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# The Impact of Sanctions on the Economy of Iran

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**Abstract:** Nowadays, economy as the basis of wealth and power plays a crucial role in order to achieve economic growth and development. It has also been the interest to policy makers of Iran and there have been a lot of economic plans to achieve economic development. In this context, Economic sanctions have been an obstacle to achieve this goal. In this paper, the impacts of sanction on Iranian economy, specifically, on macroeconomic variable have been investigated, using descriptive-analysis method. Sanction has been affected a large part of Iran economy; limiting access to finance and foreign exchange, decreasing investment, rising unemployment and inflation and led to economic slowdown. However, it seems to reduce the economy's dependence on oil, improve domestic production capacity and reduce vulnerability to external factors are the opportunities created by the sanctions.

**KEYWORDS:** Sanctions, Economic Development, Economic Variables.

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## 1. INTRODUCTION

In recent decades, use of economic sanctions as a foreign policy tool has been highlighted by some countries to weaken the target countries. Theoretically, the procedure is simple sanctions. In fact, countries impose some restrictions on the sanctioned countries and incur them costs; so that countries aim to avoid such costs, will change favorable and their direct relationship with the sanctioning countries. (Petrescu, 2008). Politicians and economists believe that most sanctions include a message to the international community and lead to economic and political change some behaviors. America in recent years in order to achieve specific objectives in foreign policy increasingly has used the policy of economic sanctions. America economic sanctions unilaterally or through the UN Security Council has imposed on some countries (Petrescu, 2008). In Iran Perspective Document 1404 development is the most important document. The most important goal is anticipated in this document achieve all-round development, including economic development that come in the form of two paragraphs:

First paragraph: health, welfare, food security, social security, equal opportunities, income distribution, strong families away from poverty, corruption, discrimination and benefit from a favorable environment (Ajili& Moghaddam, 2013). Second paragraph: achieving first place in economic, science and technology in the Southeast Asia region with an emphasis on software movement and creation of knowledge, rapid and continuous economic growth, enhance the relative level of per capita income and achieve full employment (Ajili& Moghaddam, 2013). to achieve such components to the economic development, Iran needs to be able to achieve success. By creating an obstacle to economic sanctions on oil exports and Iran's fiscal and monetary relations with the state economic structure and internal inefficiencies resulting in slowing economic development. Many factors are involved in economic underdevelopment Iran. Internal factors such as economic structure, trade deficit, the weakness in the private sector, inflation, poverty, mismanagement, corruption and economic weakness, law, economy and speculation, and not a product of external factors such as foreign direct investment low and sanctions are the most important factors. This paper seeks to explore the impact of economic sanctions on various aspects of the economy especially macro-economic variables.

## 2. LITERATURE REVIEW

Shin (2009), in a study of economic sanctions and inflows of foreign direct investment in target countries examined sanctions, the results of this theoretical research claim that economic sanctions have a negative effect on foreign direct investment in the country denies. He states that economic sanctions can really boost foreign direct investment under certain circumstances.

Drury, and Park (2004) examined the impact of economic sanctions on the possibility of a military strike against the country, sanctions and embargo have been being lubricating. The results show that sanctions and military conflicts supplement, not replace them. Petrescu (2008), shows that economic sanctions to military action between the two countries amounted to 9% of respondents to reduce sanctions.

Choi and colleagues (2006), Dixon (1993), Moasir (1998), O'Neill (2003), and Raymond (1993), believe that democratic countries are less likely to be involved in international conflicts. (Petrescu, 2008)

Askari et al (2001) tested the effects of economic sanctions on Iran using the pattern attractions. The effect of the trade embargo on Iran financial sanctions has been estimated for about 27 million dollars and effect between 1160 to 1321 million dollars per year. In total cost of sanctions on Iran in the range of 1178 to 1328 million dollars a year is evaluated.



Therefore, the costs of sanctions in exports in 2000 were about 1.4 to 4.7 percent of GDP between 1.6 to 1.9 percent and per boycott cost is about 18.5 to 21.1 dollars. They also showed that despite the heavy costs on both inbound sanctions and sanctions, Iran's policy has not changed.

Preeg (2000) in a study assessed the net effect of economic sanctions on Iran in the period 1998-2000. So that the net effect of it is negative. He estimates effect of sanctions on Iran's trade in the range of 700 to 1400 million dollars and the effect of financial sanctions cost Iran 800 million dollars per year to 1300 and in sum of all costs in the range of 1500 to 2600 million dollars of sanctions on Iran in the assessment.

