January 16, 2018, marked two years since the Joint Comprehensive Plan of Action (JCPOA)—the nuclear agreement between the P5+1 (the U.S., the UK, France, China, Russia, and Germany) and Iran—went into effect, and the international nuclear-related sanctions on Iran began to be lifted. From the adoption of the preceding interim agreement in November 2013 until the final agreement on the JCPOA, each phase in the process met with approval and at times celebrations by Iranians, who expected their personal economic welfare to improve considerably as a result of the lifting of sanctions to which Iran had been subjected for several years. Yet, in the final days of 2017, less than three weeks before this second anniversary of the agreement, Iranians protested in the streets of many cities against continued economic hardships.

This Brief explores the economic basis for the recent demonstrations in Iran by addressing two questions. First, in the two years since the JCPOA lifted nuclear-related sanctions, what have been the effects of the agreement on Iran’s economy as a whole? And second, as the protests suggest, why have so many Iranians not felt the economic benefits of sanctions relief in their daily lives? While Iran’s oil exports have sharply increased since the nuclear deal, continued U.S. unilateral sanctions, along with uncertainty caused by the Trump administration’s hostility to the deal, have hampered Iran’s ability to attract foreign investment and to reengage with the global economy. This has limited the deal’s economic dividends, particularly in terms of the ability of the Iranian economy to create jobs for its growing population in provincial cities.
and towns. The Brief concludes by assessing the economic impact of the nuclear deal after two years.

Macroeconomic Conditions and the Business Climate

Oil Sector

Up until the introduction of comprehensive sanctions in 2012, which for the first time included restrictions on oil exports, the impact of sanctions on Iran’s economy was limited. But several indicators demonstrate the heavy cost for Iran of sanctions between 2012 and 2015. The combined effect of the direct oil embargo combined with financial sanctions caused a severe reduction in Iran’s daily crude oil exports. Average daily exports (including of condensates) fell from 2.6 million barrels per day in 2011 to 12 million barrels in 2013 and 1.4 million in 2014. Restrictions on Iran’s oil exports continued until January 2016, when the nuclear agreement went into effect. Overall, oil production remained depressed between 2012 and 2015 (Figure 1). During 2012 and 2013, crude oil prices exceeded $100 per barrel, so the lost oil export revenue due to sanctions was substantial.

Iran’s first priority after the lifting of sanctions in January 2016 was to boost its oil exports to pre-2012 levels and restore its share of OPEC production. During 2014–15, the one million barrels per day (mb/d) reduction in Iran’s exports was replaced on the international market by increased production in Iraq, Saudi Arabia, and the UAE. As Iran increased its crude oil production after the nuclear agreement, it asked these and other OPEC members to reduce their excess production in order to preserve the cap on total OPEC production. Other members ignored Iran’s request, but Iran increased its oil output significantly in 2016. Average daily exports, which had declined from 2.4 mb/d in 2011 to 1mb/d in 2013 under international oil sanctions, rose to 1.4 mb/d by February 2014 under sanctions relief, and increased to 2.2 mb/d in August 2017.

Figure 1. Crude Oil Price and Production Data for Iran

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The opinions and findings expressed in this Brief belong to the author exclusively and do not reflect those of the Crown Center or Brandeis University.
The production data for the period January 2016 to August 2017 point to a robust growth in oil production. Daily production increased from 3.3 mb/d in December 2015 (the last month of the oil embargo) to 4.3 mb/d in January 2017 (up 30%). Production increased by an additional 3.7% in the next seven months to 4.64 mb/d in August 2017. This level exceeded the peak production level before the oil sanctions (4.14 mb/d in 2005) by 330,000 barrels per day. Although Iran’s higher level of exports in 2016 coincided with lower oil prices, its oil and gas export revenues rose by 66%, from $33.56 billion in April 2015-March 2016 to $55.75 billion in April 2016-March 2017. And since oil prices recovered further in 2017 and Iran was also able to increase its export levels, we expect that oil and gas export revenues have enjoyed a positive growth in 2017 as well.

