

Iran says "Yes" to Rouhani agenda

Nearly two months on from Implementation Day, substantial commercial deals are beginning to take place, oil sales are rising, business confidence is returning and the electorate has voted for "more of the same" in the first round of Parliamentary elections. President Rouhani's government will be judged on keeping the Joint Comprehensive Plan of Action (JCPOA) on track and most importantly delivering on its promises of a stable, open and prosperous path for the Iranian economy.

Iranian voters delivered a resounding vote of confidence in the Rouhani administration in the first round of elections for the Majlis and Assembly of Experts. Iran's reformist and moderate candidates, natural allies of President Rouhani, made significant gains nationally and won all 30 parliamentary seats representing Tehran. The balance of power for the next parliament will not be decided until the run-off elections in April, but indications are that the President will face a parliament he can work with constructively for the remainder of his term.

The Iranian business community reacted positively to the results. Hard line factions have made no secret of the fact they resent the deal struck with Western governments through the Joint Comprehensive Programme of Action (JCPOA) and would lean against

the opening up of the Iranian economy. The business community hopes a more centrist, pragmatic parliament will enable the passage of much needed economic reforms and ease Iran's reintegration to the global economy. The Tehran Stock Index has maintained its post implementation day gains and plateaued at around the 78,000 mark, which is a two year high.

President Rouhani now has little over a year until his own election to sell his vision of Iran's future. The President came to power on the promise of a more stable, prosperous economy. He is currently riding a wave of popularity, but the electorate will expect tangible results from the lifting of sanctions and various strands of economic reform by next spring. Rouhani will be hoping the election result provides him a mandate to continue his administration's pro-market

Fig 1. Tehran Stock exchange (TEDPIX All Shares Index)
1 December 2015 to present

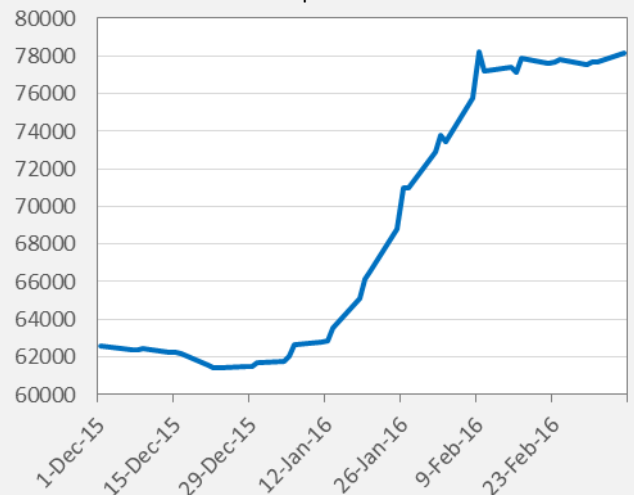
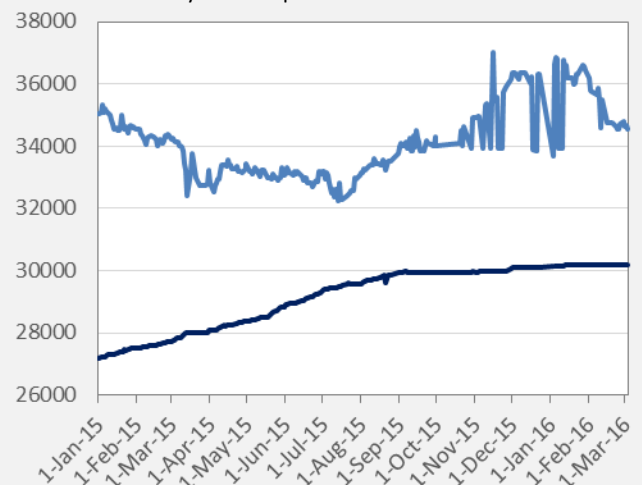


Fig 2. Iranian Rial to USD exchange rate
1 January 2015 to present



economic policies.