Therefore, the costs of sanctions in exports in 2000 in were the range of 3.5 to 9.1% and from 1.2% to 3.6% of the GDP and per capita cost of sanctions was estimated in the range of 23.4 to 40.5 dollars. He concludes that despite the economic damages, such sanctions have failed to persuade Iran to change behavior in achieving its objectives. He has suggested that America should abandon unilateral sanctions.

Mir Ahmadi and Rashidi (2014) reviewed the embargo and its impact on their business, results and suggested that Iran's sanctions have two following results; first, in terms of progress and our national self-sufficiency in the production and dependency on other countries without being able to achieve great progress and from other side can say the sanctions have a negative impact on business; inflation and high input prices and shortages of raw materials for the production of its works.

Ajili and Keshavarzi Moghaddam (2013) examined the effect of international sanctions on Iran's economic development. Among these rentier economic structure and the weakness and inefficiency of the government in anticipation and timely decision would have to multiply the impact of sanctions on the economy. However, it seems to reduce the economy's dependence on oil (economic restructuring) to improve local capacity to reduce vulnerability in terms of resistive economy and increase trade agreement, to overcome sanctions.

Hosseini (2013) examined the Iranian economy with sanctions, with an emphasis on 2012's performance.

Yavari and Mohseni (2010) examines the impact of the financial and trade sanctions on Iran's economy. Results indicate that the negative effects of trade sanctions on Iran's non-oil exports and imports of capital goods to sanctions on Iranian oil exports were more rats. Also, stricter financial sanctions against trade embargo has had a negative impact.

Mohammad Reza Aghareb Parast (2008), in a study examined economic sanctions against Iran. The results show that the US embargo policy has failed in this period; general policies of the Islamic Republic of Iran and its pivotal changes continued economic growth and technological data. The failure of the US embargo policy could be the root of many factors, the most important one is in nature, method of applying unilateral sanctions and lack of proper understanding of the nature of the Islamic Republic of value-based policy-making.

### **3. THEORETICAL FRAMEWORK**

#### **3.1. International economic sanctions**

Sanctions have long history, but after World War II have been used more frequently. Economic sanctions are a form of political force that is to replace the use of military force. According to Carter, the economic sanctions are a form of coercion against one or more countries in order to secure political objectives which are formed and seeks to change state policy to create binding sanctions.



Davidsson (2011) suggests the following definition for economic sanctions restriction on trade or financial transactions coordinated or both in order to weaken the economic life in a certain territory. The sanctions regime, most likely to succeed when they embargoed countries incur higher costs or a threat to their capacities.

The most obvious feature of economic sanctions restricting trade is its relations with the external conditions. These restrictions can include purchase and sale of products, factors of production such as technology, these difficult conditions need to communicate with business partners and such transaction are not with the Central Bank. In addition to unilateral sanctions against Iran, the United States, the United Nations Security Council and multilateral sanctions are considered. Resolution against the Islamic Republic by the Security Council under Chapter VII of the Charter, international legitimacy and respected by all members.

But the United States and Europe unilateral sanctions are broader and affects all key areas of the Iranian economy. They even put pressure on other governments to join their unilateral sanctions. If global consensus or consensus-binding neighbors embargoed country to follow international sanctions, the country will suffer from high prices and shortages of goods and services. Of course, when economy is vulnerable, unilateral sanctions will be successful. On the other hand, the economic sanctions of United States and Europe Union in addition to the commercial exchanges, have embraced the financial relations too. Namely, in addition to cut and limit the kinds of import and export relations with Iran, they created some limitations and pressures on financial relations of Iran too. Therefore, in addition to limit the international commerce, they sanctioned the investments, financial exchanges even the banks, insurance companies... In this line, the first effect of sanction is to spend time and energy for changing the commercial and financial ceremonies. Changing the markets has abundant chronological and financial cost, whilst with sanctioning the purchase market, forcedly the similar goods with higher price are purchased, thus the power of money purchase is reduced, in these conditions, the lost investment opportunities and their risk are increased; briefly an obstacle is created in the natural path of international transactions of sanctioned country which must spend many costs in order to remove that obstacle or the effects arising from it. Obviously, all mentioned cases can reduce the economic growth and development of the country.

### **3.2. The reasons and practical purposes of sanctions**

There are many factors in sanctions that they tend to be the most important influence or even change the policies of a country, punish or penalize a country because of its policies. In summary, the reasons for and objectives of the sanctions can be presented as follows:

- The desire to influence the policies or even a change in the political system of a country
- Punishing a country because of its policies
- Create instability in the country, mostly in an attempt to change in political system of the country
- Promoting human rights, counter-terrorism and non-proliferation of weapons of mass destruction
- A sanctioned country show that the country boycott the country denounced the action.
- Unpleasant premonition of sanctioned country from pursuing certain policies in the future
- Reducing military power of target country (Alikhani, 2001)

More important, the use of sanctions, success in implementation and its success in this area involved several factors including:

Economic power: sanctions against Iran is a lever which makes conclusion that the cost of compliance in imposing sanctions against the country, is less than the cost of applying economic



sanctions against the country. So the theory of economic sanctions has a direct relationship with economic power.