Iranian leaders have been eager to increase oil exports to Europe and to expand other economic relationships, such as investment and technology transfer, partly in order to gain more diplomatic leverage vis-à-vis U.S. efforts to impose new oil sanctions. Since the nuclear agreement, these efforts have been successful: In November 2017, 40% of Iran’s crude oil exports were sold to European countries that had suspended all oil imports from Iran in 2012. Between March and October 2017, European countries purchased an average of 720,000 barrels per day from Iran. Iran’s largest oil customers in 2017 were China and South Korea, which imported 600,000 and 400,000 barrels per day, respectively, in November.

**Economic Growth**

Iran received partial sanctions relief in November 2013 in exchange for accepting some restrictions on its nuclear activities and participating in nuclear negotiations with the P5+1. The partial relief period lasted until January 16, 2016, when the nuclear agreement went into effect. The impact of this relief is visible in Iran’s higher economic growth rate in 2014; but negative growth was recorded in 2015 (Figure 2). The economic decline of 2015, however, was not entirely due to the pressure of economic sanctions; it was in part also a result of the anti-inflationary policies of the Rouhani administration.

**International Trade and Investment**

An examination of the volume of Iranian imports reveals a gradual decline between 2011 and 2013 (Table 1); these years coincided with record-high oil prices. Under normal circumstances, high oil revenues would have encouraged a sharp increase in imports, but economic sanctions had an adverse effect. A combination of limited oil exports, lower oil prices, and sanctions finally caught up with imports in 2015, when the value of imports declined to $52.4 billion.

Between July 2015, when the JCPOA agreement was signed, and the January 16, 2016, date of implementation, Iran engaged in a major campaign to encourage foreign

**Table 1. Iran’s External Trade ($ billion)**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Oil exports</td>
<td>90.19</td>
<td>119.15</td>
<td>68.09</td>
<td>64.50</td>
<td>55.40</td>
<td>33.57</td>
<td>55.75</td>
</tr>
<tr>
<td>Non-oil exports</td>
<td>22.60</td>
<td>26.70</td>
<td>29.20</td>
<td>28.37</td>
<td>33.57</td>
<td>31.03</td>
<td>28.22</td>
</tr>
<tr>
<td>Total imports</td>
<td>75.45</td>
<td>78.03</td>
<td>68.73</td>
<td>63.58</td>
<td>70.90</td>
<td>52.40</td>
<td>63.13</td>
</tr>
<tr>
<td>Trade balance</td>
<td>37.34</td>
<td>67.82</td>
<td>28.56</td>
<td>29.29</td>
<td>18.07</td>
<td>12.20</td>
<td>20.84</td>
</tr>
<tr>
<td>Current account balance</td>
<td>27.55</td>
<td>58.50</td>
<td>23.36</td>
<td>25.10</td>
<td>13.57</td>
<td>9.01</td>
<td>16.38</td>
</tr>
<tr>
<td>Change in international reserves</td>
<td>-0.95</td>
<td>21.44</td>
<td>12.21</td>
<td>13.18</td>
<td>8.56</td>
<td>2.23</td>
<td>7.66</td>
</tr>
</tbody>
</table>

Source of data: Iran Central Bank, External Trade Statistics; Gozideh amaar v ettelaat kalaan eghtesaadi, September 2017
governments and international corporations to expand their trade and investment links with Iran. Many European and Asian diplomats and trade delegations visited Iran in this interim period, and several memorandums of understanding were signed (providing for implementation dates after January 16, 2016). The most significant and immediate of these agreements focused on restoring import and export links that were severed during the sanctions.

Iran’s external trade data for 2016 and 2017 show that the lifting of sanctions, along with Iran’s re-engagement initiatives since June 2015, led to a sharp increase in the volume of imports by 2017, but non-oil exports, which are dominated by petrochemical goods, did not experience a significant increase (Table 2). Iran’s non-oil exports, which were disrupted as a result of the sanctions, were restored during 2016, but they suffered a moderate decline of 3.6% in mid-2017. Petrochemical exports increased in the first seven months of 2017, but their growth was overshadowed by a decline in exports of other products, such as natural gas condensates.