With almost two months passed since 'Implementation Day', some impacts from sanctions relief are becoming apparent, if not making themselves felt in the ordinary citizen's back pocket just yet.

Substantial commercial deals have been completed, including the first post-sanctions shipment of Iranian oil reaching France as part of a 160,000 barrel per day (bpd) agreement with Total. The National Iranian Oil Company also embarked on a 100,000 bpd deal with Italy's oil giant, ENI. Meanwhile, Iranian banks resumed trading with the Bank of Tokyo-Mitsubishi (BTMU), Japan's largest bank, including the processing of payments for historical Iranian crude purchases. Greece's Hellenic Petroleum, Italy's Sara and Anglo-Dutch Shell are also processing outstanding payments for an estimated \$4 billion of historical crude oil sales.

The economic impact of the JCPOA will be determined by how effectively the authorities, businesses and other stakeholders are able to take advantage of it. The deal is not an end in itself, rather it is a catalyst for sensible economic policies and reform, an opening for credit-starved businesses, an opportunity to build international networks and learn from or collaborate with overseas partners. Majlis Speaker Larijani once again drew attention in a public statement to the need for foreign investment if Iran is to hit its economic growth target. He called on parliament to legislate to remove obstacles to raising production and to improve the business climate.

Iranian banks and the Central Bank reached an agreement to reduce the one-year interest rate for deposits, in a bid to stimulate spending. The rate cut- from 20% to a maximum of 18% - was the second of this Persian calendar year. The CBI reversed its opposition

to the cut despite fears of stoking inflation. CBI officials are mindful of the need to keep deposit rates low and hopeful that the money will be channelled into manufacturing and capital markets. With their reconnection to international credit markets and promises from the government to repay the lion's share of its outstanding debts within the next year, banks are being incentivised to start lending again. However, the quadrillion rials (US\$33 billion) worth of non-performing loans are dangerously high and without a strong economic recovery, industrial borrowers will likely leave an even larger hole in bank finances.

Meanwhile the macroeconomic backdrop is challenging for Iran's policy makers. The government announced its deficit this current Iranian year (ending 19 March) exceeded 450 trillion rial (\$12.8 billion), due to collapsed revenues and a failure to meet spending targets. Balancing next year's budget will be no easy task. Risks are posed to Iran's financial stability from the low oil price, a weak banking sector and rising FX liquidity. The Central Bank of Iran reacted harshly to unregistered foreign exchange traders this month, accusing them of undermining the economy through speculative and illegal activities. As well as the usual strong-arming of street traders, the CBI took the unprecedented step of banning websites from publishing foreign

Fig 3. Iranian Rial to USD exchange rate

1 January 2016 to present

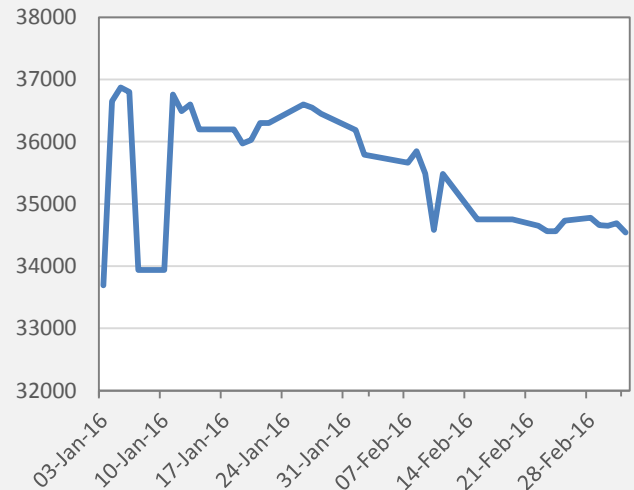


Fig 4. Brent Crude Oil Price

1 July 2014 to present



exchange rates in the parallel market. A revealing indication of the degree of concern felt amongst Iran's economic policy chiefs.



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