1) Internalization and symbolization of it: some theorists analyse the economic sanction in the frame of connection and influence diplomacy. Three important processes called obedience, identification and internalization are proposed in this theory. The obedient behaviour of opposite side depends on the influence and effectiveness. In this method, successful relation and connection will be accomplished not due to the compulsion and persuasion, rather due to the gradual induction of values (internalization) (Moazami, 2013).

2) The sanction process: what is determinative includes the value of a thing that both sides have disputes on it and due to it they have been involved with each other.

3) The kind of political system: whatever the target country is more democratic and also its economy has more dependency to the sanctioner country or countries, with the same amount the chance of the sanction success will become more. Therefore according to the view of some researchers such as Lektzian & Mark Souva, the economic sanction against non-democratic governments has little chance for success, because the leaders of these kinds of governments don't have much problem for creating internal coalition and opposing with sanction effects.

4) Sanction domain: whatever the sanction has less domain and extent, the chance for success of sanction will be more; because the sanctioner country achieves this possibility to associate with other countries in joining the sanction with itself.

5) The amount of dependency and friendship relation: whatever the sanctioner and sanctioned country have more friendly relations and have high volume of economic exchanges, the possibility of sanction success will be increased.

6) Speed and accuracy of sanction: whatever the speed of sanction is more, sanction will have more effectiveness.

7) Connection diplomacy: international cooperation for exerting sanction is as a condition that theorists have consensus on it. When the disputed issues are tangible and specified, achieving the cooperation is easier (Moazemi, 2013).

### **3.3. Economic sanctions on Iran**

In the past decades, the United States stated three pretext of developing nuclear weapons, supporting terrorism and continuing human rights violations; a wide range of sanctions imposed on Iran and has tried to increase the pressure of sanctions. Islamic Republic of Iran categorically achieve nuclear weapons capability denies and says that its nuclear program is only for peaceful purposes, in particular, electricity generation and meet energy demand in the future.

United States over the possibility of making a preemptive strike against Iran has been spoken and in the case of putting pressure on the International Atomic Energy Agency has stated that Iran meet its commitments to the nuclear Non-Proliferation Treaty is violated and this international community considers the biggest challenge of economic sanctions as a tool to change Iranian behavior .

In the meantime, many countries in order to prevent a war in the Middle East that is vital to them, with economic sanctions as an alternative to military conflict with the United States in imposing sanctions will work.

It seems that the application of sanctions by the United States has two major reasons:

1) If not it is economically vulnerable, the power of imposing sanctions, sanctions would be negligible. Otherwise, it covers the size range of economic and oil sanctions on Iran due to economic vulnerability.



2) The United States has the world's biggest economy and market that many governments and businesses are willing to participate and compete in this market.

Presence in US market and investment in the country in addition to profits, lead to economic development of the country. In fact, the country raise GDP, exports and a share in world trade, America should be active in market. That's why businesses which comply with sanctions imposed by America against Iran. If you do not join the sanctions against Iran you will be deprived of an important privilege and will not share in the financial markets and the United States economy.

Also, the superiority of US in the production of advanced technology that helps different countries to have access to this technology requires the presence of American companies to invest in their country; therefore denial of this means lack of access to advanced technology. United States American business institutions and companies directly and sanctions ban countries and institutions in America in case of investment in Iran indirectly, prevent the spread of foreign direct investment.

These companies according to their market share in America prefer the United States adhere to sanctions laws. United States' presence in the competitive market of embargoed countries is becoming attractive for companies and businesses.