### Table 2. Foreign Trade before and after the Nuclear Agreement

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Non-oil exports</td>
<td>23.63</td>
<td>25.18</td>
<td>24.26</td>
</tr>
<tr>
<td>Annual growth rate</td>
<td>6.5%</td>
<td>-3.6%</td>
<td>-3.6%</td>
</tr>
<tr>
<td>Exports of industrial goods</td>
<td>16.83</td>
<td>16.45</td>
<td>17.08</td>
</tr>
<tr>
<td>Annual growth rate</td>
<td>-2.2%</td>
<td>3.8%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Imports</td>
<td>24.08</td>
<td>23.62</td>
<td>26.92</td>
</tr>
<tr>
<td>Annual growth rate</td>
<td>-1.9%</td>
<td>14.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Imports of industrial goods</td>
<td>20.15</td>
<td>20.81</td>
<td>23.83</td>
</tr>
<tr>
<td>Annual growth rate</td>
<td>3.3%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
</tbody>
</table>

Source of data: Iran Ministry of Industry, Mines and Commerce (Monthly Reports numbers 29 and 40)

Major European economies were among Iran’s top trade partners before the 2012 European Union economic sanctions. Germany, France, and Italy, for example, were among Iran’s top five import origins but gradually lost their positions to Asian countries. Since the sanctions were lifted, Iran has increased its trade with European countries—but as of mid-2017, none of them had become one of Iran’s top five trade origins (Table 3). Germany’s exports to Iran between April and September 2017 were 10.3% larger than for the same period in 2016, and Germany was the sixth largest exporter to Iran in 2017. Iran’s imports from several other European economies also rose sharply between April and September of 2017.

### Table 3. Countries with Largest Volumes of Exports to Iran

<table>
<thead>
<tr>
<th>Rank</th>
<th>2005</th>
<th>2008</th>
<th>2012</th>
<th>2017*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>UAE</td>
<td>UAE</td>
<td>UAE</td>
<td>China</td>
</tr>
<tr>
<td>2</td>
<td>Germany</td>
<td>Germany</td>
<td>China</td>
<td>UAE</td>
</tr>
<tr>
<td>3</td>
<td>France</td>
<td>China</td>
<td>South Korea</td>
<td>Turkey</td>
</tr>
<tr>
<td>4</td>
<td>Italy</td>
<td>Switzerland</td>
<td>Turkey</td>
<td>South Korea</td>
</tr>
<tr>
<td>5</td>
<td>China</td>
<td>South Korea</td>
<td>Switzerland</td>
<td>India</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>The U.K.</td>
<td>Germany</td>
<td>Germany</td>
</tr>
</tbody>
</table>


Surprisingly, despite sanctions and other adverse factors, the total volume of Iran’s non-oil exports did not experience a significant setback between 2011 and 2016 (see Table 1): It declined modestly in 2013 and had a good recovery in 2014. This is partly owing to the sharp devaluation of the Iranian rial in 2013, which made exports more attractive.

Although the aggregate import statistics do not show any major effect of sanctions, the shortage of many critical imports created a significant burden for Iranian producers and consumers alike from 2012 to 2015. Iran’s manufacturing sector depends heavily on imports of critical parts and advanced machinery—which might not account for a large share of the country’s total imports, but play a crucial role in many industrial and commercial operations. Shortages of these imported items were partly offset by a vast smuggling network, but many firms had to cut back production.

The removal of sanctions and the sharp increase in Iran’s export revenues led to a substantial improvement in the availability of intermediate imports for domestic industries in 2016 and 2017.

### International Investment in the Oil Sector

Attracting foreign investment and reestablishing links with international oil companies (IOCs) that had suspended cooperation with Iran during the sanctions has proven more challenging than boosting oil output. This is partly owing to the unilateral U.S. sanctions that have remained in effect after January 2016 and the hostile attitude of the Trump administration toward Iran: IOCs are still concerned about being punished by the United States for cooperation with Iran.

