreign Assets Control (OFAC).

"The channel is ready, its characteristics have been announced, but it's waiting for the deposit of necessary funds from Iran," Sharif Nezam-Mafi, president of the Iran-Switzerland Joint Chamber of Commerce, told the news outlet.

"There is no Iranian money in the channel yet", he said.

"There is no money from Iran in Europe, much of the Iranian funds are still in India, Iraq, China and South Korea," Nezam-Mafi added, referring to some of the countries the US is temporarily allowing to continue purchasing Iranian crude oil with no threat of sanctions.

Those and other countries are facing difficulties in sending export payments to Tehran due to the heavy restrictions on any financial transactions with the Iranians also introduced by the US.

The chamber of commerce official added that for the medical channel to operate, European countries must state their agreement that Iran can transfer funds from buyers of Iranian crude in Asia to purchase medicines in Europe.

The Swiss have already designated two banks likely to accept the trade to be conducted with the mechanism: "It could either be the Heritage Bank or Banque de Commerce et de Placements [BCP], banks that were handling the Iranian money before the sanctions," Nezam-Mafi said.

The exports would only flow from Switzerland and would only involve medicine provided by Swiss companies, he added.

### 9.1.10 Metallurgy & mining sector news

**Iran Minerals Production Company director Behrouz Borna has said Iran will soon reach a production level of eight tonnes of gold a year, Iran Student News Agency reported on August 15.** The country, he added, has the potential to explore 1,000 tonnes of gold deposits.

Assessed proven reserves of gold in Iran's mines currently stand at 250 tonnes. They are being mined by private, public and foreign investors.

"The Geological Organization of Iran has discovered more than 1,000 promising zones for gold of which we have explored 100 zones," Borna

reportedly said, adding that there were at least “16 gold regions to explore in the country.” “According to the discovery results of these 100 zones, in 21 provinces the existence of gold for mining has been proven, and 12 have reached the certification of mining and exploration phase,” he added. “There are currently 24 active gold mines in the country with fixed reserves of 250 tonnes, and their probable reserves are 340 tonnes,” he said. Zarshuran mine has the country’s largest gold reserves. It can produce three tonnes of gold per year. After Zarshuran, Sarigoni mine, when completed, will become one of Iran’s most significant locations for reserves. It is to target three tonnes of gold production by the end of the current Persian Year (ends mid-March, 2019). Iran is the 11th biggest producer of gold in Asia and ranks 43rd in the world for gold production.

### 9.1.11 Renewable energy sector news

**Iran’s nominal electricity production capacity has reached 80,000 megawatts (MW), with several small and medium sized power plants having been brought online around the country in recent months, Tasnim News Agency has reported.**

Like its predecessor Ahmadinejad administration, the Rouhani administration has supported the development of several different types of [power generation models for the vast country](#) of 80mn people through public-private partnership projects. Nuclear, gas, hydroelectric, solar and wind power have been the most popular choices in recent years.

According to the cited data, since the beginning of this year, Iran’s overall power capacity has increased by 1,005 MW.

During the summer months, the country endured successive power cuts throughout its national grid given massive use of air conditioning units amid temperatures of above 40 degrees Celsius.

The government is under increasing pressure to get as many alternative forms of power generation as possible online, with several projects involving working in conjunction with foreign companies.

During the summer, Iranian Energy Minister Reza Ardakanian said 27 power plant projects, worth IRR70tn (around €1.5bn), would be inaugurated by the summer of 2019.

Hydroelectric power in Iran has come under increasing scrutiny from environmental campaigners due to the impact on surrounding valleys and farming downstream. Water levels at several dams have fallen by 30% on average with the worst affected being around cities like Tehran.

Meanwhile, Iran currently draws roughly 53 MW of power from solar generation, energy ministry data shows. It is attempting to add 932 MW in the next few years in line with deals signed already.

In a bid to grow the renewables industry in the country, Iran has [signed several agreements](#) with European, Asian and African solar panel firms in recent years. The government offers a 13-year tax break for investors in the sector. In late May, Pars [Reys Energy Bahar \(PREB\), a subsidiary of French energy firm Hanau Energies](#) Group, announced the completion of an 8.5 MW photovoltaic power plant located 130 kilometres outside of Tehran.

The French-Iranian project followed one rolled out by [Phelan Energy Group from South Africa](#). It has built a 10 MW solar plant in the small city of Khusf in Iran’s South Khorasan province.

## 9.1.12 Defence sector news

**Iran's President Hassan Rouhani has unveiled a new locally designed submarine which the defence ministry said can fire missiles, Mehr News Agency reported on February 17.**

The Iranian government has become increasingly strident in its showcasing of new weapons including rockets which can travel more than 2,500 km in recent weeks, to highlight achievements of the Islamic Republic's 40th year of existence.

