
IRAN-GERMAN ECONOMIC RELATIONS

BCG/NMI BOARD TALKS ON IRAN

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Frankfurt

04/21/2016

GLOOMY PICTURE

Ahmadinejad
Phenomenon

Sanctions

Decreasing Oil Prices

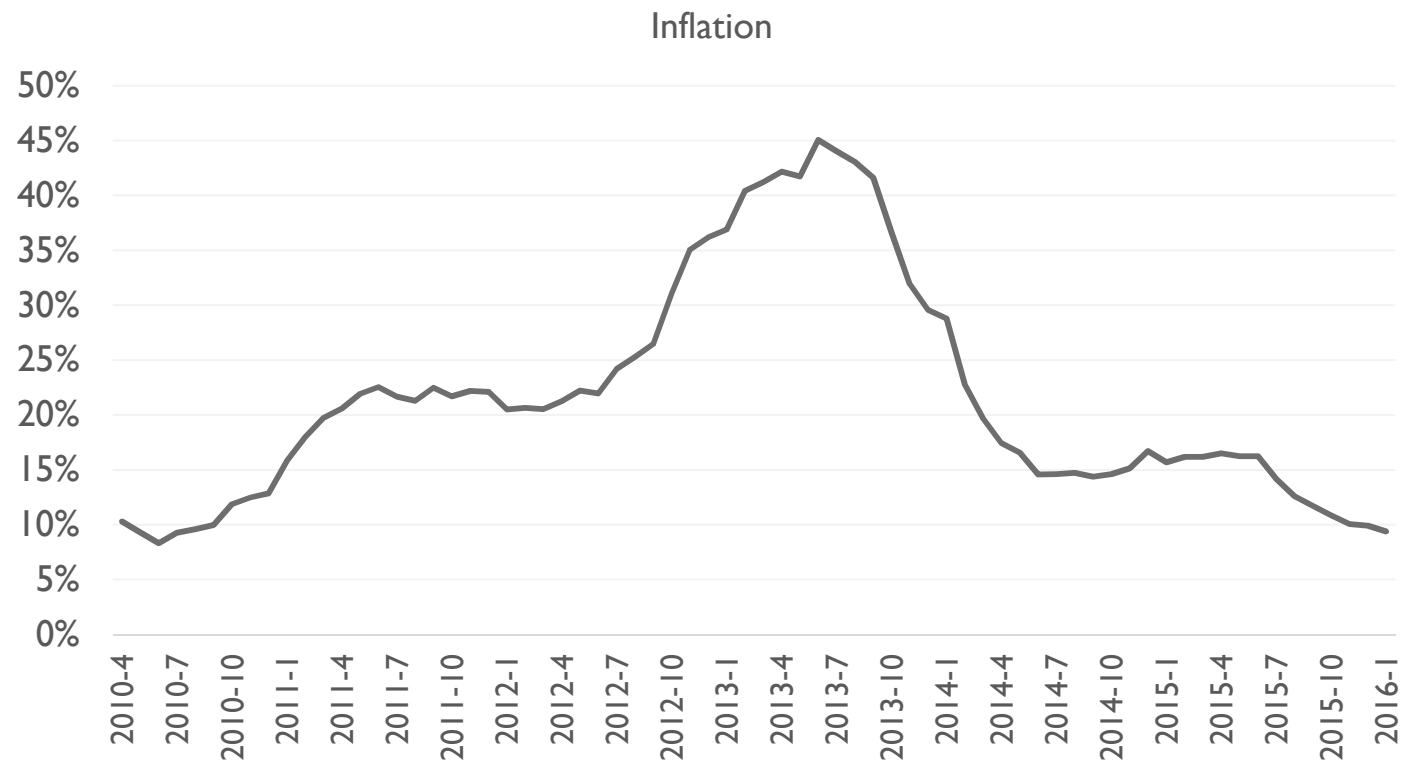
ROUHANI'S POST-SANCTION ECONOMIC STRATEGY OPTIONS FOR CHANGE

- Interacting With the World without any Structural Reform
- Economic Introversion without any Structural Reform
- Economic Structural Reform with Full Interaction with the World and Full Utilization of National Capacities (Bank Reform/Debt Market/Market-Based Prices/Low Inflation Rate/ Diversifying into All Potential Markets,...)

THE PROBLEMS WITH OUR ECONOMY

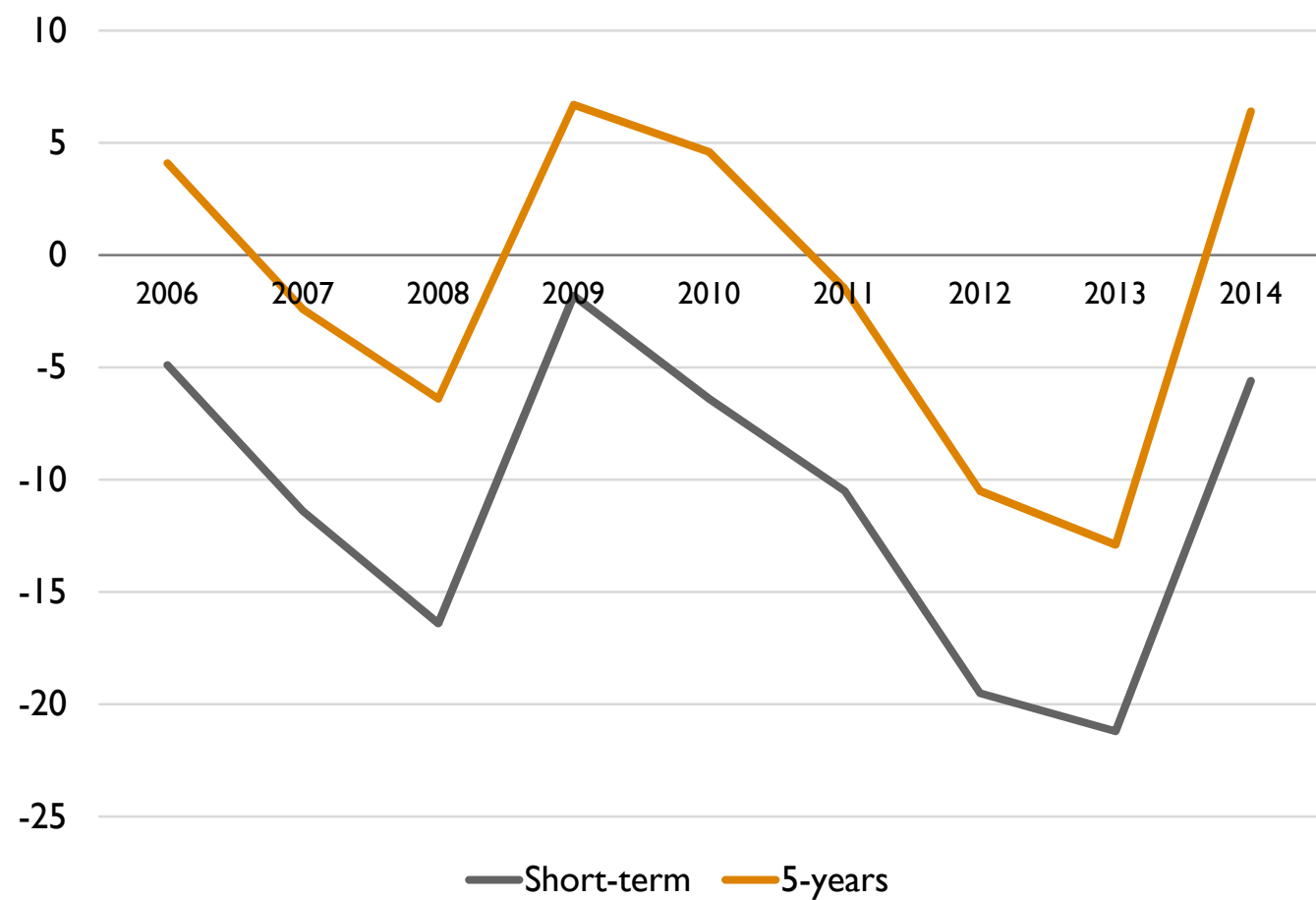
- Subsidy Problem
- Quasi-Government Agencies
- Financing Challenges Facing Iranian Enterprises/ Credit Crunch/Bank's Trauma
- Limited Government Budget
- Inefficient Enterprises/The Productivity Puzzle
- Insufficient Aggregate Demand
- Dense Perplexity of Energy Policy/ Energy Saving Programs
- Multiple Exchange Rates

INFLATION RATE (%)



Source: Statistical Center of Iran

REAL INTEREST RATES (%)