Another factor was domestic opposition to foreign investment in Iran’s energy sector. As a result of political disagreements, the oil ministry was unable to finalize the guidelines for cooperation with IOCs by January 2016. It unveiled a new foreign investment contract model (Iran
Pacific Petroleum Contract) for the oil and gas sector in November 2015, but hard-line opponents of President Rouhani demanded deep revisions to safeguard the domestic energy sector from foreign domination, and the Supreme Leader expressed his support for a detailed review and reform of the new model.10 As a result of these internal debates and negotiations, final approval of the new petroleum contract by the Iranian parliament was delayed until September 2016.11 The oil ministry promised to hold the first tenders under this new contract law in October 2016, but domestic opposition and political pressure to add additional amendments postponed the process several times.12

The election of Hassan Rouhani to a second term in May 2017 finally paved the way for the signing of the first contract under the new law, in July 2017. Under this contract, the French oil company Total (with a 50.1% interest) and the Chinese state-owned oil and gas company CNPC (30%) partnered with the Iranian state-owned company Petropars (19.9%) to develop phase II of the South Pars (offshore) gas field (SPII).13 This twenty-year, five-billion-dollar contract is expected to produce two billion cubic feet of gas (400,000 barrels of oil equivalent) per day starting in 2021.

The growing hostility of the United States toward Iran under the Trump administration, however, has cast a shadow over Total’s commitment to this project. Since President Trump’s decertification of the nuclear agreement in October 2017, the risk of new U.S. sanctions against Iran has increased. Total has significant investments in the U.S., and it has announced that if new U.S. sanctions put it at risk of being penalized, it might have to withdraw from the South Pars project. This would be a major setback for Iran’s efforts to engage European firms in its energy sector; but the South Pars project might continue without Total’s participation. There are some indications that the Chinese partner, CNPC, might take over Total’s share in the project and become the sole foreign partner, with an 80.1% stake.14

Investment in Other Sectors

Historically, Iran has not been as successful as other Middle Eastern countries—such as Turkey, Saudi Arabia, and the UAE—in attracting foreign capital. Thus, Iran received $4.27 billion and $4.66 billion in (realized) foreign direct investment (FDI) during 2011 and 2012, respectively, whereas in 2012, Turkey and Saudi Arabia attracted $13.28 and $12.18 billion FDI, respectively. As a result of sanctions and an inhospitable business climate, FDI inflows into Iran declined steadily after 2012, to $2.05 billion in 2015 (a 56% decline from 2014). This downtrend came to an end in 2016, with the attraction of $3.37 billion FDI, 64% larger than in 2015.15

This underperformance is not a result of restrictive Iranian foreign investment laws. On the contrary, Iran’s Foreign Investment Promotion and Protection Act (FIPPA), which was approved in 2002 by both the Parliament and the Expediency Discernment Council (majma’ tashkhis maslihat-e nezam), offers strong incentives and guarantees with respect to the profitability and safety of foreign investments.16 It is, rather, caused by the high levels of several risk factors: corruption, erratic and contradictory commercial regulations, and geopolitical risk factors, including economic sanctions. The increase in 2016 FDI noted above is a positive development, but it falls short of the amount of FDI that the government would like to attract.

According to the projections in Iran’s sixth Economic Development Plan (2017–21), Iran must attract an average of $20 billion per year in FDI in order to meet its industrial growth targets. Not only have the realized FDI inflows been far below this amount, but Iran has been able to attract only $7.38 billion in approved foreign investment projects from January 2016 until September 2017.17 And based on Iran’s past history, these approved projects are vulnerable to considerable implementation delays and cancellations.

Iran’s Foreign Investment Board (hei’at sarmayeh-gozaari khareji) has recently reported that it approved 26 FDI projects worth $885.8 million during April–July 2017.18 This was followed by the approval of 36 projects worth $3.012 billion during August–October 2017, which coincided with the first hundred days of Hassan Rouhani’s second term. If this information can be considered reliable, it points to a noticeable increase in (pledged) foreign investment inflows since Rouhani’s second-term victory. Rouhani’s government is trying to attract more FDI in order to bring advanced technology into the country and boost economic activity. While the rising volume of approved FDI is a welcome development for Iran, implementation of these approved projects will depend on many factors, including various types of business risks.

