

The text of the speech of Mr. V. Seif the Governor of the CBI



Good morning, Ladies and Gentlemen,

First and foremost I'd like to thank the organisers of the summit for giving me the opportunity to talk to you today.

It is my great pleasure to be here at this 1st Iran Investment Summit in this beautiful and vibrant city, among distinguished members of Millionaire Asia and all of you.

This event aims to explore ways of investing in and doing business with Iran. It provides an opportunity to exchange views, raise questions and provide answers which I hope, promotes better mutual understanding and proves to be the first step of a long journey for many of us here. I will briefly present an overview of Iran, its history, demography and economy. Its recent economic and financial developments, trade and investment opportunities the country offers, and our expectations going forward.

On Iran

Thousands of years of history of Iran, previously known as Persia, makes it one of the main cradles of civilization which since its emergence circa 10 to 8th millennium before Christ this land has always been the leading entity at least in the region. Iran ranked 18 globally in GDP in PPP terms; the \$450 billion economy is well diversified, enjoys a broad domestic industrial base, employs an educated workforce, and has access to cheap energy resources. As cited elsewhere in the literature, Iran has the consumer potential of Turkey, the oil reserves of Saudi Arabia, the natural gas reserves of Russia, and the mineral reserves of Australia.

On People

A population of 80 million, educated & skilled workforce, with the number of university students exceeding that of the most developed countries including France & UK and Turkey, very diverse

ethnicities, various religions and rich culture make Iran unique in the region.

Main Advantages

Iran's main comparative and competitive advantages for speeding up economic growth and potential benefits for its partners can be summarised in skilful labour, a large and diverse economy with US\$ 450 billion GDP, located in a strategic part of the planet. Iranian economy benefits from a considerable number of competitive and comparative advantages and capacities.

The competitive advantages include:

- Strong social solidarity despite the country's high ethnic diversity.
- Stable and secured position within an unsecured region
- A relatively robust infrastructure
- 50 years of experience in manufacturing
- Educated population with rich entrepreneurial culture
- Competitive wage rate coupled with skilful labour force
- A great energy consuming sector which provides profitable opportunities for
- energy saving investment

In addition to the competitive advantages, the country possesses a number of exceptional comparative advantages. These include:

- First position in the world gas reserves,
- Third position in the world oil reserves, with very low production cost,
- Affluent mineral reserves and established infrastructure
- An exceptional situation in terms of transit (west-east and north-south connecting point) which could make Iran the most facilitating trajectory in the Middle East
- Enormous capacities in religious, historical, cultural and health tourism

Given these advantages and many other attractive opportunities which I did not mention, Iranian economy has considerable potentials for its partners and the entire world to benefit from, within the current situation of the global economy. While the world is suffering from low economic growth in both developed and developing countries, the Iranian Economy, as the largest economy to re-enter international markets since the fall of the Soviet Union, is located within the heart of a geopolitically important MENA region, Central Asia, Afghanistan and Pakistan, which cover a total population of more than 750 million. Therefore, Iran can be considered as the gate to this huge emerging market. It connects the Persian Gulf to the Middle Asia and provides a corridor from west to east, historically known as Silk Road.

Recent economic performance and future prospects

Since taking office in summer 2013, the government of President Rouhani has embarked upon a comprehensive stabilization and reform plan which includes all fronts and resulted in a resounding stability. Politically the Nuclear deal between Iran and P5+1 proved the peaceful nature of Iran's nuclear program and with removal of sanctions it helps with the reintegration of

Iran's economy in the global markets, and most importantly paves the way for return of Iranian banking system to the international financial markets in which Singapore has an important place, in this part of the world.

Sound policies over the past three years helped restore macroeconomic stability across the markets. This stability helped to enhance policy credibility and economic predictability, bolster public confidence, and improve investment and growth prospects. We remain committed to maintain and improve the economic stability, including:

- containing inflation,
- improving fiscal management,
- reforming and strengthening the banking system,
- unifying foreign exchange rates
- promoting foreign investment and
- advancing growth-enhancing structural reforms

to increase employment opportunities for a young, well-educated and growing labor force and reduce the economy's dependence on oil.