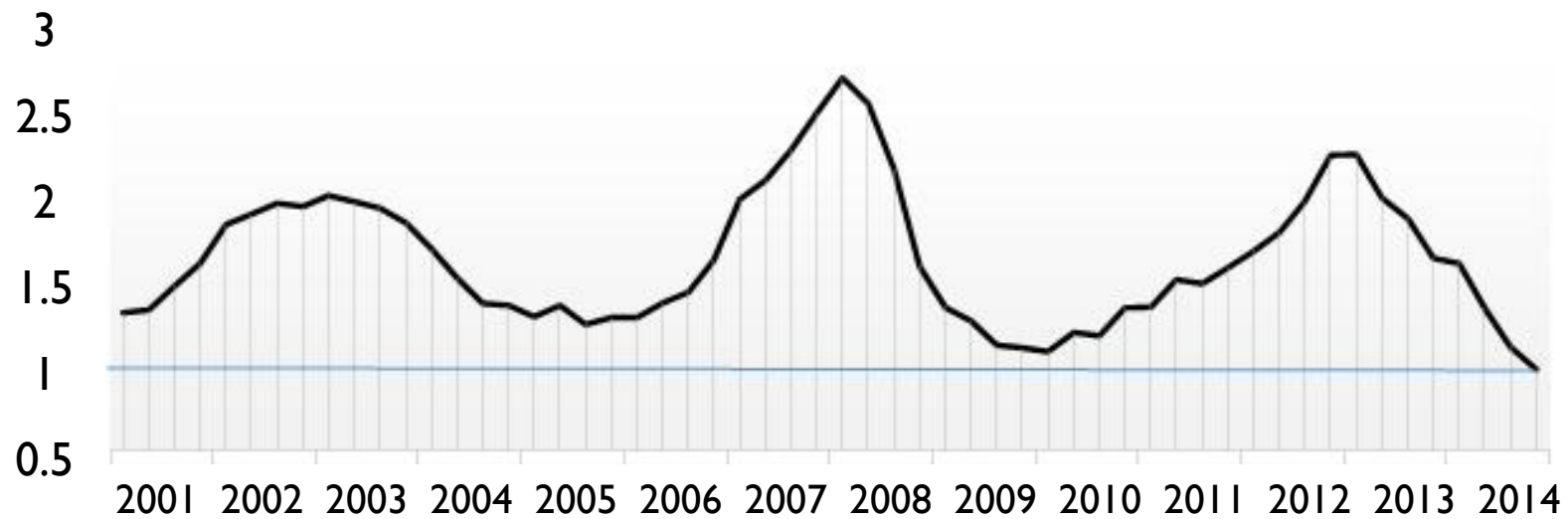
Source: Central Bank of Iran

OVER-INVESTMENT IN HOUSING SECTOR



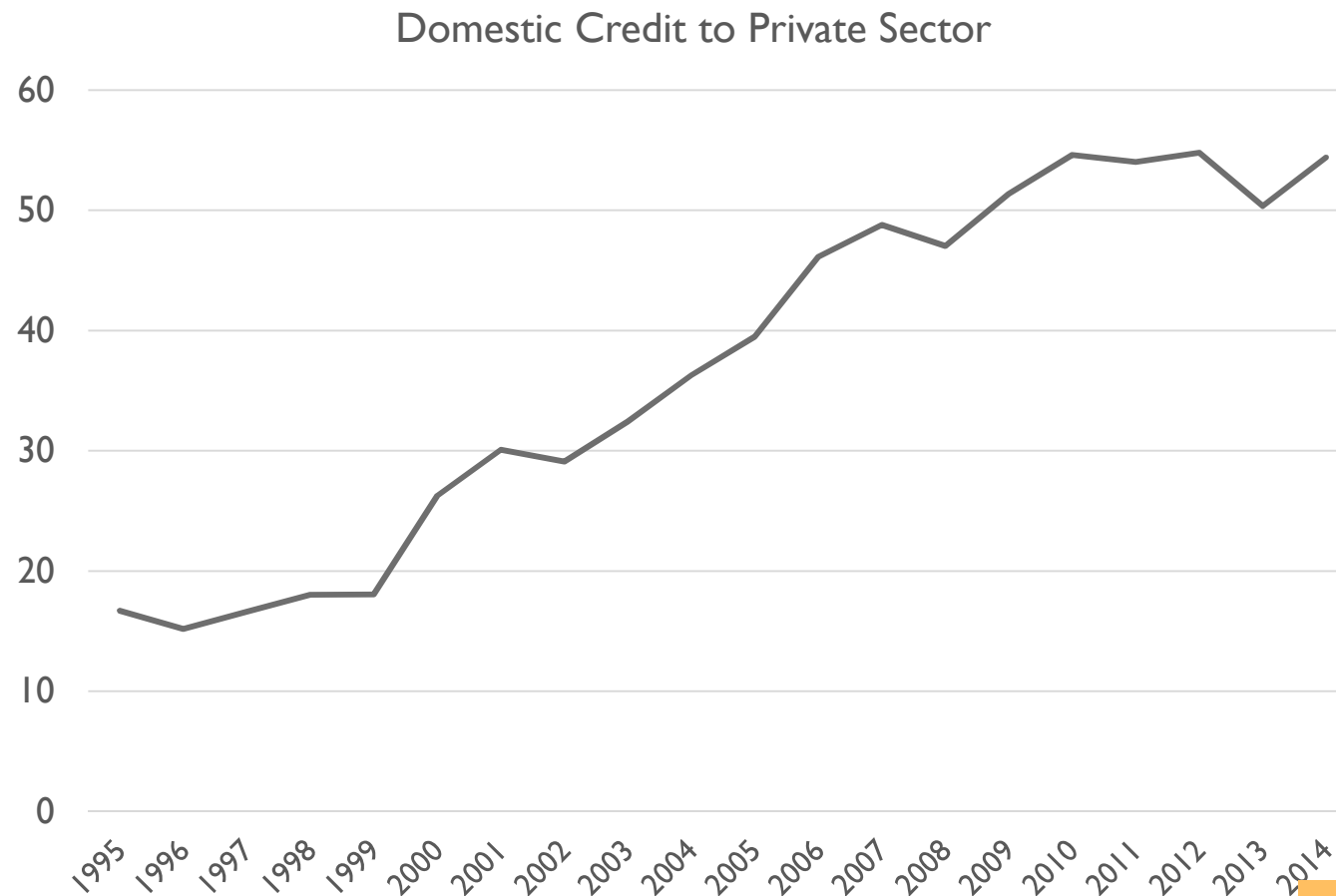
Source: The Institute for Management and Planning Studies

TOBIN Q RATIO IN HOUSING INVESTMENT



Source: The Institute for Management and Planning Studies

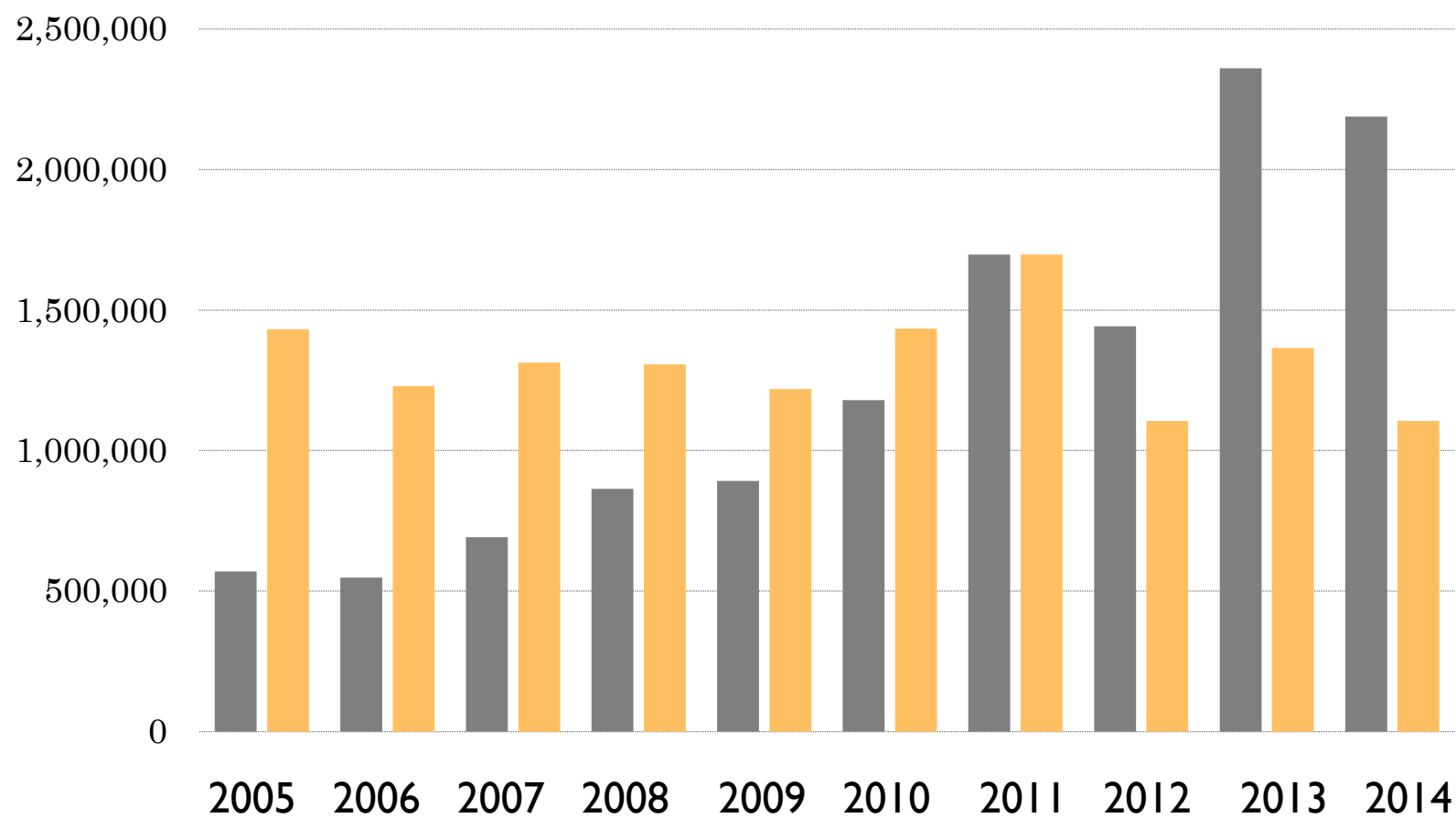
CREDIT CRUNCH (% OF GDP)