Iran’s business climate is still less hospitable than that in many comparable countries with respect to attracting FDI, but it is gradually improving. Since the nuclear agreement, we have observed moderate improvements in Iran’s international ranking in several global indexes of business climate (Table 4). Iran’s ranking in the Global Competitiveness Index fell from 66 (among 144 nations) to 82 and 83 in 2013 and 2014, respectively.19 Although it gradually rose to 69 in 2017, after the nuclear agreement, it is still far from other comparable countries, such as the United Arab Emirates (17), Saudi Arabia (30), Azerbaijan (35), and Turkey (53).

There have also been marginal improvements in Iran’s relative ranking in several other indexes. The most recent data for the Ease of Doing Business Index shows that Iran’s ranking deteriorated from 144 in 2012 to 152 in 2014.20 This
was followed by an increase to 117 and 120 in 2016 and 2017, respectively, which indicates a significant relative improvement. The Index of Economic Freedom, which measures how free private businesses are from government interference, has shown an improvement in 2017, and as a result, Iran’s ranking has risen from 171 in 2016 to 155 in 2017. This improvement has moved Iran from the “Repressed” to the “Mostly Unfree” category.

Table 4. Iran’s Rank in Global Business Climate

<table>
<thead>
<tr>
<th>Index</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Competitiveness Index</td>
<td>66</td>
<td>82</td>
<td>83</td>
<td>74</td>
<td>76</td>
<td>69</td>
</tr>
<tr>
<td>Index of Economic Freedom</td>
<td>171</td>
<td>168</td>
<td>173</td>
<td>171</td>
<td>171</td>
<td>155</td>
</tr>
<tr>
<td>Ease of Doing Business Index</td>
<td>144</td>
<td>145</td>
<td>152</td>
<td>130</td>
<td>117</td>
<td>120</td>
</tr>
<tr>
<td>The Global Innovation Index</td>
<td>104</td>
<td>113</td>
<td>120</td>
<td>106</td>
<td>78</td>
<td>75</td>
</tr>
<tr>
<td>Good Market Efficiency Index</td>
<td>98</td>
<td>110</td>
<td>120</td>
<td>109</td>
<td>111</td>
<td>100</td>
</tr>
</tbody>
</table>

Source of data: Iran Ministry of Industry, Mines and Trade, Monthly Report number 40, October 2017, Table 1, www.mimt.gov.ir

Iran’s ranking in the Global Innovation Index (GII) also shows a noticeable improvement in 2016 and 2017. This index measures a country’s capacity for business, social, and industrial innovation. The Iran country report associated with the GII for 2017 identifies a highly educated labor force in science and engineering, a large ratio of capital formation to GDP, a large ratio of high- and medium-tech firms to all firms, and a large number of scientific publications and patents per capita as the country’s strengths with respect to innovation. Having moved to the 75th position in 2017, Iran now ranks next to Tunisia and Argentina in innovation achievements.

Impact on Iranians’ Standards of Living

Many aggregate economic indicators, including some discussed above, show that there has been an overall improvement in the macroeconomic situation of Iran since the nuclear agreement, which is not surprising. Crude oil production and export levels have returned to those of the pre-sanctions period. The inflation rate, which rose to 40% per year in 2013, has returned to the 10% range (although at the expense of high interest rates and an economic slowdown). While these changes point to tangible gains for Iran’s economy since the nuclear agreement, what matters more for ordinary Iranians is the impact of these improvements on their wages, incomes, and job opportunities. Since oil and gas export revenues belong to the government, their injection into various economic sectors depends on the government’s spending policies. In this section we look at how the economic conditions of ordinary Iranians have changed since the nuclear agreement.