Table (1): the list of some exerted sanctions against Iran country

Year	Sanctions list against Iran
1980	America's economic sanctions against Iran Islamic Republic in reaction with America Embassy Hostage
1981	Reagan government's economic sanction against Iran that its purpose is to prevent from selling military equipment to Iran.
1991	In order to prevent from superiority of Iran over Iraq and disruption of the power balance in the region
1992	America approved the law of prevention from development of Iran and Iraq military equipment.
1996	Sanctioning all economic exchanges with Iran and prevention from American companies' participation in development of Iran oil industry.
1996	Approving the sanction law of Iran and Libya
2002	IEEE organization imposed the scientific sanction on Iran.
2006	Approving the manifesto 1737 of security council against Islamic Republic of Iran
2006	Reduction of cooperation of 7 large banks of UPS and Credit Switzerland, ABN Amor of Netherland, HSBC and Berkley of England and societie Generale and Credit Lyonnais of France with Islamic Republic of Iran
2006	Stopping all direct and indirect financial exchanges of American institutes with Saderat Bank
2006	Stopping all exchanges of three Japanese banks with Saderat Bank
2007	Stopping all direct and indirect financial exchanges of American institutes with Sepah Bank
2007	Stopping the commercial cooperation of Commerz Bank in Germany with Islamic Republic
2007	Blocking of 10 companies' assets and 12 Iranian positons in relation with Iran's nuclear and missiles program by Japan government and acting for prevention from transferring the capitals related to Iran's nuclear and missile program
2007	Regulating the draft of a manifesto by governors council for reducing the technical aids of this institute to Iran and posing the suggested manifesto in the agenda of governors council session
2007	Approving a plan for development of sanctions against Iran and preventing the foreign financial institutes, banks and companies from participating in oil and gas industries plans by foreign relations committee of America representatives council
2007	America government has put pressure on different countries like Japan, Malaysia, China and Russia severely to suspend its investments and projects in Iran
2008	Lambert Brussels Bank in Belgium and Deutsche Bank in Germany cut the foreign exchanges transactions with Iran
2008	France CNRS organization, the largest scientific research organization of Europe imposed some sanctions against all Iranian scientists.
2008	Switzerland confiscated the assets of 12 Iranian companies under the pretext of sanctioning orders of United Nations Security Council against Iran.
2009	Stopping the cooperation of Chinese and Iranian automakers due to the sanction
2011	Europe Union sanctioned 180 Iranian persons and companies.
2011	America Senate support from sanctioning Central Bank in Iran
2011	Increasing of western countries pressure on banking system and energy industries of Iran
2013	America's human rights positions against Iran

### 3.4. Economy on Iran's oil and sanctions

Oil is one of the most political commodity in global economy that has political and social developments in the oil states. Oil generally cause a lot of political and economic fluctuations in Iran and it is one of the most important factors which make lopsided and unbalanced development of the country. In recent years the sanctions regime, have used oil and oil revenues as an effective lever to put pressure on the Iranian economy.



On the other hand, over the years a comprehensive program for proper use of this non-renewable resources has taken place. Although the amount of this positive investment income is spent in economic infrastructure, but some of it rather than invest in ways of creating income or eliminating bottlenecks, were spent on projects which increase costs and consumed. (Kordzadeh, 2001)

In 50-80 years our country has received from the sale of assets such as oil and gas nearly 550 billion\$ in revenue, which in itself is a huge investment. But the arrival of the amount of capital into the country brings real development, because oil money is flowing instead of wealth and capital spending. (Mirtorabi, 2005)

Iran's energy sector in the economy enjoys a strategic location and unique, but the production and export of raw materials and low wholesale of oil, gas and petrochemical, manufacturing and exporting non-oil economy is the most important point of vulnerability. (Maleki, 2003) So far, despite the efforts of many governments in tax efficiency, but also due to escalating dependence on foreign exchange earnings from oil sales, Iran still has the characteristics of an oil state.

Despite the profound impact that oil has on the economy in general, oil-based economic development, has consequences that will eventually create a few basic and diversified economic development in Iran, Iran has also everyday problems and economic obstacles standing in the way it makes the injection of high oil revenues. (Ardakani Nazemi, 2004) this dependence has led shortage of long-term plans; because at any moment may be faced with the decline in oil prices, which is why most long term plans are modified and discounts.

Thus, the United States Iran's energy sector as a critical vulnerability has been identified, because the average income of the state in different periods is dependent on oil revenues and the need to invest significantly in this regard. According to the United States efforts to prevent international investment in Iran's energy, The United States knows that the economic structure of Iran is according to the oil and injects its needed foreign exchange to the country economy by the foreign exchange obtained from oil purchase, at first United States and then Europe Union tried to cut Iran's income source for changing Iran's behaviour in nuclear program and they tried to disorder the economic lifeline of the country, and by oil sanction they practically sanctioned Iran from the most part of its income and prevented from importing the foreign exchange to Iran. In a world that any country in each moment seeks to become industrial and progressed, in Iran by reduction of incomes arising from oil sanction and the problems arising from supplying the foreign exchange for capital sources and goods, the productive and infrastructural establishments like auto making industries were on the verge of bankruptcy (Gholami, 2012). It can be said all elements of our economic, social and even political life are influenced severely by eliminating oil from the country economy. Injecting the capital to the industry section, significant goods import, supplying and achieving the new industrial and military technology and supplying the internal energy depend on oil incomes, in other words, economic and social security and even from higher view, political security and stability of the country are influenced by oil incomes. Therefore, what makes us vulnerable and encourages to the United States sanction is the oily economic structure.