Source: World Bank

Return

NOMINAL BUDGET VS. REAL BUDGET

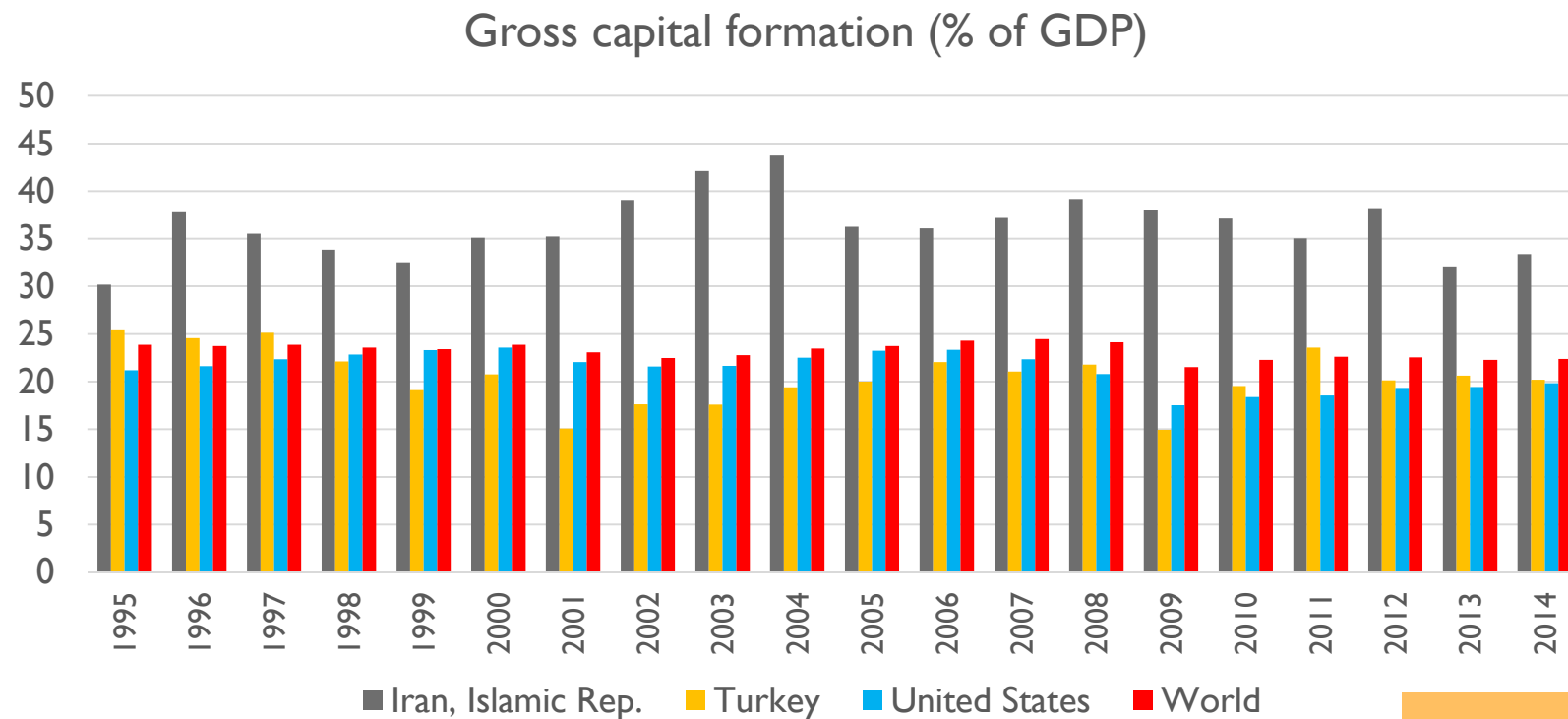


Source: Central Bank of Iran

Return

PRODUCTIVITY AND CAPITAL INPUTS IN THE CAKE OF CAPITAL FORMATION

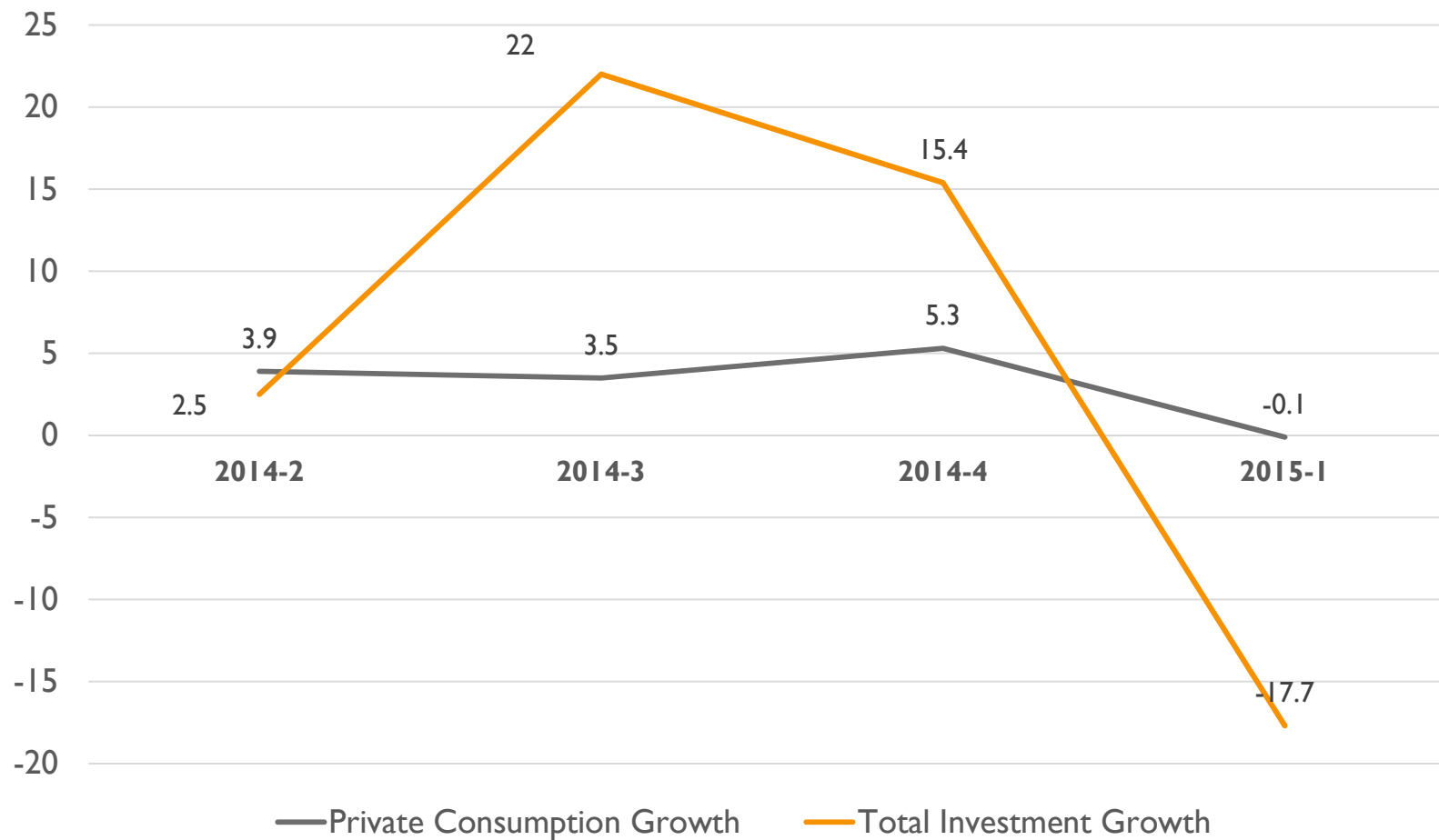
- Current share of Capital is too high
- The missing part of the cake is productivity