Rouhani, who was in the southern province of Hormozgan which borders the Persian Gulf, said the new submarine called Fateh (Conqueror) "will defend our waters" and is the latest addition to the Islamic Republic's navy.

Iran's president commented on recent attacks on the country including the February 13 attack on the southern Sistan and Baluchistan province, which saw some 30 Islamic Republic Guards Corps. (IRGC) killed in a bomb attack on a bus.

"We will not bow down to the hegemonic power. We are ready to sacrifice ourselves and spill our blood to protect Iran," he said.

The 600-tonne submarine launched on Sunday is equipped with torpedoes and naval mines and can operate more than 200m below sea level for up to five weeks.

Later on, at the Munich Security Conference in Germany, Iran's Foreign Minister Javad Zarif was recorded as saying regarding missile technology "Is Iran expected to not defend itself?" following criticism of the country's development of its military industry including rockets.

During the [February 11 celebrations of the Islamic Republic](#), Rouhani repeated his line that the country has the right to develop its own missile technology.

"We have not asked and will not ask for permission to develop different types of ... missiles and will continue our path and our military power," news agencies reported Rouhani as saying in a speech before tens of thousands at Tehran's Azadi (Freedom) Square.

## 9.2 Major corporate news

### 9.2.1 Oil & gas corporate news

**Iran may have seen energy major Total pull out of the investment to develop Phase 11 of the giant South Pars gas field and [it may be set to lose](#) China National Petroleum Corp (CNPC), which was supposed to upgrade its involvement to step into the French company's shoes, but on December 15 official energy news agency SHANA reported the CEO of Iran's Pars Oil and Gas Co. (POGC) as saying his company would alone extract some 630mcm/d from the resource next year.**

As Iranian officials explored reports that the Chinese had suspended their involvement in developing part of what is the world's largest gas field because it might interfere in their trade war talks with the US, POGC chief Mohammad Meshkinfam reportedly put forward the figure, saying it would mark a record increase in Phase 11 extraction. He said the fourth "train" of South Pars Phase 13 would come online within the next two weeks. The facility will be fed by the gas supplied from other phases of South Pars in the Persian Gulf.

Meshkinfam added that Phase 14 would become operational in the next few months, adding 28mcm/d to gas production.

On December 12, Iranian [Oil Minister Bijan Namdar Zanganeh](#) responded to

the reports about CNPC by warning that the company would be held to account if it breached the contract framing the project. Demonstrating how concerned he was by the CNPC move, Zanganeh even joined Twitter to tweet his standpoint—Twitter is banned in Iran.

Zanganeh was reacting to a Reuters report that three state oil executives had said CNPC had frozen its investment in Phase 11 of the field, shared with Qatar. The Chinese corporation in late November replaced France's Total as the operator of the project.

Total [ended its participation](#) in Phase 11 rather than expose itself to US secondary sanctions. When it scrapped the investment it was also in the early stages of planning petrochemical investments in Iran that would use feedstock made with gas from South Pars.

**Russia's largest oil company state-controlled [Rosneft](#) will drop plans to work in Iran, despite previous investing \$30bn and extracting 55mn tonnes of oil with National Iranian Oil Company (NIOC), Vedomosti daily reported on December 12 citing unnamed sources close to the company.**

Russian oil and gas companies [could invest \\$50bn in development of hydrocarbon fields in Iran](#), the presidential aide Yuri Ushakov told the press in April 2018. Previous reports claimed that in 2016 Rosneft, Lukoil, Gazprom Neft, and Tatneft oil majors, as well as Gazprom gas giant signed memorandum of understanding with the NIOC.

But reportedly Rosneft started winding down the possible cooperation with NIOC in summer 2018 when the threat of the US sanctions against Iran first appeared. The sanctions were then introduced in November 6.

Previous reports indirectly confirm that Rosneft was putting the Iranian ties on hold, as [Rosneft-controlled Indian refiner Nayara Energy, one of India's biggest buyers of Iranian oil](#), began cutting its imports in July.

Other sources now told Vedomosti that Rosneft will focus more on growth inside Russia, rather than overseas expansion, which is in line with the [investor makeover that the company launched earlier this year](#). Dmitry Marinchenko of Fitch Ratings also reminded that Russia is building closer ties with Saudi Arabia, which is the geopolitical foe of Iran.

"There were no obligations to the Iranian side, no money were invested, so there is no clarity on what will happen," another source told the daily.

## 9.2.2 Automotive corporate news

**Iran's largest car producer, Iran Khodro (IKCO), has announced it will start offering its Dena sedan in Ukraine as part of a joint-venture deal with an Azerbaijani company, Mehr News Agency reported on February 13.** The Khazar-branded vehicle built by AzerMash is assembled in the Naftchala area, 168-km south of Baku under licensing agreed by IKCO. The car has had a lukewarm reception in Azerbaijan but is popular with taxi drivers due to its affordable parts, according to reports. The enterprise produces the IKCO Dena+ model, released in 2016 and based on the Peugeot 405 platform from the 1980s.

