

### Iran and partners look past US for new deal, as Trump says “no”

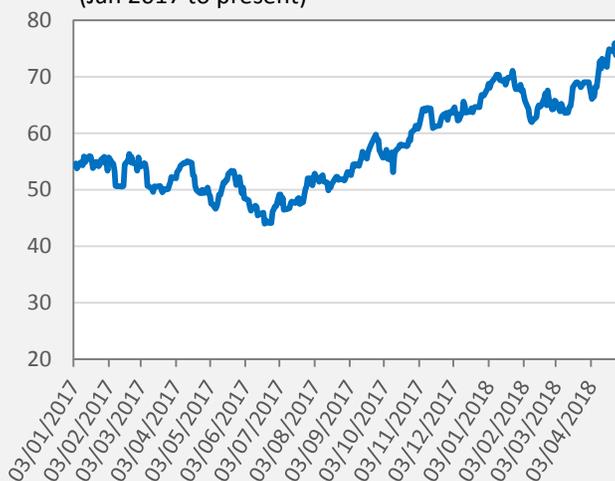
*With the US President Trump's decision not to recertify the US stake in the multi-party nuclear deal with Iran, the intricately balanced agreement, painstakingly struck by his predecessor has come to an end. But the support expressed by European, Chinese and Russian signatories to continue the deal without the US mean it remains within Iran's best interests to stick to its terms and find a new path.*

**The United States has chosen to pull out of the JCPOA nuclear deal, thus reimposing financial sanctions against Iranian entities.** This move, long-signalled by President Trump, goes against the advice of US security partners in Europe and the UN, and against many voices of reason from within the US government. Nevertheless, the President has decided to withdraw from the multi-party deal, thus diverting course to a future much less certain.

**In Iran, the authorities had already begun planning for a post-US era for the JCPOA and what it would mean for its banks and external trading relationships.** Even if Mr Trump had chosen to extend the waiver on Iran's nuclear sanctions by a further six months, such severe damage has been done to the level of trust and momentum established between the two nations, that change seemed inevitable. Through little fault of the Iranian authorities, who were deemed by the UN to have adhered to the letter of the deal, the JCPOA as we knew it is dead. But there are expectations of life after death for the agreement, as the remaining stakeholders begin to explore what it can mean for them, without the US at the table.

**The good news for Iran is that Europe and other signatories could not be clearer that they wish to keep the JCPOA alive.** Europe's leaders and foreign policy chiefs have consistently positioned “all of Europe” behind the full implementation of the JCPOA, publicly and privately, including during the French President and British Foreign Secretary's recent trips to Washington DC. The EU's most senior diplomat, Ms Modigliani said the deal is a strategic element of the EU's own security stance. Russia and China, the other two parties to the agreement have also unequivocally stated their commitment to the JCPOA's implementation. So, by departing from the deal, the US appears more likely to politically isolate itself than Iran.

**Fig 1. Brent Crude Oil daily spot price**  
(Jan 2017 to present)



**Fig 2. TEDPIX (All Shares) Stock Index**  
01 Sept 2017 to present



**In that context, Iran's best interests are served by maintaining course: compliance with the terms of the JCPOA and economic reform.** Iranians are entering a new, uncertain era in which, notwithstanding the risk of direct military conflict, which is raised but hopefully not realistic, they need to demonstrate their willingness to work with the rest of the world. President Rouhani himself has said on numerous occasions that Iran is prepared for such an eventuality and several prominent members of the administration have passionately rejected the idea that Iran's own interests should be undermined by the actions of the US President alone. There will be political pressures within Iran, as well as provocations from abroad, to destabilise the deal. But for Iran, moving away from the JCPOA will only worsen its economic prospects further.

**Naturally, the balance of the deal shifts as the US leaves the table and Iran will seek guarantees from its remaining partners that their end of the bargain can be upheld.** The premise of the JCPOA was to reward Iranian compliance with access to the international financial and trading system. This involved undoing an international network of financial sanctions, including the powerful extraterritorial US sanctions that threatened punishment to companies worldwide. To deal with Iranian partners, international financial institutions and businesses will need to navigate the law smartly and fully vet who in Iran they are dealing with. The European authorities will most likely need to negotiate terms of engagement with their US counterparts to limit risk. This reiterates the need for continued Iranian compliance with the terms of the JCPOA. If the Iranian authorities were to reject IAEA's scrutiny or technically over reach the terms of the deal, the US authorities could make all international trade with Iran more difficult.

**Additionally, Iran must continue to improve the resilience and stability of its economy to withstand the challenges of the years ahead.** Of primary importance is the continued need to attract foreign investment. With fixed investment at around 20 percent of GDP – a level economists estimate to be at least 10 percentage points lower than what is needed to bring down unemployment – foreign capital inflows are in greater demand than ever. The job of attracting investment has now become more challenging but does not entirely tie the hands of Iranian businesses. The main obstacle to foreign investment remains the murky ownership networks, the lack of a rule of law and the anti-competitive marketplace, dominated by powerful vested interests. Fixing these problems would go far towards readying Iran for international engagement in the post-US JCPOA era.

**The recent crackdown on foreign currency trading does not bode well for Iran's future engagement in the global financial system.** Recent dives in the value of the rial mean the currency has lost one third of its value since December. The government's sledgehammer response in April, halting domestic foreign exchange transactions and outlawing foreign currency holdings of more than \$12,000, has enforced a fixed rate – at a huge cost to the Central Bank. Long held plans for a sustainable reunification of exchange rates are in ruins as brute force overtook macroeconomic reasoning to set a single USD rate (Fig 3). The move is a sign of the authorities' anxiety over potential capital flight. But it is more telling of the sharpening political battles taking place within the administration between hard-line advocates of a more insular "resistance economy" for Iran and the more liberally minded economic policymakers, advocating competitiveness in the global economy as the right way forward. This week's move by Mr Trump risks tipping the balance further in the direction of Iran's hardliners.

**Fig 3. Rial to USD exchange rate**  
(Official (dark blue), market (light blue))