### **3.5. Impact of sanctions on oil projects**

The initial impact of financial sanctions of America's investment to finance development projects is on oil in Iran; because of the capital-intensity of the industry has always been great and large amounts of capital for development of this sector is necessary. Lack of domestic capital, investment in the oil sector postpones development projects. Oil reserves in Iran are often high life and some of its equipment during the Iran - Iraq have been severely damaged. Iran in order to increase oil and gas production needs to expand its oil fields.

Development of oil fields requires high investment that Iran does not have such funds and also due to the international situation is not able to borrow. However, the National Iranian Oil Company to invest in some fields to oil companies on a contract basis should be encouraged Beck. (Yavari and Mohseni, 2010) So in general we can say that sanctions and incentives primarily on the amount of investment in oil projects are effective.

Table 2: Costs and revenues from oil in Iran

Year	The income earned from oil (billion dollar)	Iran's oil price (barrel, dollar)
2006	53.82	50.66
2007	58.61	61.07
2008	65.26	69.3
2009	71.35	94.66
2010	49.84	61.25
2011	74	78.18
2012	117	108.29
2013	68.13	94
2014	56.3	97
2015	60	93

Reference: Central Bank yearbook in 2015

### 3.6. Sanctions on macroeconomic variables

Including cases where the effects of sanctions should be paid to its impact on macroeconomic variables such as inflation, unemployment, economic growth and investment, the following are paid individually to each of them;

#### 3.6.1. Inflation and currency

Economic sanctions cost effective on the two channels; The first economic sanctions entry fee of some imported goods and capital goods and parts increases and thus affects the price.

A possible second will be economic goods imported for the same price, but it is not possible to directly import and must be entered in several stages and it will increase transaction costs.

It also aims to reduce the country's foreign exchange reserves fell by an unofficial parallel market exchange rate increases. Inflation will increase their exchange rates; because according to the production structure dependent on imports of increased production costs and an increase in the general price level and inflation will be created.

It also increases the exchange rate, thereby increasing the attractiveness of the currency market will be driven to wander liquidity and other financial resources to this productive sectors of the market. This leads to loss of productivity and increased unemployment. Loss of productivity and in turn inflation will rise. On the other hand reducing imports of foreign exchange earnings will cause needs to be faced with serious constraints.

If the decline in revenue led to a decline in imports of consumer goods, followed by consumer prices will increase and inflation will be created and if imports of intermediate goods decreased, different economic sectors can be produced and the supply of goods is reduced, and thus the



price of goods will increase. If restrictions on the import of capital goods, with interruptions reduce productivity of economic sectors it will be followed by unemployment and inflation increases. Effective mechanisms for reducing oil revenues on macroeconomic variables is shown.

### **3.6.2. Unemployment**

The vast majority of employment in the country's interior and little relation to external economic relations of the country will happens. However, Iran's exports will be limited if it would naturally with the closure of foreign exports in this sector workforce are unemployed and the unemployment rate is likely to be increased. As well as economic slowdown also reduced the growth of employment.

### **3.6.3. Investments**

Negative psychological environment for economic activity led to a reduction in investment, slow growth and rising inflation. Sanctions resulted in a period of uncertainty in the economy, domestic and foreign investors to make investments forced to pause and wait. At this time investors are attracted to other regions and countries in attracting investment objective of the competition remains opened.

Countries that have not participated in boycott look with suspicion investment climate and are reluctant to invest. Many companies that have economic relations with Iran are sanctions strained its relations with that country are concerned and even investments have refused. They even accept the risk of investing enormous cost to consider it.

### **3.6.4. Economic growth**

Economic sanctions may affect the country's economic growth. One of the factors that ensure economic growth is investment. Both domestic and foreign investment procedures slowing economic growth slows and the subsequent economic development will be affected (Shafaghat Nejad, 2013). Following stopping Iran's oil purchase by other countries according to the recent sanctions, Iran's oil income has been reduced significantly. Of course the sanctions of banking system and Central Bank of Islamic Republic of Iran also have caused to intensify the mentioned challenge, because by the effect of these sanctions, the receipt of foreign exchange incomes also face with problem. Reduction of foreign exchange incomes due to the sanctions which have been accomplished will influence on the domains of macroeconomics that the mutual effect of these variables on each other will destabilize the macroeconomics environment. The sanctions are also effective on other economic variables of the country:

1-Due to the reduction of oil incomes, tax incomes will be reduced and the budget deficit will be increased. Parallel to the reduction of foreign exchange incomes, the intermedior goods import will be reduced and following it, the productive power of economic sections will have drop-off and the amount of taxes taken from productive sections will be reduced (as the result of these two cases, both Gross Domestic Production (GDP) and government's incomes from the taxes location will be reduced).

