

Iran: Time for talks almost up

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- The final round of JCPOA talks began this week in Vienna, with negotiators establishing a self-imposed deadline of mid-February.
- The coming days will be critical in determining whether a deal can be reached or if talks will fall apart altogether.
- Economic relief for Iran hinges on a deal being signed; the rial is losing ground, while inflation soars to new heights.

Negotiations nearing end of line

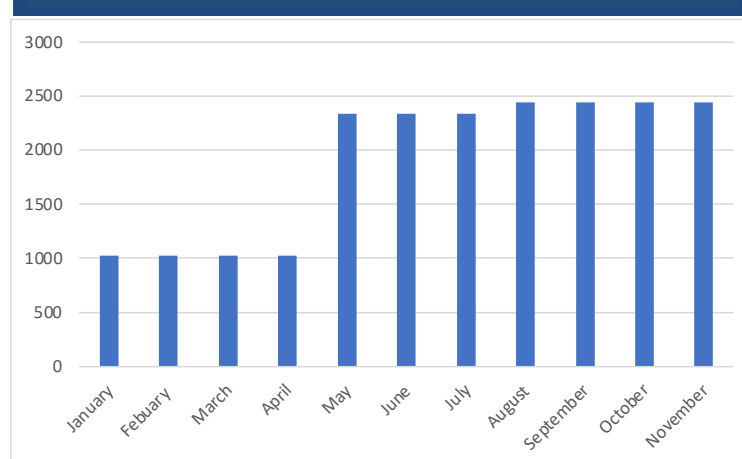
Joint Comprehensive Plan of Action (JCPOA) negotiations have reached a critical juncture. Amid the start of the ninth round of talks, Iran has accelerated its nuclear programme. Participants are beginning to lose patience.

- Although the eighth round of negotiations in December 2021 were the most productive, core issues remain.
 - Steps to limit Iran's nuclear programme were addressed during these discussions, as was the question of lifting sanctions.
 - Nevertheless, a timeline pertaining to any such developments is far from being settled.
 - Furthermore, the scope of any potential sanctions relief is still not fully understood.
 - Iran wants the US to guarantee that future administrations will not reimpose sanctions or nullify the original deal signed in 2015.
- There are several suggestions as to why US officials imposed their own deadline with regard to the talks.
 - Firstly, the US appears to have reached a breaking point, both with the pace of talks and with Iran's nuclear activity.
 - Continued progress by Iran with its nuclear programme may render the original 2015 deal ineffective.
 - Iran informed the International Atomic Energy Agency (IAEA) that it will now produce centrifuge rotor tubes and bellows at a new location. Production will apparently now take place in Esfahan province instead of at the usual centrifuge component workshop at the TESA Karaj complex (Alborz province).
 - Iran also notified the IAEA that it could improve surveillance and monitoring measures at the facility.
 - It is a promising sign that Iran informed the IAEA about the change of the production facility's location.
 - The move not only allows the IAEA to remain apprised of developments. It also signifies that Iran genuinely wants to return to the JCPOA as it engages with the international organisation.
 - This development follows a gesture of goodwill from the US. The Biden administration recently gave permission to South Korea to release frozen Iranian assets and to pay Iran's delinquent UN dues. This gives Iran back its voting right at the UN General Assembly.

Table 1 - Iran macroeconomic indicators¹

	2018	2019	2020	2021e	2022f
Real GDP Growth (%)	-6.0	-6.8	3.4	2.5	2.0
Crude Oil Production (M Bpd)	3.5	2.2	2.2	2.3	2.4
CPI Inflation (%)	30.2	34.6	36.4	39.3	27.5
Fiscal Balance (% of GDP)	-2.0	-5.1	-5.7	-6.5	-7.3
C/A Balance (% of GDP)	5.9	0.6	-0.1	1.3	1.0
Total Gov't. Gross Debt (% of GDP)	38.5	47.9	39.5	33.6	33.3
Total Gross Extrn'l Debt (% of GDP)	2.3	1.6	1.1	1.0	1.0
Gross Official Reserves (Mos. of Imports)	21.9	3.3	2.4	5.4	7.4
Nominal GDP (USD B)	456.6	581.3	835.4	1081.4	1136.7
Population (Millions)	82.4	83.3	84.1	85.0	85.8