Head of IKCO operations in Asia, Europe, America and Commonwealth of Independent States (CIS), Sabina Nobari, said the company was set to export its Dena vehicles to Ukraine through its operations in Azerbaijan.

She said it would send vehicles to Ukraine under the Khazar brand. The vehicles would be sold as completely built units (CBU) and would be shipped via the Black Sea from Georgia, she added.

IKCO was present on the Ukrainian market between 2006 and 2010, selling

some 12,000 older Samands during that period.

The company previously said it was looking to export to other regional markets including [Russia and Georgia](#), countries in which Iran has previously sold vehicles.

The project between IKCO and AzerMash was kickstarted in 2016 with capital of 24mn manats (\$14.1mn at the time). AzerMash owns 75% of the company. It officially opened during the Persian Nowruz new year period in March 2018, with the presidents of Iran and Azerbaijan attending the inauguration.

**Meanwhile, IKCO has jacked up the prices of its locally assembled vehicles by an average IRR100mn (\$885 at the free market rate), Iran Student News Agency reported on January 9.**

IKCO suffered a massive reduction in produced vehicles and sales over the past six months, during which time the value of the Iranian rial (IRR) collapsed against the dollar. The huge devaluation forced many would-be buyers of cars on to the second-hand market. IKCO has for months been debating big price increases given the much higher foreign currency costs the company must endure in order to pay for parts and raw materials.

**Iran's parliament has passed a vote that means the government is obliged to fully divest its stakes in the country's two largest car manufacturers within three years, ICANA reported on January 22.**

State-owned Iran Khodro (IKCO) and SAIPA have been a drag on the government's coffers since they were taken into state ownership following the 1979 revolution. A lack of investment and a reliance on foreign partners have left the companies producing cars designed in the 1980s, including the Kia Pride and Peugeot 405.

The plan went through parliament with 113 votes for, 36 against and 20 abstentions, placing the ball in the Rouhani administration's court to cede ownership of the automaker stakes to the private sector.

MPs want to see the government withdraw from acting as an entrepreneur in the automotive industry; they say it should only be involved in policymaking and regulation. Conflicts of interest from the government developing regulations while also profiting from vehicle manufacturing could develop, they say.

SAIPA, Iran's second biggest carmaker, has appointed its latest CEO, who follows a succession of predecessors seen in the past several years. On January 21, Mohammad Reza Soroush was removed from his post as CEO after barely four months in the job and was replaced by Mirjavad Soleimani.

### 9.2.3 Transport corporate news

**Flag carrier IranAir has bought three 17-year-old Airbus A319s that originally belonged to Tajik Asia Sky Lines, the Iran Chamber of Commerce, Industries, Mines and Agriculture stated on its website on February 24.**

In the face of US sanctions which have wrecked IranAir's plans to acquire scores of planes from aircraft manufacturers including Airbus and Boeing, the carrier and other Iranian airlines have been scouring the markets for aeroplanes they can find ways to obtain. The three new planes bring IranAir's number of operational aircraft up to 32, the airline said.

The three planes, coded EY-557, EY-558 and EY-559, have a colourful history. Official documents show that they were owned by Tajik Asia Sky Lines. A Hungarian dealer is believed to be behind the sale, some Iranian reports have stated.

The planes have been parked in Mashhad in northern Iran for the past several months, according to satellite imagery posted on a Twitter account called Aerospacetalk.

It is expected that the planes will presently be sent to be given IranAir livery before going operational within two months.

The delivery of the planes jars with comments lately made by Minister of Roads and Urban Development Mohammad Eslami. He said [Iran had become able to buy planes](#) via “a special financial channel” and “very good ones” too. The last delivery of new planes to Iran was ATR’s dispatching of [13 turboprop regional airliners to the country](#) before sanctions were reimposed by the US last August.

**Germany has pulled the licence of Iran's second largest airline, Mahan Air. Berlin officials cited "security concerns" and activities the carrier was said to be involved in in conflict-torn Syria when they announced the withdrawal of the permit on January 21.** The German Foreign Ministry has said Mahan maintains ties with Iran's Islamic Revolutionary Guard Corps (IRGC) and lays on military transport flights between Iran and Syria.

The licence move stems from the latest of [a series of disagreements between Iran and EU member nations](#), which, along with China and Russia, are supposed to more or less be on the same page in defending Iran’s economy from the reimposed heavy US sanctions.

The Federal Aviation Office (LBA) of Germany made the decision to ban Mahan from landing in Germany with immediate effect. Consultations on the matter took place with European allies and the US, German government spokesman Steffen Seibert said. However, he said the decision to revoke the licence was not a result of US pressure, but was "based on considerations of our security needs".