2-By the effect of oil incomes deficit, the foreign exchange reserves of the country are reduced severely. If in the medium term, no strategies are adopted for compensating this reduction through absorbing foreigner investment and development of non-oily export, Central Bank faces with severe deficit of the foreign exchange rate. This deficit of supplying in foreign exchange market undoubtedly will lead to increase the foreign exchange price and consequently the export cost both in consumptive goods and intermedior goods is increased and consequently it leads to the inflation. On the other hand, the governmental costs are reduced due to the oily incomes deficit and this causes to reduce the Gross Domestic Production. This means that economy is affected by stagflation.

Table (3): macro-variables in the last fifteen years

Year	Unemployment	Inflation	Current exchange price	Economic development
2000	13.5	20.1	8632	2.74
2001	14.3	12.6	8190	1.93
2002	14.2	11.4	8009	5.14
2003	12.8	15.8	8019	3.66
2004	11.8	15.6	8325	7.51
2005	10.3	15.2	8748	7.11
2006	11.5	10.4	9042	5.08
2007	11.3	11.9	9226	4.62
2008	10.5	18.4	9358	5.89
2009	10.4	25.4	9667	7.8
2010	11.9	10.8	9979	0.58
2011	13.5	12.4	10442	3.94
2012	12.3	21.5	12047	5.89
2013	12.1	30.5	26078	3
2014	10.4	34.7	31838	3
2015	10.6	15.6	35453	-5.8

Reference: Central Bank in 2015

With regard to the table (3), it can be said that the effect of sanctions is evident on all economic variables, especially after intensification of sanctions, this issue is evident well since 2011.

### 3.7. Sanctions effect on the banking system

1) The effect on the account of foreign exchange reserve: all payments related to the account of foreign exchange reserve of credits have been influenced by sanction since the first day of sanction, because the sellers prevent from sending the contracted goods due to the lack of possibility of documents transaction and fee receipt. Consequently, the opened credit goods have remained undecided and Central Bank seeks for alternative Bank.

2) Increasing of risk about the bank sources: since many Iranian people have financial transactions with the branches of overseas banks, therefore by exerting these sanctions, the great part of the banks sources in these countries are fallen at risk. However, some foreigner customers also have transactions with these branches which lead to this issue that the process of commerce with Iranian companies and persons becomes more difficult and its costs are increased.

3)The possibility of limitation of exploiting the assets in overseas or closure of deposits: if the assets of Iranian banks are closed in the future, banking system will face with irreparable loss and this issue will cause the banks reserves to fall at risk severely.

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5) The effect on credit risk: due to the concerns about export security, the credit risk of transactions with Iran has been increased since the beginning of the first sanction against Iranian banks and the rate of insurance coverage of goods export to Iran is on the rise and this case leads to increase the costs and financial price of export goods to Iran.



6) Increasing of capital goods price: the incremental growth of capital goods price has occurred from European countries since the beginning of sanctions against Iran and this issue with regard to the small rise of inflation in these countries returns to the sanction issue and insecurity in Iran country.

7) reduction of international trust to the banking system: the international sellers, trust to the Iranian banks has been reduced severely so that they emphasize on lack of doing the transactions with these banks and propagation of this issue at the wide level of banking will be very irreparable.

8) The effect on banking expert forces: thousands of the foreign exchange experts will be influenced by this issue and if it continues, its effects will be very irreparable.

9) Imposing of financing costs: increasing of financing costs can be mentioned as the important effects of banks sanction. Increasing of the insurance right rate of facilities, the discount rate of Iran's documents in foreigner banks, payment banking wages in transactions with foreigner banks, purchase cost of intermediators, wages cost of documentary credits opening and finally alternative costs of banking brokers are such costs that the sanctioned banks should face with them.

10) Reduction of public trust to the banking system: the most important factor that embraces all sanctioned banks is the possibility of reduction of public trust to the banking system inside the country and more capital egress from the country due to the increasing of time and cost and sending it to the other sections especially in the production section (Vesali & Torabi, 2011).

