

New Market Research Report: Iran Business Forecast Report Q1 2011

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Nov. 1, 2010 - [PRLog](#) -- Despite the tightening of sanctions on Iran over the past quarter, it remains to be seen whether they prove to be a game changer in terms of Iran's nuclear and foreign policy or its domestic political situation. Of more concern to many ordinary Iranians will be the forthcoming removal of subsidies on food and fuel, which will see costs rise for consumers and businesses alike. Rising inflation could damage an already weak economic recovery, while the performance of the banking sector is still sluggish, adding to the general sense of economic malaise. A resolution of the nuclear crisis looks no nearer, with the UN, the US and the EU all moving forward with new sanctions on the Islamic Republic. While the UN sanctions are likely to have little material impact, having been watered down in order to gain the support of Russia and China, the US measures go a lot further in restricting Iran's access to international finance and stifling investment in the oil and gas sector. That said, we do not expect any major change in Tehran's nuclear policy in the short to medium term. The Ahmadinejad administration has invested so much political capital in the nuclear programme that backing down now is not really seen as a viable option. Economically, we maintain our view that Iran is enjoying something of a recovery, albeit a weak one. However, our forecasts for future economic growth remain fairly cautious, in light of the myriad challenges faced by the Islamic Republic. Chief among these are the inflationary impact of forthcoming reductions in the government's extensive subsidy programme, depreciatory pressures on the currency, insufficient oil refining capacity and banking-sector weakness. These will all weigh on growth over the forecast period, although high oil prices will provide some relief. At the time of writing, the new sanctions were already starting to take effect, with Lloyd's of London declaring that it would no longer insure petroleum shipments entering Iran, while authorities in the UAE were expected to announce new restrictions on the thousands of Iranian businesses based in Dubai, a major hub for the re-export of goods to Iran. That said, Iran's strategic significance and energy resources mean that many countries are still prepared to trade with it, as evidenced by the resumption of talks with the Indian government on the possibility of an underwater gas pipeline between the two countries.

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