The GDP of the country grew by 3 percent in 2014/15, but it stagnated in the subsequent year, reflecting the sharp decline in global oil prices and a wait-and-see attitude on the part of consumers and investors. Falling oil prices has had a negative impact on the process of economic recovery in Iran. Sharp decline of oil prices in 2015, resulted in reduction of government spending and investment expenditures and weakened the demand side of the economy. However, while oil price was falling and economic sanctions were still in place, sustaining macroeconomic stability and continuation of inflation reduction have been valuable achievements for us in 2015. Prospects for 2016/17 are very bright, as continued prudent policies, higher oil exports, coupled with positive growth shocks associated with the lifting of economic sanctions are expected to boost real GDP growth to 5 percent or even more in 2016/17. In fact GDP increased by 5.4% in the first quarter of the current Iranian fiscal year. Inflation rate dropped from very high, double digit region to a single digit zone in the current year (8.8% in September 2016 on year on year basis) as the result of tightening monetary policy by the Central Bank. Latest annual PPI (Producer's price index) showed a very promising increase of 3.2%. Stability of foreign exchange market also helped anchor inflationary expectations. Now that calm has returned to the foreign exchange market, steps are being taken to achieve unification of the exchange rates. Iran's foreign debt is negligible, its balance of payment is positive and the surplus in the overall balance of payment of the economy was sustainably positive during the past few decades. Therefore the low level of foreign debt of the country, which is around 2% of GDP is a source of confidence in future performance of the country in absorbing foreign finance and investments. Iran has an impeccable payment track record despite revolution, war, sanctions and all other adverse situations.

On Banking

Iran enjoys a sizeable, historically capable banking sector with international experience. Banking

activities are transparent and follow international best practice. Efforts to address high NPLs, low profitability, and weak credit growth include strengthening the central bank's supervisory powers and extending them to all banks and financial institutions. Iranian banks overseas are subject to stringent supervision by home and host supervisors. Public banks are being restructured and recapitalized to make them more robust, financially. Non-bank credit institutions have been encouraged to consolidate and apply for a banking license. NPLs are being monitored closely and additional steps will be taken to repair and strengthen bank balance sheets. Considerable growth in e-banking in recent years demonstrates the great potential that exists in improving service delivery in the Iranian banking system. This at the same time poses new challenges and warrants close vigilance. While reduction in international financial transactions between Iranian and foreign banks has adversely impacted service delivery and profitability, the central bank is strengthening regulation and supervision to ensure proper risk management practices in banks and compliance with international standards, including on corporate governance and capital and liquidity requirements set by the Basel Committee. Bolstering the AML/CFT framework would facilitate the re-integration of the Iranian banking system into the global economy, as would the preparation of banks' financial statements consistent with the international financial reporting standards (IFRS). Notable progress has been made on both fronts. Banks are increasingly preparing their financial statements in line with the IFRS. We remain committed to continued strengthening of the AML/CFT framework, have requested an IMF assessment of the AML/CFT regime against the FATF standard, and intend to join the Eurasian AML/CFT group.

On foreign investment

My colleagues are available to talk extensively and respond to your questions on the area of foreign investment, therefore I will briefly touch upon a few points in the hope that you find it of interest. The lifting of sanctions on Iran has created unprecedented opportunities for investors. Over the past 25 years, the country has completed five Five-Year Development Plans, and has witnessed firms from over 50 countries investing billions of dollars, primarily in the energy sector, petrochemicals, copper mining, steel industry, telecommunication, vehicle manufacture, and pharmaceuticals. Iran also has a large investment potential in communication and information technology and in aviation industry. FDI with export orientation in durable consumer goods, machinery, energy saving activities, communication and IT, and oil and gas industries, are welcome.

Foreign Investment Promotion and Protection Act provides for the investors:

- Sovereign guarantee (FIPPA)
- Repatriation guarantee
- Equal treatment with local investors
- International arbitration, courts

Tax regime in Iran is very friendly with:

- Flat corporation tax of 25%

- No distinction between Foreign & Local firms
 - Personal tax maximum 35%
 - VAT at 9%
 - Very low tax burden which equals 9% of GDP (compare with France which is 44%)
- Recently Iran has become a priority destination for delegations from all over the world with interest in banking, oil and gas, aviation, tourism, automotive and infrastructure sectors. Foreign Investment Promotion and Protection Act (FIPPA) provides a legal framework for investment protection by foreign investors keen to invest in Iran.
- Nothing replaces a visit, Please come and see for yourself, talk to people on the ground and make your independent assessment