Source: World Bank

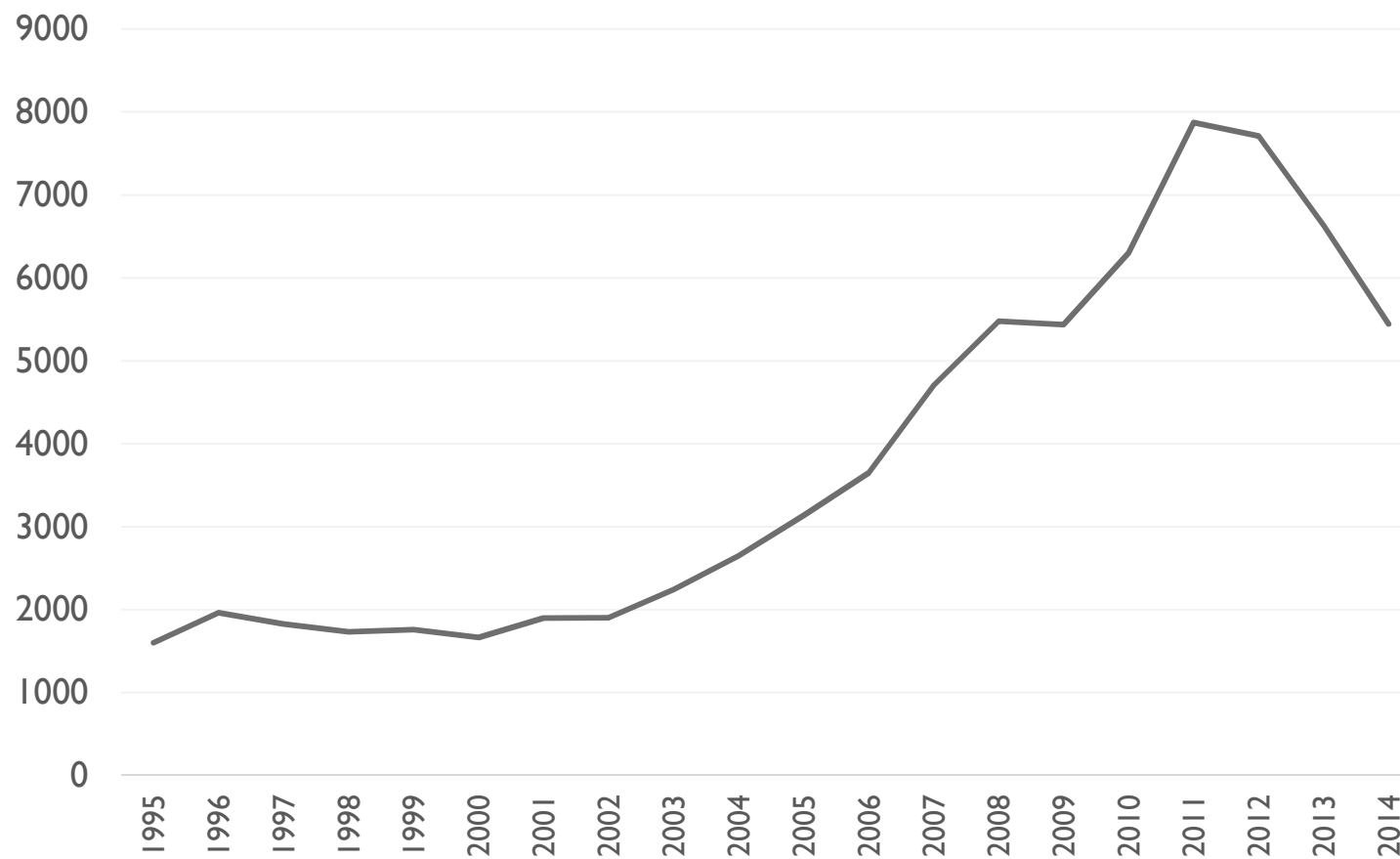
Return

DECREASING AGGREGATE DEMAND (%)



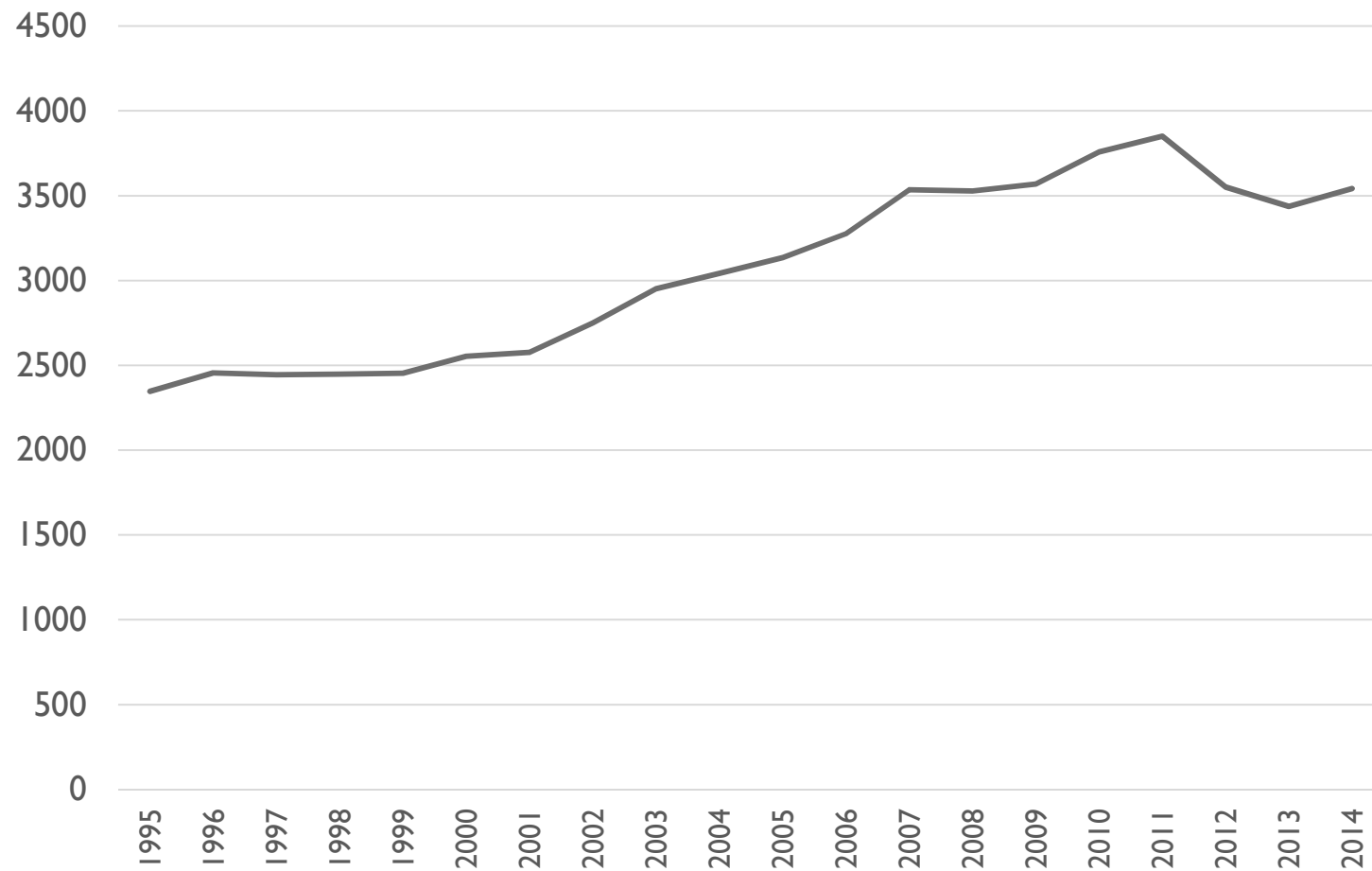
Source: The Institute for Management and Planning Studies

GDP PER CAPITA (CURRENT US\$)