#### **4. THE EFFECT OF INTENSIFICATION OF SANCTIONS ON IRAN ECONOMY**

Generally, Iran economy is not weak enough to collapse by intensification of sanctions nor so strong that not to be damaged by this area. Rather due to the severe dependency of our country economy on the incomes earned from petroleum income and also the wide volume of Iran's commercial exchanges with different countries of the world, the negative effect of international sanctions have been unavoidable and if the international community accompanies with America and Europe countries, these effects will become more irreparable day-to-day. Generally, the most important effects of sanctions on Iran economy are as follows:

##### **4.1. Reduction of economic development**

Reduction of economic development is one of the macro-effects of international sanctions in the economy of a country. This issue can be studied from two aspects: first, a dynamic economy for development needs to obtain the production factors from different sources and these production factors in an economic process can have suitable resultant on the direction of economy development. In other words, a developing economy in any conditions needs capital sources, modern technology, primary materials, suitable management and organization and skilled human force to be able to be combined in each other with suitable methods and in the production factors frame so that an economic activity in different sections like industry, agriculture and services to be obtained. Nowadays in the world, nothing has not meaning in international markets and increasing of competitiveness power. If the economy of a country doesn't have a share of global market, it will be affected by stagnancy gradually and also it will lose its efficiency by taking distance from competitive space. Whilst taking the share from global markets needs the existence of ordinary conditions in the political space and if a country is placed in the sanction state, it cannot have suitable share from these markets and it also loses its competitiveness gradually (Basiri, 2013).



#### **4.2. Reduction of commercial exchanges volume**

Since Iran economy has wide international exchanges, it has been influenced by severe consequences arising from sanctioning the banking system especially Central Bank and this issue that is said with regard to the low share of Iran in global commerce, banking sanctions have low effect on Iran's commerce is not an accurate reasoning. Because the international commerce of a country must be evaluated according to the ratio of gross domestic production of that country economy. In the past years, the ratio of international commerce of Iran to GDP has been very high. The foreigner commerce volume of Iran economy is a figure about 140 to 150 billion dollars., if this figure is evaluated in proportion with gross domestic production which is about 270 to 380 billion dollars, you will see it is the foreigner commerce ratio with GDP and from this aspect, it is placed as a component of high level countries, namely it can be said that our country is almost international. Although the most part of international exchanges of Iran economy is related to the petroleum export and consumptive goods import. But the vastness of these exchanges volume can create many problems for Iran economy if the sanctions are intensified. On the other hand, the economy development of a country will be provided through wide exchanges with international financial institutes and the sanctions of these institutes will reduce the facilities on the authority of the country such as private and governmental section. Besides, the cost of exchanges will be also increased so that the exchanges may be done but the cost will be much more than the past, namely in addition to this issue that the suitable facilities and services are not provided for different sections of Iran economy, it should withstand high costs. Therefore, the country economy must continue its life with the minimum facilities and maximum cost.

#### **4.3. Sanction costs for industry**

Generally, these effects can be divided into two groups of covert and overt costs on industry. Covert costs are those that in long-term influence on the performance of productive and industrial units a lot but in short-term they are not evident and no one considers them. One of the covert costs arising from sanction which damages the body of the industry in the country a lot is the market change. This change includes both the producers and goods' exporters and importers. All three groups lose their previous markets by the effect of intensification of sanctions and in order to continue the activity, they have to find new markets that change its change imposes many costs on them. This case causes the artisan, exporter and importer both to spend much time for finding new markets and pay much cost. Unfortunately, when such excessive cost is imposed on the industry and production of the country, naturally the fixed price of domestic products have been also increased and consequently with the same amount, their competitive power is reduced. Some of the costs of productive-industrial units are arising from sanctions, lack of cooperation of financial industries and banking system. In this regard, not only current global banks don't want to cooperate with economic firms in Iran, but also domestic banks cannot open documentary credits. Even if some units can open documentary credit for providing the primary materials, foreigner sellers don't want to sell their goods. The cause of these lack of cooperation is to pay heavy indemnities that global banks and foreigner companies must pay for trading with Iran. Another overt cost which has been imposed on Iran industry by the effect of intensification of sanctions is the increasing of transportation cost. Iranian artisans cannot carry their goods through Islamic Republic shipping. Besides, if a producer carries its goods through other shipping or aviation, must pay additional cost between 10 to 30 percent (Basiri, 2013).

### **5. POSITIVE CONSEQUENCES OF SANCTION**

In fact, the financial institutes which have account with Central Bank in Iran are facing with the spread of prohibitions which lead to appear serious damages on America's economy and its allies, therefore exerting this sanction is not only against Iran. Exerting this sanction can be



against many countries in the worlds that in production need petroleum. Iran's industry has had great economic mutation relying on non-oily activities and this can be accounted as the positive effects of sanction and it can cause the economic self-sufficiency; it can be said in the economy field, the main concern must be localization of science and technology to reduce the losses arising from sanctions up to minimum and the self-sufficiency procedure can be accelerated by converting the threats to the opportunities.

