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Amidst the critical changes in Iranian economy can lie new opportunities

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In light of the critical changes the Iranian economy has undergone recently, we look in this short update into the different developments and new opportunities these changes are bringing about.

After the Iran nuclear deal (JCPOA or Joint Comprehensive Plan of Action), Reddal shared some viewpoints on Iran's economy in a key-note speech on the role of private equity in Iran's path for growth (in 2016, when the economic growth of the country reached to 13.4%), and through a Reddal talk on the potential of Iranian market (in 2017).

Recently, in the aftermath of 2016 elections, where Trump and his administration identified Iran as a major security threat to its people, the Iranian economy has undergone critical changes. With Washington withdrawing from the UN security council-endorsed nuclear deal in May 2018, the United States re-imposed all sanctions against Iran starting from November 4, 2018. The sanctions are mainly aimed at Iran's oil trade as well as shipping, banks and all financial entities that enable Iran's oil trade.

The reinstated U.S. sanctions against Iran quickly took effect. However, some media sources argue that U.S.'s harsh approach will not hold for long as it does not have enough international support for the sanctions. In fact, immediately after Trump's announcement, European leaders expressed their disagreement on U.S.'s unilateral actions and encouraged European businesses to continue to do business with Iran as long as Iran continues to apparently adhere to the terms of the JCPOA. India also declared that it "follows only U.N. sanctions, and not unilateral sanctions by any country."

Despite such lack of international support, U.S.'s economic weight is simply too great to ignore; reinstatement's impact on Iranian economy were severe and resulted in major currency devaluation and inflation. Latest International Monetary Fund (IMF) issued report predicts that Iran's inflation rate would rise by 40% by 2018 year-end. In addition, many multinational companies have announced exits or plans to exit Iran. Examples include Total, Maersk, GE, Peugeot and Air France-KLM Group to name a few.

Amidst such challenges, European Union is developing a new Special Purpose Vehicle (SPV), which aims to act as a formal channel for monetary transactions between Iran and Europe to support the business transactions between Europe and Iran.

With multinational conglomerates exiting the market, Iranian market returned to pre-2015 agreement stage, where the market is shut-off from global commerce and competition, creating growth opportunities for small and medium-sized enterprises with limited relations with the U.S. While risks do remain, the establishment of the SPV contributes to create untapped market opportunities where early entrants can build competitive position. Opportunities exist across different sectors from industrial, currently operating at 60-70% efficiency due to outdated technology, to consumers, with 80 million Iranian population. Long-term investment horizon and risk management will be integral to success, companies could find growth pockets in Iran.

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