Figure 1: Iran nuclear stockpile levels in 2021 (kg)²



- These auspicious overtures have generated speculation that direct talks are finally underway. Yet while such gestures may help to accelerate the pace of the discussions, a concrete outcome is by no means guaranteed.
 - As things stand, negotiations are officially ongoing between China, the EU, France, Germany, Iran, Russia and the UK, with the US participating separately.
 - The indirect format of the talks has involved diplomats from various world powers shuttling between the Iranian and US delegations in Vienna for months.
 - Given the current pace of the discussions, as well as the precedent set during the past few months, a transition to direct talks is unlikely.
- The diplomatic bandwidth of the various participating nations is starting to reach its limit.
 - Even Russia, which has long stood behind Iran, recognises that time is running out.
 - Russia's chief negotiator, Mikhail Ulyanov, stated that the talks have advanced to a stage whereby political decisions now need to be made.
 - Nonetheless, Russia continues to support Iran; it even hosted a trilateral meeting with China before the start of the latest round of negotiations.
 - It is important to note the involvement of Gulf players amid the negotiations.
 - The foreign ministers of Iran and Qatar met in Tehran following a conversation between the latter and Anthony Blinken, the US

¹ Arabia Monitor; IMF.

² Arabia Monitor; IAEA.

secretary of state, in which these regional affairs were discussed.

- Despite the recent concessions made by both Iran and the US, we assess that any kind of interim or temporary deal is unlikely. Discussions in February are likely to determine whether or not a deal is reached.
- Although there is a remote possibility that talks may be extended, we do not foresee any such postponement lasting more than a few weeks.
 - Meanwhile, if Iran crosses any red lines established by the US, it may cause irreversible damage to the prospect of a deal amid the winding down of the negotiations.

Partners protect Iran from sanctions pressure

Iran was one of the few MENA countries to post GDP growth in 2020, despite being battered by the COVID-19 pandemic. Yet although the economy maintained this momentum throughout 2021, growth is set to be tepid at best in the absence of sanctions relief.

- If the sanctions relief specified in the 2015 deal was in place, real GDP growth could have reached a staggering 6.9% in 2022 according to the Institute of International Finance (IIF).⁴
- If ongoing JCPOA discussions prove successful, this scenario could become reality; we assess that growth could even reach double digit territory.
 - GDP grew as much as 13% in 2016 following the signing of the deal in 2015.
 - However, a repeat of this scenario is unlikely to materialise overnight; it is more likely to represent a medium-to-long-term ambition.
- The IMF estimates steady growth of 2% in the event that sanctions are kept in place; this forecast may even be revised downwards.
 - Conversely, President Ebrahim Raisi announced that growth could reach 8%, even if sanctions are kept in place.
 - We assess that it is almost impossible for growth to reach such levels under the current US sanctions.
- The annual inflation rate for 2021 averaged at 39.34% with April posting record highs at nearly 50%. However, the rate was brought down to 35.2% by December 2021.
 - Food, drink and transport were most impacted sectors following these inflationary pressures. The Consumer Price Index (CPI) rose from 285.7 points in January 2021 to 379.2 points by the end of the year.
 - In contrast, inflation rates ranged between 9% and 13.7% between 2015 and 2018. The former US president Donald Trump (in office 2017-21) withdrew from the first nuclear deal in 2018.
- Nevertheless, while many indices recorded downfalls, the IMF estimates that as much as USD 31.4B of gross official reserves were accumulated throughout 2021.
 - This is substantially greater than the reserves in 2020, which amounted to around USD 12.4B.
- Accrued reserves can be attributed to the return of global demand for Iran's goods and services.
- In particular, China purchased the most Iranian crude and condensate oil. Further Chinese imports from Iran accounted for as much as 21% of Iran's total exports in 2021