The sanctions effects about the industry of designing and constructing industrial equipment have relation with the time period of sanction and the amount of ensuring its stability, in a manner that if the time period of sanction is short namely its life span is less than the life span of investment for development to achieve the exploitation, certainly its effects will be negative. Because as soon as the sanctions are cancelled, new conditions govern on the country's economy which has tendency to supply the equipment from foreigner countries; due to it, supplying the financial sources of executing the projects is increased and the development procedure is stopped. Thus if the life span of sanction is more than the life span of development-oriented industrial investment up to exploitation time, certainly the investments will conduct the industry to the development path and achieving the technical knowledge will facilitate the construction of many equipment. Therefore, if the policy-makers consider the sanction phenomenon as a development factor, in long-term the industrial development may be fulfilled up to industrial independency limit, an independency that achieving it will be the beginning of powerful and independent issuance of services and industrial goods instead of oil and gas export in the future. An event that never occurs without challenge and will of satisfying the need and relying on domestic power and trust to people of the society. On the other hand, with increasing of dollar price, the price of import goods is increased and in competition with domestic goods, the purchaser prefers to buy the domestic goods and this issue causes to reduce the import and flourish the domestic production. And also with more profitable export goods, the producers use of their maximum capacity of their production to obtain more benefit by export. If the economy is managed correctly, by increasing of domestic production, both unemployment will become less and by increasing of national income, the level of public welfare will be increased and by increasing of export and reduction of import, the commercial level of Iran will become positive and the country achieves an economy with better rank in the world. In recent years, it is observed that many pieces and equipment that by the effect of sanctions, Iran's accessibility to them has been evident, are produced by Iranian producers.

## **6. IRANIAN ECONOMY AFTER AGREEMENT**

Recent nuclear deal failure of economic sanctions could create a fundamental change in the economy. Iran's Sanctions has imposed a burden on the economy. The work of these sanctions in a sudden increase in the price of currencies, financial constraints and the money for the country first became apparent. The same amount of lift sanctions psychologically can provide a relaxing and opening to the economy. That has lost confidence in Iranian economy for economic actors, including local and foreign companies had created returning again and to provide a space that prosperity in this space again, tends to investment and increased production in Iranian economy there. After a psychological aspect to these sanctions in the form of cost. Naturally the complete disposal of sanctions if the financial resources that the country has over the years accumulated mainly in other countries or is blocked and there is the possibility to use for free the country of investment, development planning and management by this resource opens. Naturally, in prosperity, increase economic growth and its impact trade restrictions which the country was exposed to solve and reduce the costs of foreign trade. Currently, despite the sanctions for the country's foreign trade has increased costs. Elimination of these expenses in foreign trade rising inflation and rising commodity prices, consumer goods people can see that this cost is reduced sanctions and consequently the cost of consumer goods within the country and the situation comes down to better contain inflation and will help deflation.



Naturally economic growth through the opening of new funds increases. Also can be said about oil the possibility of further increases in oil sales, financial resources necessary for the growth of other sectors also from this source that helps to boost economic growth.

## **7. CONCLUSION AND SUGGESTIONS**

The nature of the Iranian government is such that oil is not as capital, but also as the country's main income. Along with such governing structure of the economy, Iran has faced many economic sanctions, predictable results further sanctions for Iran recession, high inflation, rising unemployment and economic growth rate to zero, corruption, rent-seeking, smuggling and money laundering. Sanctions are getting all countries of economic cooperation with Iran and would lead to high risk rates of economic cooperation. The economic embargo, the economy has not collapsed, but has slowed the pace of progress and development in the country. Many of the costs that must be spent to develop the country, costs have been dealing with sanctions. Generally the results of this study suggest that sanctions will lead to rising inflation and unemployment, economic growth, increased production costs and the general economic downturn have, on the other hand reduces Iranian economy's dependence on oil and increase production capabilities to your home. These sanctions also have existed before proposing Iran's nuclear program. Therefore if Iran's nuclear negotiations succeed, there will be no guarantee that United States do not increase Iran's sanctions. Therefore it can be expressed that the United States' purpose is not to change Iran's political behaviour, rather its purpose is to change Iran's governance. Therefore, it seems the solution of neutralizing the sanctions is not to eliminate them, rather its solution is a powerful economy to minimize the Iran's economy vulnerability. In this regard, it seems the important solutions for dealing with sanction are to create commercial agreements with the organizations and institutes, especially at the region level and domestic efficiency in order to increase the domestic capacity so that Iran's economy can be less vulnerable from this area.

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## **ETHICAL CONSIDERATION**

Authenticity of the texts, honesty and fidelity has been observed.

## **AUTHOR CONTRIBUTIONS**

Planning and writing of the manuscript was done by the authors.

## **CONFLICT OF INTEREST**

Author/s confirmed no conflict of interest.

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