Household Spending and Consumption

As the January 2018 protests demonstrated, at least a segment of Iran’s population does not feel any tangible improvement in their economic conditions despite higher oil revenues and better economic growth. Annual surveys of household income and expenditures also show a less positive economic picture than is projected by macroeconomic indicators. An analysis of the most recent survey results for 2016 and 2017 by Djamad Salehi-Isfahani offers a valuable explanation. His findings show that when we compare per capita household expenditures (which are an indirect proxy for per capita income), we observe a divergence among residents of Tehran, residents of urban areas other than Tehran, and residents of rural areas. Salehi-Isfahani has shown that per capita household expenditures in metropolitan Tehran have increased since 2012, but they have declined moderately in other urban areas and even more in rural areas. Even more significantly, in terms of understanding the recent protests, the decline outside metropolitan Tehran followed positive income growth in earlier years, which coincided with the Ahmadinejad presidency.

Under Ahmadinejad, what increased standards of living for rural and small-town households was the introduction of a per capita income subsidy program as a substitute for fuel price subsidies, along with his frequent visits to distant provinces, which were always associated with a release of government funds for local development projects. For low-income households, these per-person subsidies (equivalent to 90 USD when they were first introduced) made a big difference, because of their low consumption of energy products as well as their low incomes. Over time, however, the purchasing power of these cash subsidies has diminished because of inflation, and on account of the failure of the Rouhani government to increase their nominal value. In addition, the economic benefits of the nuclear agreement, such as larger volumes of imports and the reestablishment of global trade and investment links, have benefited Tehran and other large industrial cities more than other areas of Iran, because of the larger concentration of industrial and commercial activities in these regions.

Job Opportunities and Unemployment

Another economic challenge that affects most households directly is the high unemployment rate in Iran, particularly among young adults. The pace of economic recovery in the non-oil sector, which is the main engine for job creation in the Iranian economy, has been slow, and persistent political...
risks have at the same time deterred many domestic and foreign investment initiatives which might have generated more employment: The latest employment data show a positive but insufficient trend in job creation since the nuclear agreement. The severe economic conditions in 2014 led to the loss of 30,000 jobs, but 1.28 million additional jobs were created in 2015 and 2016. This level of job creation, however, has not been sufficient to reduce the high unemployment rate.

The entry of large groups of young adults into the labor market and the re-entry of some unemployed workers who had previously stopped looking for work increased the overall unemployment rate from 10.6% in 2014 to 12.4% in 2016. Even more alarming are the data for youth (age 15–29), whose unemployment rate rose from 20.9% in 2014 to 25.9% in 2016.26 There was a marginal improvement in 2017, as total unemployment and youth unemployment declined to 11.7% and 24.4%, respectively, in the summer.27 Many of these unemployed youths are university graduates with high expectations.28

There are also large geographical gaps in job opportunities. The protests that erupted in early January 2018 occurred mostly in less developed small towns: Comparing the unemployment rate of these towns with the national average has revealed that the youth unemployment rate in many of these areas has been much higher than average in 2017.29

**Mismanagement and Corruption**

While the burden of economic sanctions on Iran’s economy has diminished since the nuclear agreement, several domestic political factors as well as weaknesses in governance continue to have a negative impact on the economic situation of ordinary Iranians.

Some domestic challenges are rooted in those of Iran’s political institutions that influence the direction and pace of economic reform. After more than three decades, Iran has had only partial success in its economic reform and privatization program. Large segments of the economy, particularly in manufacturing and heavy industries, remain under the direct or indirect control of the government, or of religious foundations or the Islamic Revolution Guards Corps (IRGC).30 Hassan Rouhani has had limited success in his efforts to reduce their economic influence. And even when these institutions operate efficiently, ordinary citizens perceive them as discriminating in favor of regime insiders and their supporters.

The state-owned banking system has also been under severe financial stress as a result of political interference (which leads to corruption in administrative lending policies).31 Many state-owned banks are insolvent because they are faced with a large amount of loan defaults and huge financial losses stemming from privatized government assets that they were forced to purchase. Though in recent years Iranian domestic media have exposed many of the financial abuses and corruption scandals in the banking system, there has been little progress in prosecutions related to these cases or implementation of needed reforms. Consequently, the financial system and the entire economy remain vulnerable to a major banking crisis in the near future. These shortcomings have also reduced available bank funds for the purposes both of investment and of consumer loans.