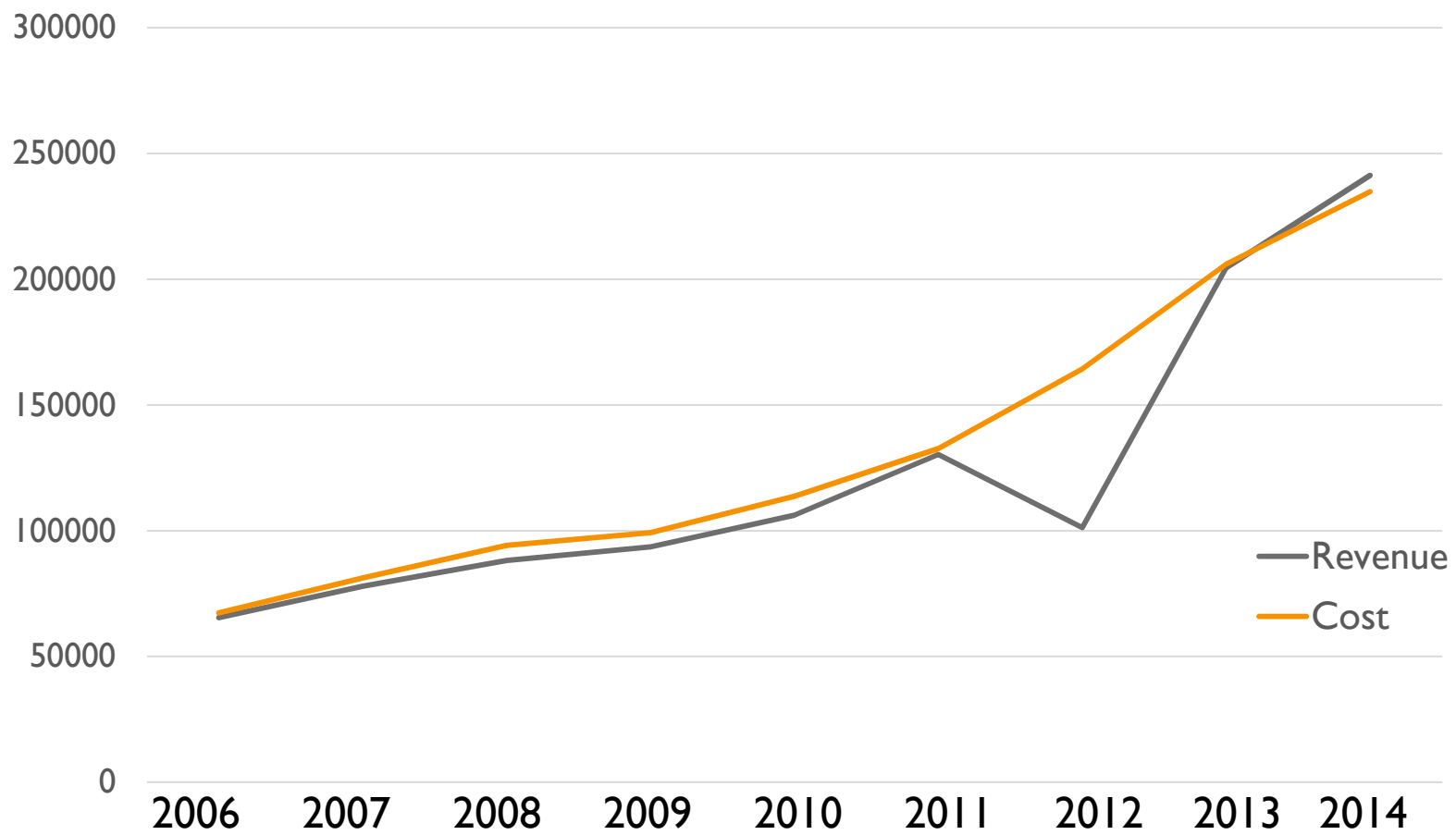
Source: World Bank

GDP PER CAPITA (CONSTANT 2005 US\$)



Source: World Bank

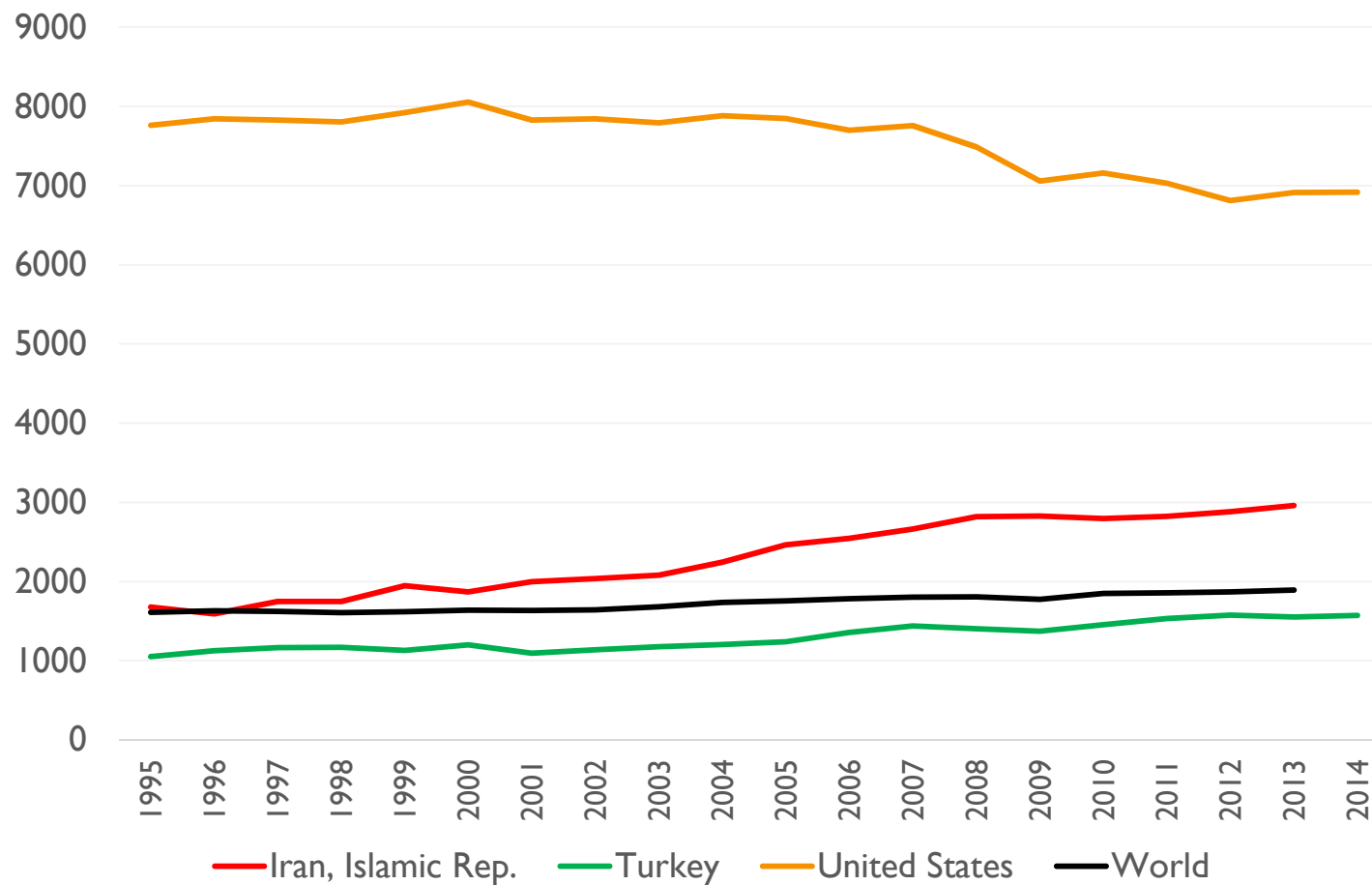
REVENUE AND COST (HOUSEHOLD)



Source: Statistical Center of Iran

Return

ENERGY USE (KG OF OIL EQUIVALENT PER CAPITA)



Source: World bank

ENERGY CONSUMPTION

- Cheap subsidized energy ended to high consumption rate, and low productivity of industries



**700 million
barrels in a
year**
×
40 Dollars

+



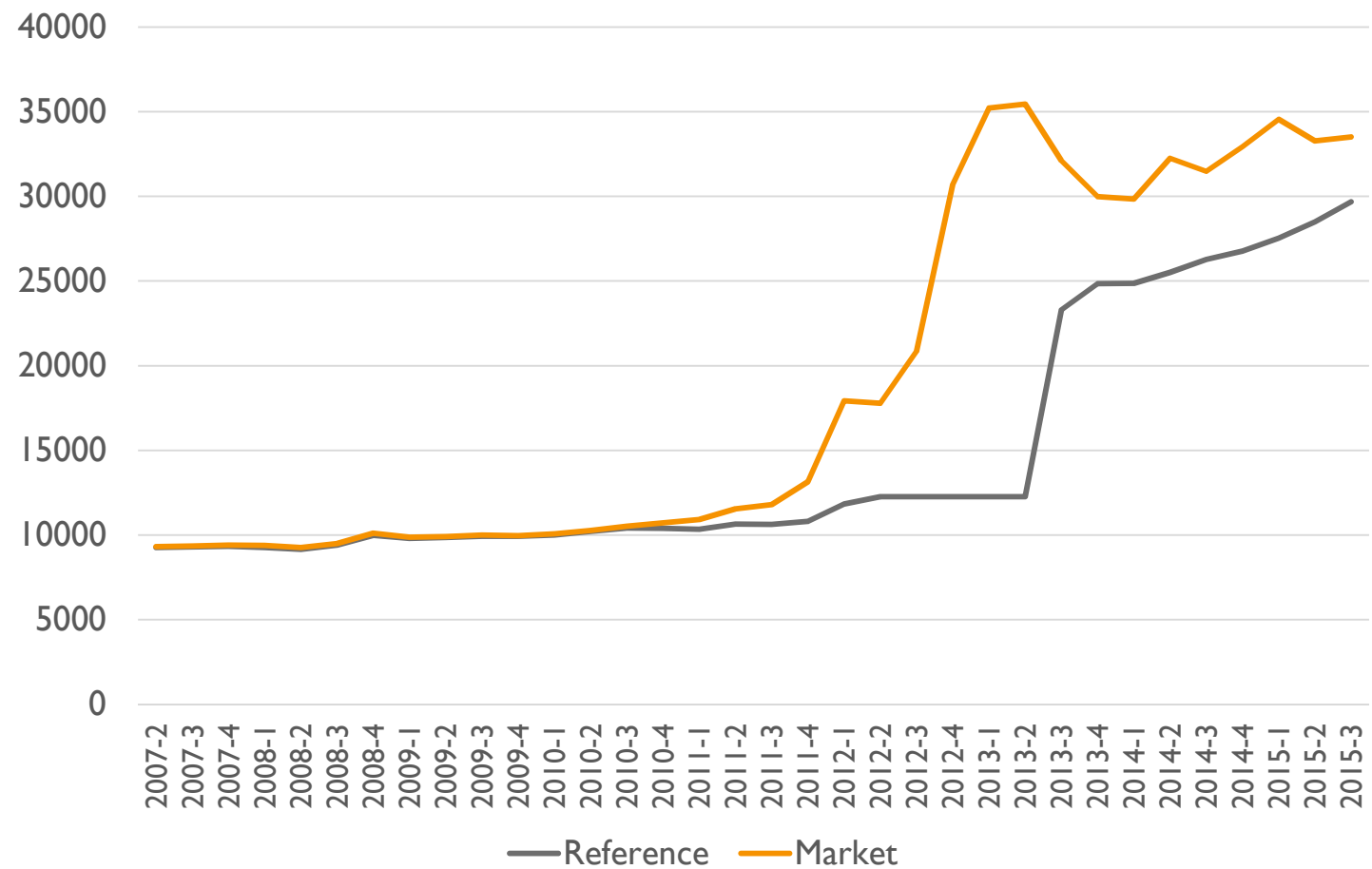
**162 billion m³ in a
year**
×
30 cents

=

**76 billion
dollars**

Return

MULTIPLE EXCHANGE RATE (IRR)



