



## THE EFFECT OF SANCTIONS ON IRANIAN ECONOMY

An agreement on the Joint Comprehensive Plan of Action (JCPOA) was signed between Iran and P5 + 1 countries (the five permanent members of the UN Security Council: China, France, Russia, USA, UK and Germany) in 2015, in which Tehran's nuclear activities were regulated and controlled in exchange for the lifting of international sanctions. After the President of the USA Donald Trump took office, Washington unilaterally withdrew from the nuclear deal on May 8<sup>th</sup> 2018, and began re-imposing sanctions on Iran to force Tehran into a new deal. That deal foresees a limitation to its missile program and regional influence in the Middle East, concerning its relations with the Hezbollah, Hamas, and Palestinian Islamic Jihad. In addition, it also demands from Iran to withdraw all troops under its command from Syria and demobilize the Shiite militias in Iraq.

Iran, whose economy was badly damaged in this process, also tried to cope with social movements stemming from economic problems. Heavy sanctions against Iran came into effect in two phases, on August 7<sup>th</sup> and November 5<sup>th</sup> 2018. While the USA banned Iran's access to dollars, gold and precious metals with the first-stage sanctions, it also targeted the steel, coal, aluminum trade, automotive and civil aviation sectors of this country. Not long after, Tehran's oil and energy trade was hit by the second-stage sanctions imposed on November 5<sup>th</sup>. Throughout this process, Washington has severely damaged Tehran's international trade by sanctioning many Iranian banks and companies, including the Central Bank.

Targeting Iran's main source of income, the sanctions aimed to put maximum pressure on the government, reduce oil exports to zero and completely remove Iranian oil from world markets. Looking at Iran's oil export statistics for the last three years, it is seen that the USA has not been able to reach its goal of zeroing Iran's exports, but Tehran's oil exports have decreased significantly compared to the period before the sanctions.

According to the data, Iran has 160 billion barrels of crude oil and condensate and approximately 34 trillion cubic meters of natural gas reserves. Iran, which has the third largest oil reserves in the Organization of Petroleum Exporting Countries (OPEC) after Venezuela and Saudi Arabia, is also the fourth country in the world with the largest oil reserves after Canada. By the end of

2020, Iran accounted for 25% of the oil reserves in the Middle East and 12% of the world's oil reserves. Despite its abundant reserves, Iran's crude oil production has fallen since 2017 as its oil sector has been subject to underinvestment and international sanctions for several years. Iran, which produced 3.8 million barrels of crude oil and condensate daily in April 2018 before the USA left the agreement, was exporting 2.8 million barrels of this amount. Iran's crude oil production hit a 30-year low in 2020 as a result of sanctions and the effects of the global COVID-19 pandemic.

According to the data of third countries and tanker monitoring companies, the amount of oil exported by Iran, which has now reduced its oil production to below 2 million barrels per day due to difficulties in selling, has dropped below 500 thousand barrels per day on average. Iran's two biggest customers, India and China, have drastically reduced oil imports from Iran after the sanctions. In mid-2019, India stopped importing oil from Iran after the Trump administration's sanctions. The European Union (EU) countries, Japan and South Korea also completely cut off their oil shipments as a result of pressure from the USA, although they were against the sanctions.

The Head of Tehran Chamber of Commerce, Masud Hansari, announced that Iran exported 9.53 billion dollars of oil to China in 2018, but this number decreased to 11 million dollars after the sanctions. Iran earned 30 billion dollars in net oil export revenue in 2019, up from 66 billion dollars in 2018. Export revenues fell in 2019 following the USA sanctions on Iran's oil exports, resulting in a decline in both crude oil production and exports in Iran.

Before the establishment of the Islamic Republic of Iran in 1979, the dollar was 72 riyals and has devaluated 3,500 times in 42 years. But the steepest decline came in 2018, when Trump imposed sanctions and reduced oil exports of Iran, the lifeblood of the government, which resorted to printing money and boosting inflation. Prices are increasing by 50% each year, impoverishing millions of Iranians.

According to Central Bank data, Iran achieved an economic growth of 12.3% in 2016, when the nuclear deal entered into force, and 3.7% in 2017. Although Iran's economy experienced a sharp economic growth of 12.5% in 2016 following the signing of the nuclear deal, it has shrunk steadily

since 2017 and contracted by about 4.99% in 2020. IMF estimates show that Iran fell into a trade deficit of 3.45 billion dollars in 2020, while the country ran a trade surplus of 6.11 billion dollars in 2019. According to the IMF, an estimated 12.4% of the population is expected to be unemployed in 2021. Inflation in the country fell to 9% for the first time in 26 years, when the nuclear deal came into force and sanctions were lifted in 2016. After the USA withdrew from the agreement and implemented sanctions in 2018, inflation increased to 30.22%. According to the data of Iran Statistics Center, by September 2021, annual inflation was 39.34%.