In addition to the growing news surrounding these corruption cases in recent years, which have eroded the public’s confidence in the efficiency and fairness of the government, Rouhani’s proposed 2018–19 fiscal budget includes a few controversial items that may have contributed to the frustration of some of the protesters in the recent demonstrations. In accordance with his long-standing economic reform program, Rouhani’s proposed budget calls for a substantial reduction in the number of individuals who will qualify for subsidies. This change will affect many households for whom these subsidies still make a big difference. Another proposed change that upset many people was a proposed 50% increase in the price of gasoline, which will still remain well bellow international market prices even after this adjustment.

These changes are necessary to reduce the large budget deficit but they were harshly criticized by Rouhani’s opponents in the weeks before the recent protests. The budget bill also for the first time included detailed expenditure lines for several religious foundations, and many Iranians were upset by the proposed increases in budgetary support for these institutions while the subsidies were being cut.32

**The Financial Burden of Iran’s Foreign Interventions**

While the United States and Iran’s regional adversaries are worried about the geopolitical implications of Iran’s military interventions and support for non-state actors, many domestic opponents and critics of the Islamic regime are concerned about the financial costs of these interventions—in Syria, Iraq, Yemen, and elsewhere. Although public discussion of Iran’s foreign policy is off-limits to ordinary citizens, complaints about this financial burden frequently come up in private conversations. While no exact or official financial data are available about these expenditures, many Iranians believe that these costs are substantial and take away valuable resources that should be spent on the domestic economy. This view was on display in several slogans during recent protests, such as “I give my
life for Iran, not Gaza, not Lebanon” and “Let go of Syria, think about us.”

There are no official data on the cost of Iran’s proxy wars and of its support for non-state groups such as Hezbollah, Hamas, and various Shia militia groups in Iraq, but some Western intelligence officials have offered indirect estimates of approximately $1 billion per year for Hezbollah and $60 million per year for Hamas. Military assistance to Iraqi groups fighting the Islamic State in 2014 was estimated at $1 billion. Supporting Bashar al-Assad’s regime in Syria has been even more costly, as Iran has directly participated in military operations; but estimates of the financial costs of Iran’s involvement in Syria vary to a large degree, making them largely meaningless.

The available data on Iran’s official fiscal budgets show a large increase in the defense budget since 2014: Between 2014 and 2017, it grew by 71%, from $9.29 billion to $15.9 billion. The defense budget, however, is not an accurate estimate of the cost of Iran’s proxy wars, because a large portion of it is spent on domestic expenses of the military. Furthermore, some financial resources outside of the official defense budget, such as government economic assistance and donations by religious foundations, are also spent on development and reconstruction projects in Lebanon, Syria, and other Middle East locations.

Overall, according to a 2015 estimate by the U.S. treasury, the magnitude of the resources that are spent on Iran’s proxy wars and client organizations is not as high as some critics or ordinary Iranian citizens maintain. But supporting these key regional allies (Hezbollah, Syria, and Iraq) is so crucial for Iran’s overall Middle East strategy that the Islamic regime will resist any domestic pressures to reduce funding for as long as possible.

Conclusion

Two years after the implementation of the JCPOA, the economic dividends of the nuclear deal for Iran are visible at the aggregate macroeconomic level but have not yet led to a tangible improvement in the day-to-day economic situation of many Iranian households. Iran’s oil production exceeds its pre-sanctions level and oil exports have increased sharply, providing significant oil revenues to the government: Iran’s GDP grew in 2016 and 2017. But that growth was driven mostly by the oil sector, while the non-oil sector has grown at only a moderate pace. Import bottlenecks have ended, but although industries no longer suffer from severe shortages of parts and machinery, non-oil exports actually declined in 2017. The moderate growth in the non-oil sectors has not created sufficient additional jobs for Iran’s large numbers of unemployed workers and new job seekers.