Source: Central Bank of Iran

ACHIEVEMENTS OF P5+1 ACCORD (JCPOA) AS OF NOW

- Sanctions on the Import of Oil and Gas and Petrochemical Products from Iran Are Lifted in the EU.
- Reaping Part of Over \$100 Billion in Previously Frozen Assets
- Reduction in the Overall Costs of Trade for Iran/ Cheaper Imports
- Boosting Non-Oil Export
- Facilitating Technology Transfer
- More Opportunities to Finance Projects and Corporates/
FDR/Relations with Banks/Sovereign Guarantee Financing

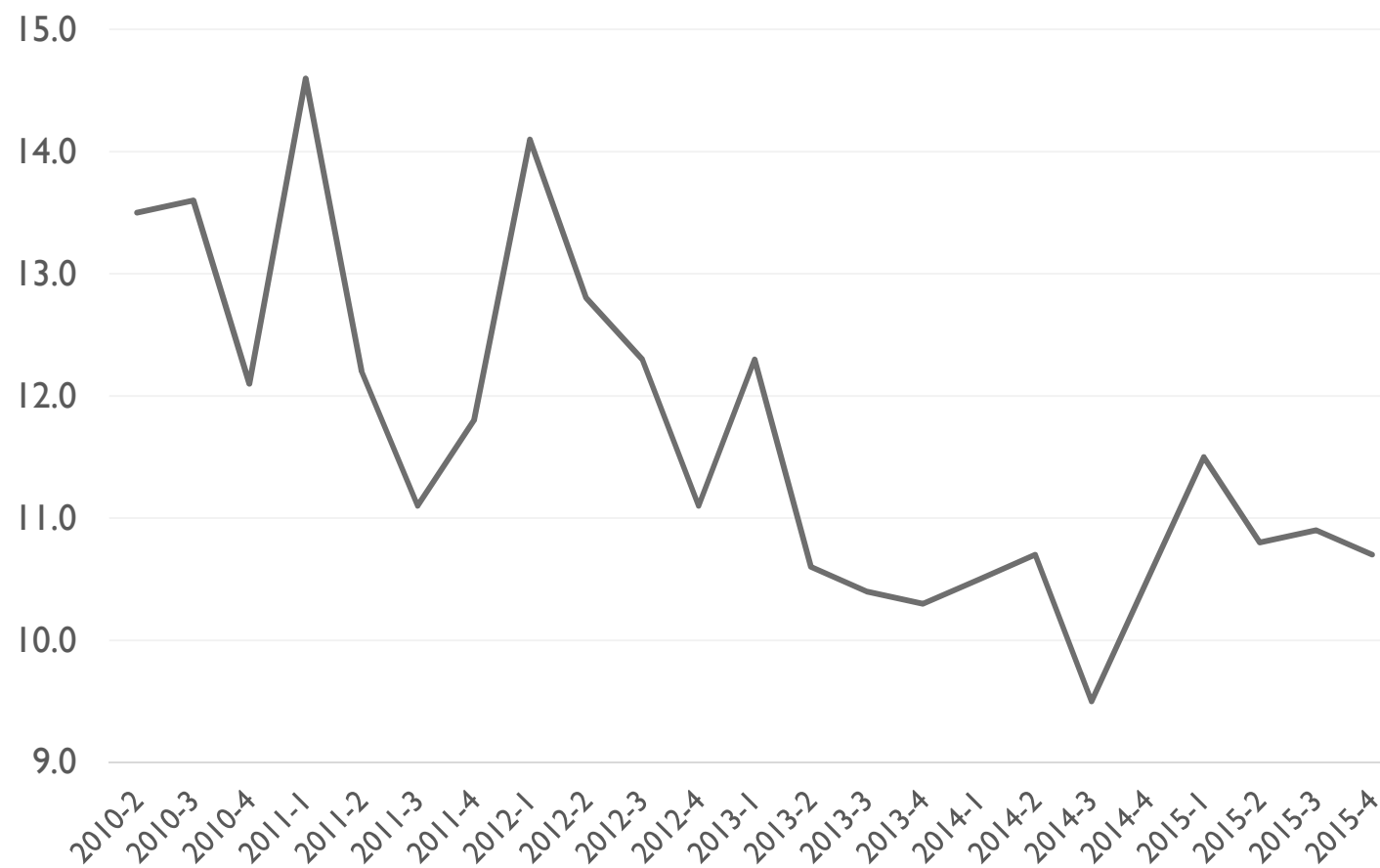
INVESTMENT OPPORTUNITIES IN DIFFERENT AREAS

- Oil, Gas and Petrochemical
- Road and Urban Development
- Mining Industry
- Branding, Retail, and Tourist Industry
- Services (Financial Services, IT)

Based on

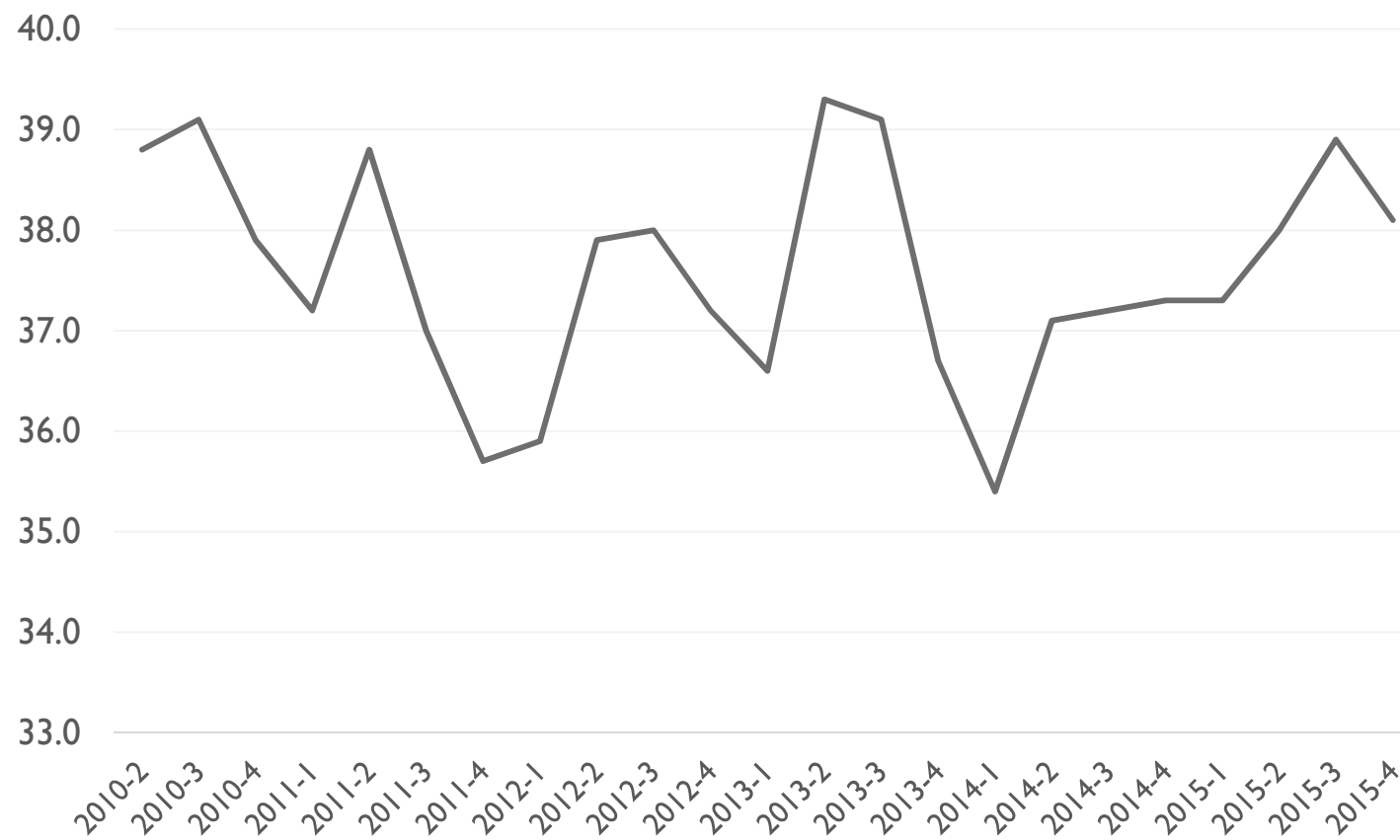
- Inexpensive educated work force
- Gas industry in particular
- Energy saving industries
- Higher past GDP figures