Iran, which could not get the support expected from the European countries, which is a party to the agreement, announced on May 8<sup>th</sup> 2019 that it would go to the process of reducing its commitments in the agreement for two-month periods until its interests in the agreement are achieved. On January 5<sup>th</sup> 2020, Tehran completely stopped its commitments in the agreement and took a number of steps, including using advanced centrifuges that would allow high-level uranium enrichment.

Iran, after the assassination of scientist Muhsin Fakhri Dehghan on November 27<sup>th</sup> 2020, announced that it had enriched uranium by 20% on January 5<sup>th</sup> 2021, under the nuclear law approved by the Parliament, and on January 13<sup>th</sup> 2021, it had started working on the production of uranium metal, which is also used in the production of nuclear weapons. Although Iran was given the opportunity to enrich uranium to 3.67% in the agreement, on April 17<sup>th</sup> 2021, it announced that it had enriched uranium with a purity of 60%. Indirect negotiations are being held between Iran and the USA, during the talks in Vienna, where the full implementation of the Iran nuclear agreement and the USA's return to the agreement have been discussed for about 3 months.

Even though the expectations that the sanctions knot between the two countries will be resolved with the appointment of Joe Biden, who prioritized diplomacy with Iran in the USA, Washington has not taken any serious steps to remove the sanctions so far. In order for Iran to come out of the economic crisis, to fully utilize the capacity of its rich natural resources and to increase its energy exports, which is an important source of income for the country's budget, it is imperative that it sits at the negotiating table in the context of lifting the sanctions as soon as possible.

## Politics, Foreign Affairs, and Security

- According to the Foreign Minister of Türkiye Mevlut Cavusoglu, the country will not join the sanctions that some Western countries have imposed on Russia. Cavusoglu indicated that as a principle, Türkiye do not participate in such sanctions in a general sense and has no intention of joining in these sanctions, either. Regarding the Montreux Convention Ankara had sent official notifications about its position on the matter to the countries involved in the war and clarified issues with regards to the implementation of the Montreux Convention (Dailysabah, 07.03.2022).
- Authorized representatives of the Shanghai Cooperation Organization (SCO) member states and the Islamic Republic of Iran held consultations and agreed on Iran's entry into the SCO. The Protocol Signing Ceremony was held in Tashkent. The document approved the draft Memorandum of Obligations of the Iranian side in order to obtain the status of a SCO member state. The next stage of this process will be the signing of the Memorandum of Commitments within the forthcoming SCO summit in Samarkand in September 2022 (KUN.UZ, 12.03.2022).
- The Minister of Foreign Affairs of Kyrgyzstan Ruslan Kazakbaev had a meeting with the Secretary-General of the Economic Cooperation Organization Khusrav Noziri on the sidelines of the Antalya Diplomatic Forum. During the conversation, the parties discussed prospects for further cooperation within the Organization to achieve sustainable development and economic prosperity of the member states and the region as a whole. The sides noted the need to revitalize the activities of the organization and maximize the use of available resources (Kabar, 12.03.2022).
- The Hungarian parliament has elected Katalin Novak, as Hungary's first-ever female president. She received 137 out of 199 total votes in the parliament dominated by Orban's right-wing Fidesz party ahead of her rival from the opposition Peter Rona. Katalin Novak took an oath during her inauguration ceremony at the plenary session of the Hungarian parliament in Budapest (Aljazeera.com, 10.03.2022).
- Yoon Suk-yeol declared victory in South Korea's presidential election. Yoon, a conservative former prosecutor from the main opposition People Power Party, won the election receiving 48.56% of the vote cast, while his opponent from the ruling Democratic Party Lee Jae-myung secured 47.83% of the votes. Lee Jae-myung conceded defeat and congratulated his opponent. The president-elect called the Korean people to overcome divisions and conflicts and open an era of integration and unity (Aljazeera.com, 09.03.2022).
- The EU will formally assess applications from Georgia, Moldova and Ukraine to join the bloc. The three countries are urging the EU to swiftly consider the membership using the rapidly changing security landscape as a significant argument for fast-track accession to the EU. Several diplomats also said that they expect the EU to elaborate and propose some sort of privileged partnership agreement for Georgia, Moldova and Ukraine (Politico.eu, 07.03.2022).