The Trump administration’s hostility to the nuclear deal has been an obstacle to Iran gaining more from its being, as it put it, “open for business.” Foreign investment flows have increased but remain below potential because of the anticipated risks of new sanctions as well as weaknesses in Iran’s domestic business climate. Some major European firms that had signed multibillion dollar deals with Iran after the nuclear agreement are delaying their deliveries for fear of new U.S. sanctions.

The slow economic recovery of the past two years is also partly due to domestic factors, such as the anti-inflationary economic policies of the Rouhani government, corruption, and economic mismanagement. Many Iranians also blame the high costs of Iran’s military involvements in Iraq and Syria and its support for various proxy groups in the Middle East for reducing the resources that the government can devote to improving the domestic economy.

The recent protests in Iran and the sympathetic public reaction to the economic grievances of the protesters demonstrate that a significant portion of the population continues to feel severe economic stress. In response to growing public pressure, the government is likely to devote more resources to job creation and anti-poverty programs, but ongoing tensions with the U.S., Israel, and Saudi Arabia will pose significant geopolitical risks to Iran’s ability to achieve high economic growth rates. Whether or not President Rouhani in his second term can convince the Supreme Leader and the IRGC to reduce Iran’s non-nuclear tensions with its adversaries for the sake of economic prosperity is an open question.

Endnotes


2 “Iraq and Iran Boost Oil Exports in Sales Battle with Saudis,” Bloomberg, October 9, 2017.*


4 Central Bank of Iran, Balance of Payments-Current Account Table, Economic Trends No. 87, July 16, 2017, p. 13.*

5 “Europe Receiving 40% of Iran’s Crude Oil Shipments,” Financial Tribune, December 3, 2017.*

6 When President Rouhani began his first term in August 2013, the inflation rate was above 30%, and his government’s first economic priority was to reduce this to under 10% as fast as possible. As a result, a conservative fiscal policy and high interest rates were adopted, which led to the 2015
economic recession. Rouhani and his team considered this to amount to a necessary economic surgery and argued that restoring price stability (which for Iran means an annual inflation rate at or below 10%) would lead to faster economic growth in the long run.

7 Switzerland (44%), Italy (32%), Netherlands (38%), United Kingdom (18%) France (24%). See: "15 kehsvar omdeh sader konandeh naft-e khom ra beshnasid," [Know the Top 15 Crude Oil Exporting Countries], Sedaye Iran [in Persian].

8 The impact of these shortages was visible in all sectors, but nowhere more so than in Iran’s aviation industry. A shortage of spare parts, combined with Iran’s inability to purchase new airplanes, increased the safety risks of commercial aviation and limited its growth. See Aaron S. Goldblatt and Roozbeh Aliabadi, “How Sanctions Relief Will Impact Iran’s Civil Aviation Industry,” The Hill, June 5, 2014.

9 Since Iran prohibits foreign ownership of assets and reserves in its oil and gas sector, it has generally used buy-back contracts for cooperation with international oil companies. The oil companies, however, had warned that they would not work in Iran under these old buy-back contracts any longer. As a result, Iran had to develop new petroleum contracts in order to attract foreign investment in the oil and gas sector.


16 FIPPA guarantees several noncommercial risks, such as restrictions on currency transfer, nationalization, and expropriation; government intervention; and breach of contract by government. Foreign investments are subject to a flat 25% corporate income tax, but there are provisions for many exemptions and tax holidays, and investment in agricultural projects is 100% exempt (permanently). Investments in industry and mining are subject to 80% exemption for four years, which will upgrade to 100% for twenty years if located in less-developed regions. http://rc.majlis.ir/fa/law/show/133816 [in Persian].

17 “bar-rasi sarmayehgozar khareji dar Iran,” [An Analysis of Foreign Investment in Iran], Ghutreheit, October 7, 2017, [in Persian].

18 “jazb sarmayehgozar khareji yekezad million dollari tavasot yek kashb va kar-e novin bakhsh eretbatat va fanavari etela’at,” [Attraction of a One Hundred Million Dollar Foreign Investment in a New Business Activity in Communication and Data Processing], IRNA [in Persian].

19 See World Economic Forum, GCI Global Competitiveness Index.
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