Figure 2 - Iran GDP growth (%)³

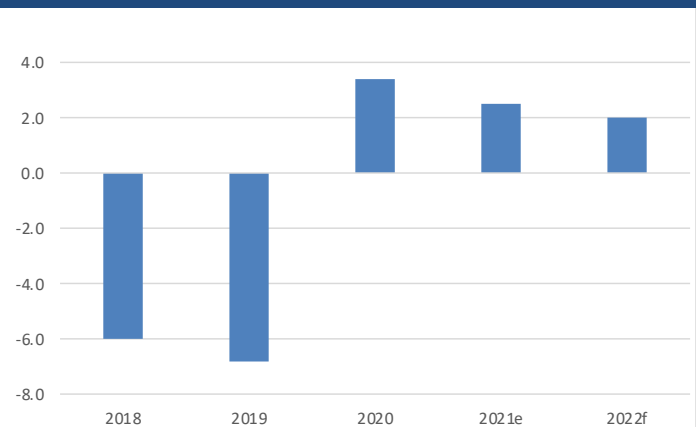


Figure 3 - Chinese imports of Iranian oil (2021)⁴

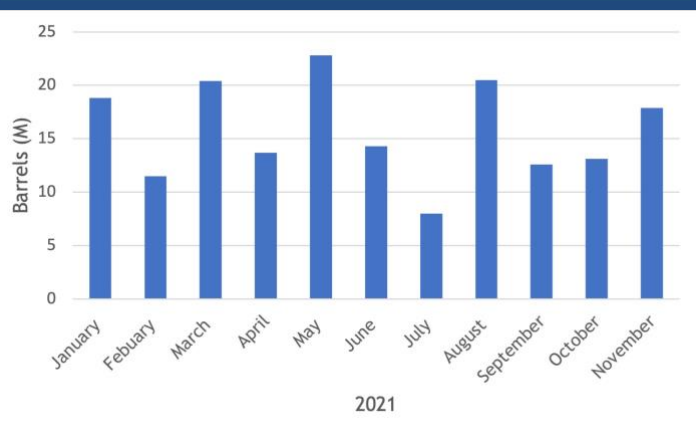
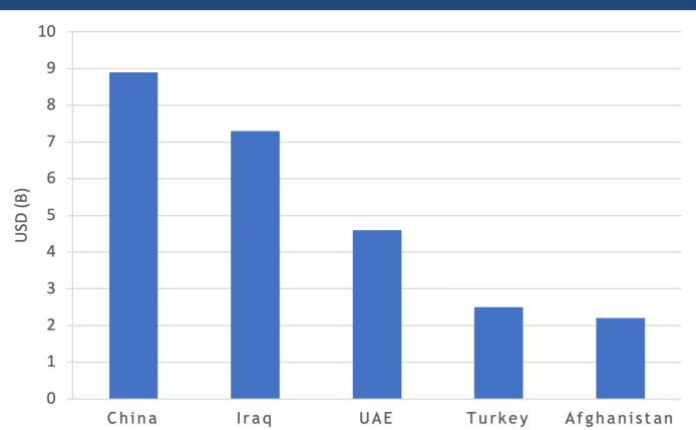


Figure 4 - Top export destinations for Iran (2021)⁵



- China's appetite for Iranian oil has been steady, especially during the past year.
 - The country went on a purchasing spree of Iranian crude in December 2021 after independent refiners were granted additional import quotas.
 - China imported almost 18M barrels of Iranian oil in November 2021, which is the equivalent of around 600K bpd.
 - This represents a 40% increase from October 2021 as well as the largest volume of Chinese oil imports from Iran since August 2021.
 - China has imported Iranian oil in a clandestine manner. Various shipments were not recorded in official customs data due to buyers' fear of US sanctions.

³ Arabia Monitor; IMF.

⁴ Arabia Monitor; Kpler.

⁵ Arabia Monitor; Islamic Republic of Iran Customs Administration.

- However, Chinese customs data indicated that the first Iranian oil imports were purchased in December 2021.
- Iranian oil exports in January 2022 are estimated to have reached around 1.4M bpd, most of which was shipped to China.
- Iranian exports to Syria also rose by 90% from March-December 2021.
 - A new joint free trade zone was established earlier this year (alongside a joint Syrian-Iranian bank), which will deepen economic ties between the two countries.
- While oil accounts for the bulk of Iranian exports, a degree of diversification aided the Islamic Republic amid the earlier dip in oil prices.
 - In 2021, the services sector accounted for 57% of non-oil GDP, while the industrial and agriculture sectors amounted to 30% and 13%, respectively.
 - Without sufficient investment and under sanctions, these industries are unable to develop to maximum potential.

⁴Arabia Monitor; Statista.

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