## Economy, Finance, and Energy

- In 2021, Kazakhstan's trade turnover increased by almost 17.5% and reached \$101.5 billion. More than a quarter of the country's total trade volume accounted for the Eurasian Economic Union countries exceeding \$26 billion. The share of the EAEU in Kazakhstan's exports was around 30%. Of these, Russia accounted for over 90%, or about \$7 billion. The volume of exports from Kazakhstan to the rest of the EAEU member states exceeded \$730 million (Qazaq TV, 07.03.2022).
- According to the Ministry of Energy of Uzbekistan, recently a new gas piston power plant was launched in the Khorezm region. The station was put into operation and began to supply power to the country's unified energy system. The project was implemented on a Purchasing Power Parity (PPP) basis by the Turkish company Odash Enerji CA, which invested \$105 million in the construction. The power plant will generate 1.4 billion kWh of electricity annually (Kun.uz, 11.03.2022).
- The Finance Ministry of Kyrgyzstan recently announced that the Eurasian Fund for Stabilization and Development would allocate \$80 million to Kyrgyzstan. The agreement was reached in 2021 with the Fund to provide budget support to Kyrgyzstan in accordance with the Development Program of the country for the medium term. The allocated funds will be used to support the Tourism Development Fund, Kyrgyzindustry Open Joint-Stock Company (OJSC), the Entrepreneurship Support Fund, and budgetary lending to support the energy sector and improve water facilities (Kabar, 09.03.2022).
- The European Bank for Reconstruction and Development jointly with the Government of Tajikistan presented its Transition Report 2021-2022, entitled "Delivering the Digital Dividend". The EBRD shared its macroeconomic growth expectations both for Central Asia and Tajikistan. The region is expected to grow by around 4.8% in 2022 due to continued expansionary policies and strong external demand for key exports and labor resources. The economy of Tajikistan is expected to grow by 6.2% (ASIA-Plus, 11.03.2022).
- Azerbaijan, Kazakhstan, and Georgia are planning to create a joint venture for the development of the Trans-Caspian International Transport Route, which is also known as the Middle Corridor. The joint venture will address issues of tariff setting, cargo declaration, the use of unified IT solutions, and the consolidation of transit cargo. The route has the ability to transport up to 10 million tons of cargo per year, including up to 200 thousand containers (AzerNews, 12.03.2022).
- According to the First Deputy Economy Minister of Ukraine Denys Kudin, Russia's invasion of Ukraine has caused \$119 billion in damage to the country's infrastructure. Kudin noted that the figure would only grow with each passing day of the war. The calculations include direct one-time losses and the amount of GDP losses. Earlier, it was reported that Ukraine's transport infrastructure had suffered damages of over \$10 billion since the beginning of the war (Ukrinform, 11.03.2022).

## Society and Culture

- The European Union (EU) funded project, Nexus Dialogue in Central Asia, has launched a series of training sessions on the application of the water-energy-food (WEF) Nexus approach. The EU-funded project is aimed at transforming environmental challenges into new opportunities and creating a modern, competitive economy with no net emissions of greenhouse gases in 2050. The project is worth €1.25 million and it is planned to be implemented throughout June 2020 – May 2023 (ASIA-Plus, 07.03.2022).
- USAID announced a new \$1.1 million dollar initiative aimed at protecting and assisting victims of gender-based violence in Kyrgyzstan. The initiative will help improve legal and psychological support services of 11 crisis centers and civil society organizations located across Kyrgyzstan. USAID will also support enhanced cooperation between the government and civil society so that crisis centers' services are guided by national standards that respond effectively to the needs of gender-based violence survivors (Usaid.gov, 10.03.2022).
- First Deputy Minister of Education and Science of Kyrgyzstan Bakhtiyor Orozov met with the Ambassador of the Republic of Korea to Kyrgyzstan Lee Wonjae. The parties discussed issues of bilateral cooperation in the field of education and exchanged proposals on holding joint events in the educational field. Following the meeting, the parties agreed to expand bilateral cooperation and conclude an Agreement between the Cabinet of Ministers of Kyrgyzstan and the Korean government on cooperation in the field of education and science (Kabar, 12.03.2022).
- Deputy Prime Minister - Minister of Tourism of Uzbekistan Aziz Abdulkhakimov and Russian Deputy Prime Minister Dmitry Chernyshenko signed an action plan to increase the tourist flow. It includes 20 events, comprise the holding of the Year of Tourism of Russia and Uzbekistan and the launch of the cross-border tourist route "The Great Silk Road". The document is aimed at strengthening transport and logistics ties and creating new tourist routes in Uzbekistan and Russia (Gazeta.uz, 11.03.2022).
- Kazakhstan sent 1,000 tons of wheat seeds to Kyrgyzstan as part of the humanitarian assistance program. The Minister of Agriculture of Kyrgyzstan Askarbek Dzhanybekov expressed gratitude to Kazakhstan for providing seeds designed to improve the quality and productivity of the farmers' products. Earlier, Kazakhstan provided 5,000 tons of flour in May 2020 and 10,000 tons of flour in May 2021 to Kyrgyzstan (The Astana Times, 11.03.2022).
- The Commission on International Humanitarian Assistance under the Government of Kazakhstan made a decision to allocate a batch of medical preparations to the population of Ukraine. The Ministry of Health together with the Ministry of Industry and Infrastructure Development of Kazakhstan worked out the issue of delivering humanitarian cargo along the route Almaty-Katowice (Poland) by aircraft. The humanitarian aid consists of 28.2 tons and 17 types of medicines: antibiotics, anti-inflammatory, antitussive and antihypertensive drugs (Kazinform, 13.03.2022).