UNEMPLOYMENT RATE (SEASONAL)



Source: Statistical Center of Iran

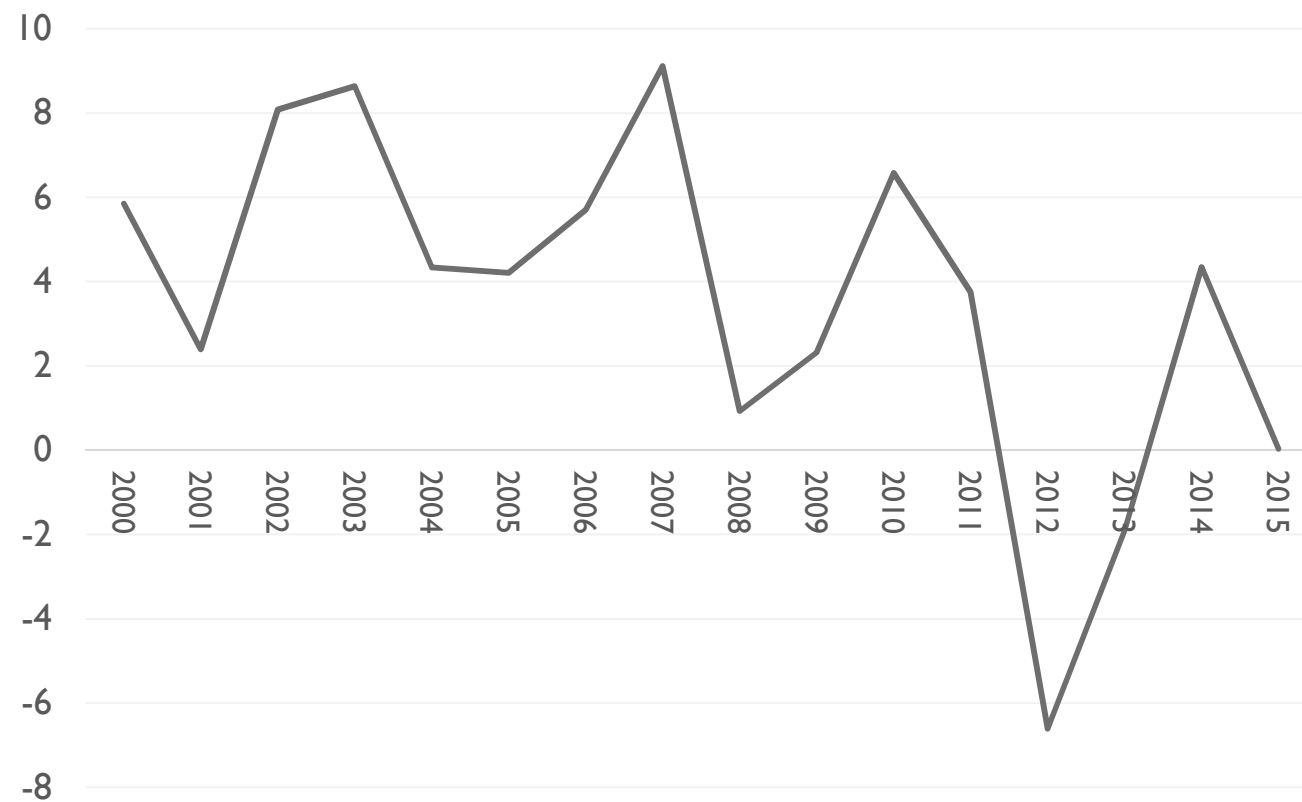
PARTICIPATION RATE (SEASONAL)



Source: Statistical Center of Iran

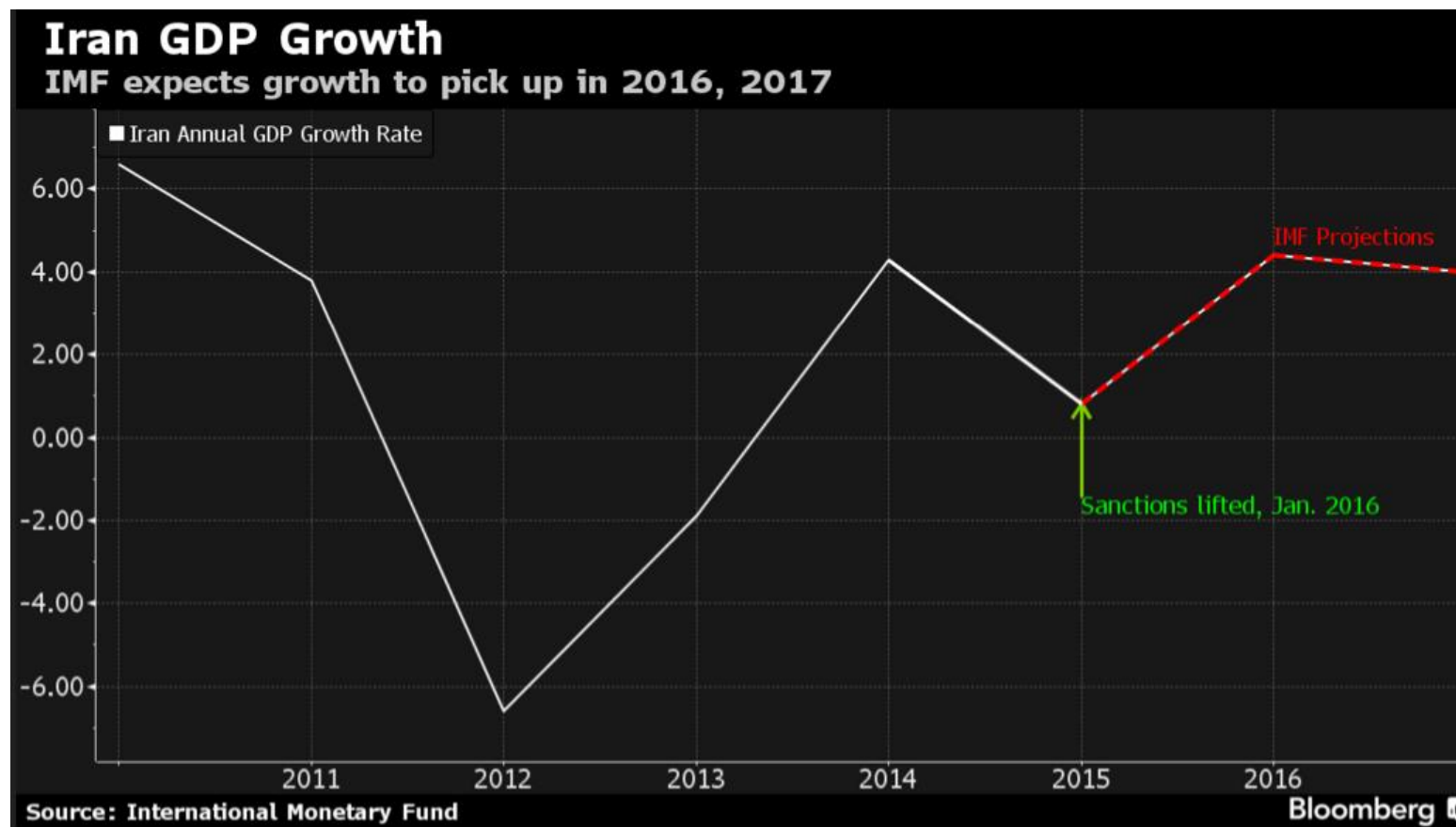
Return

GDP GROWTH RATE (%)



Source: World Bank

GDP GROWTH (IMF)



