

Global Hot Topics

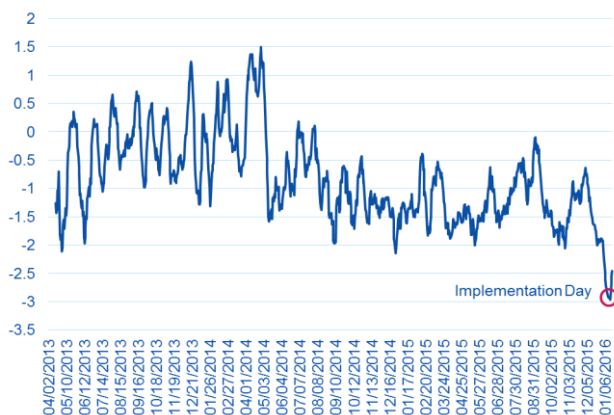
Iran: lifting of sanctions, a milestone on the nuclear deal

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This weekend has marked a milestone in the Iran nuclear deal. The International Atomic Energy Agency (IAEA) verified on 16 January that Iran has implemented its nuclear-related commitments, opening a new era in the nuclear program. In exchange, the international economic sanctions introduced by the UN, the EU and the US on Iran have been lifted, allowing key sectors of the Iranian economy to rejoin the international community, such as the oil and gas, banking and gold sectors. According to the JCPOA, both the US and the EU has every right to snap back, so sustaining the rapprochement between the West and Iran would be crucial. It marks an important landmark in the country, which allows Iran to connect again to the global markets. However, some challenges and uncertainties will remain, especially on the geopolitical arena.

Sentiment on the Iranian economy

Lower values indicate a deterioration of Iranian economic tone
Source: www.gdelt.org and BBVA Research



The Implementation Day...

The IAEA verified on 16 January that Iran had fulfilled its nuclear related obligations under the Joint Comprehensive Plan of Action (JCPOA). Moreover, it led to the “Implementation Day” where the lifting of key international economic and financial sanctions on Iran took place in line with the JCPOA. It came much earlier than expected given Iran’s eager to fulfill its commitments before the important upcoming legislative elections on February.

All secondary sanctions on oil and natural gas trade, gold trade and financial transactions have been mostly removed. However, the US trade embargo and sanctions on certain people and entities remain in place, as well as some sanctions on the proliferation of WMDs concerning the arms embargo, sanctions related to missile technology, restrictions on certain

nuclear-related transfers and activities and provisions concerning certain metals and software. Furthermore, the US will stick on its sanctions to counter Iran’s support for terrorism and human rights abuses, including support for people involved in human rights abuses in Syria and for people threatening the stability of Yemen. Proliferation-related sanctions, including arms and missile technology sanctions, are expected to be lifted by the EU and the US 8 years after the Adoption Day (October 2023) or at an earlier moment based upon a report from the IAEA that all nuclear material in Iran remains in peaceful activities. Finally, the Resolution Termination Day, when UN Security Council will conclude consideration of the Iranian nuclear issue and all remaining nuclear-related sanctions will be lifted, is expected to happen 10 years from Adoption Day (October 2025).

... and its potential implications

The lifting of economic and financial sanctions on Iran on 16 January will have significant implications for:

- **The Oil market:** it allow Iran to increase its oil production and exports around 500 kb/d on average according to Iranian government sources (plus the “barrels at sea”), putting further downward pressure on oil prices in the near term. According to the US Energy Information Administration, Iran’s crude oil production would reach 3.3 million b/d at the end of 2016 and 3.7 million b/d at the end of 2017.
- **The economic activity:** the partial relief of sanctions since November 2013 has eased pressure on growth and inflation and the full lifting of sanctions will have a further positive impact on the economy, accelerating Iran’s economic growth despite the low oil prices. The expected increase in oil production and exports, the access to around \$100 billion of frozen in foreign accounts and the reduction in the financial and trade Iranian assets transactions costs would allow GDP growth to accelerate to 5.8% yoy and 6.7% yoy in 2016 and 2017 according to the World Bank estimates.
- **Politics:** the lifting of sanctions should also provide a respite to President Rouhani in a crucial moment, the ongoing important elections on 26 February. Rouhani would take the opportunity to put on evidence their effective management in the lifting of international sanctions before expected, showing he kept its promise and the economic situation will be better under his Government.
- **Geopolitics:** A de-escalation of risks in Middle East is not expected in the short-medium term and geopolitical confrontations between Iran and its neighbors (as the recent tensions’ escalation between Iran and Saudi Arabia) will continue well alive. However, the openness of the Iranian economy could lead in the medium term to a softer stance by Iranian hardliners. So far, the proxy wars remain well alive but a relaxation of the heightened geopolitical tension and sectarian violence would be crucial to trigger more favorable geopolitical and economic impacts for the Iranian economy and the rest of the region.

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