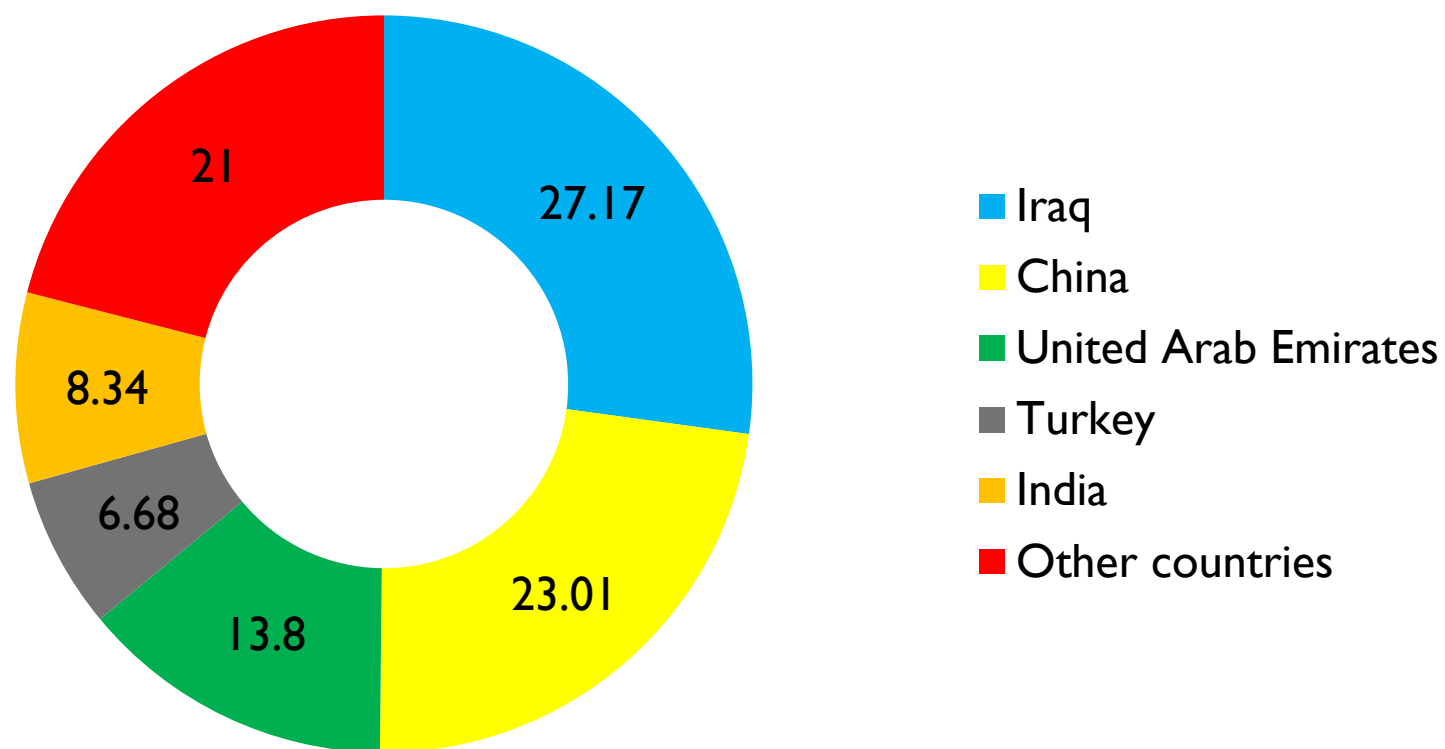
WHAT IS RESILIENT ECONOMY

- Economic Resilience is the economy's ability to restore its normal state after facing a shock. This shock can be either external or internal.
- Exploring how Iranian economy can bounce back from economic shocks
- What are the implications of 24 guidelines of this program for foreign investors

IMPLICATIONS OF RESILIENT ECONOMY GUIDELINES FOR FOREIGN INVESTORS

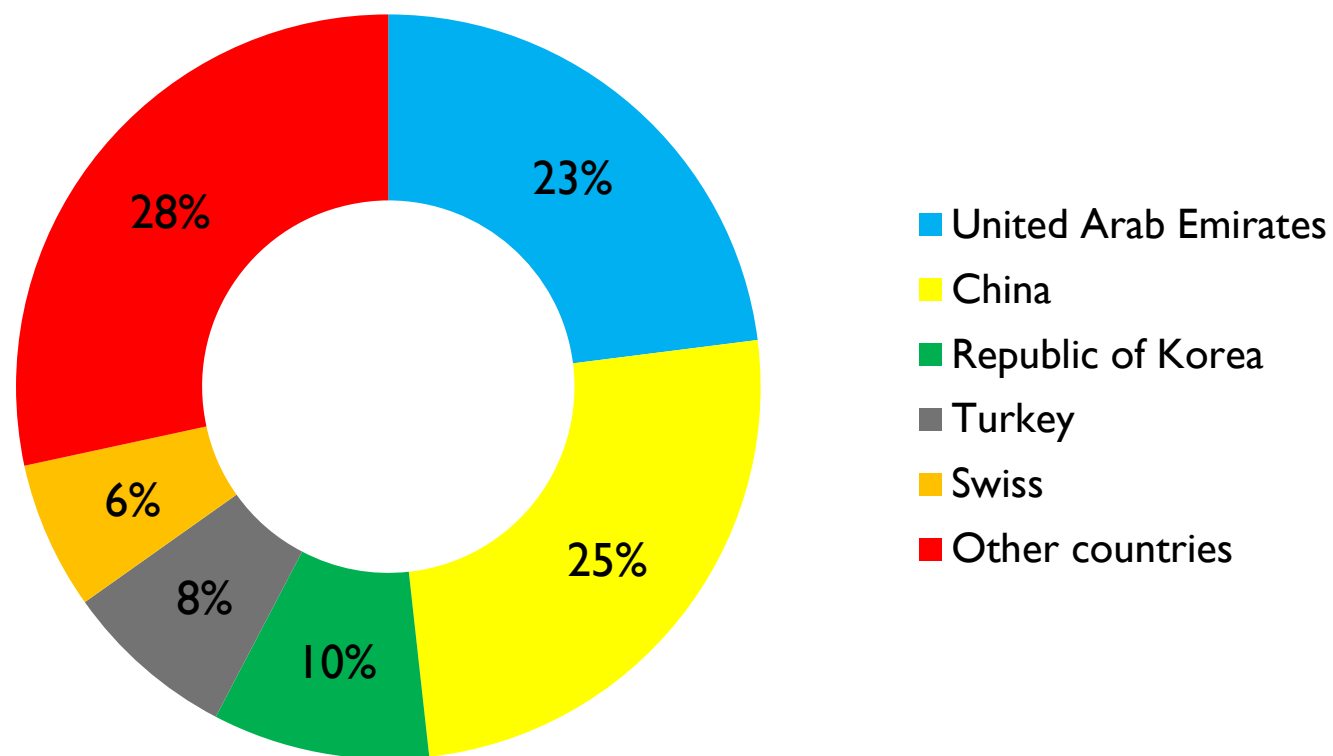
- Less Interest for Sheer Imports/ Priority for Production in Iran/ Technology Transfer
- Keen to Enhance Economic Capacities Developed During Sanction Time Span
- No Monopolistic Rights Awarded
- No Expansion of Government Sector/ More Breathing Space for Private Sector
- Avoidance of Debt-Bloated Government/ Staying away from Sovereign Guarantees/More Commercial Guarantees
- Sidestepping the Potential Foreign Exchange Crisis/More FDI/Less Portfolio Investment
- Expanding Capital Market Facilities Vs. Downright Reliance on Banks
- More Diversification in All Frontiers: Imports/Exports/Technologies/Financial Markets/...

NEW MARKET'S SHARE (NON-OIL EXPORTS)



Source: The Islamic Republic of Iran Customs Administration

NEW MARKET'S SHARE (IMPORTS)

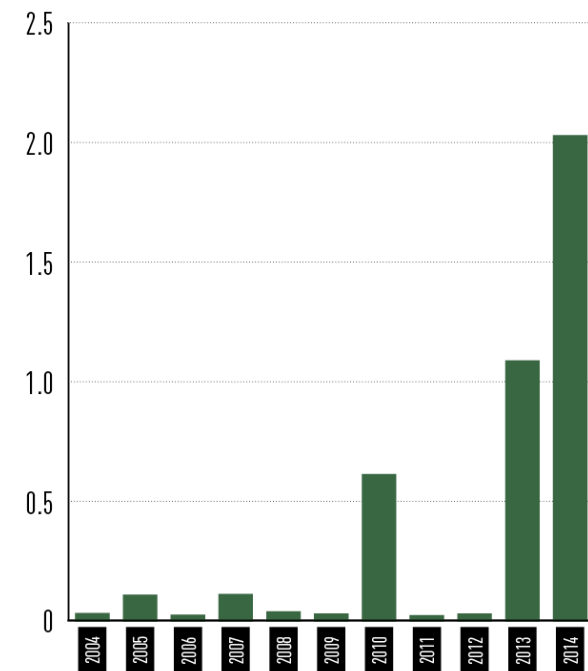


Source: The Islamic Republic of Iran Customs Administration

GERMAN ISSUE

Real Sector VS. Financial Sector
(Banks)

Fig 1 Global fines for money laundering
USD BILLIONS



SOURCE: DELOITTE ANALYSIS



Horizontal (EU) Agreement Vs. Bilateral
Agreements
ECB Vs. Member Countries' Central Banks

ALLEVIATION OF ACCUMULATED BANK WORRIES

- OFAC Clearance
- Compliance: KYC/Sources and Destinations of Funds
- Bureaucrats in Both Sides (Example: New Over-Dues)
- Hurdle Removing with Small Projects (Example: Air Bus Deal)
- HERMES
- Regulatory Bodies
- Ratification of \$ U-Turn License
- Money Laundry and Anti-Terrorism Laws
- LEI (Legal Entity Identifier)
- FACTA (Foreign Account Tax Compliance Act)
- Revoking Signed Settlement agreements



THANK YOU