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The Impact of Economic Sanctions on Capital Account in Iran

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EXTENDED ABSTRACT

INTRODUCTION

Iran is one of the countries that has faced all kinds of unilateral and multilateral sanctions in different periods sincethe Islamic Revolution of 1978. Except for the oil sector, which is the most important source of foreign exchange earnings in the country, the imposition of these sanctions has had various effects on the performance of other economic sectors of the country by imposing many restrictions. A negative psychological environment for economic activities reduces investors, slows the growth, and increases inflation. Sanctions cause a kind of uncertainty in the economy and delay domestic and foreign investments. Since the mid-1980s, along with the widespread process of globalization and the acceleration of its effects, capital flows have been the focus of attention for researchers and policy-makers as one of the concrete facets of globalization in developing countries. Considering the limited amount of capital accumulation from domestic savings, developing countries rely on external sources for financing. The formation of economic advantages in different countries has encouraged capitalists around the world to move their capital beyond the borders of the mother country and seek to maximize their profits beyond the borders of the main country. Meanwhile, international sanctions can be a barrier for countries and prevent the transfer of capital and expected goals by disrupting the situation of the foreign sector of the target country. Also, empirical evidence and theoretical economic growth models both show the pivotal role of capital and capital flow. Therefore, considering the importance of capital flow and the existence of economic sanctions as an obstacle to that mechanism, the main aim of this study is to

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examine the impact of economic sanctions (divided to strong and weak) on capital accounts. For this purpose, a hypothesis that economic sanctions have a significant and negative effect on capital account has been constructed and ARDL model has been applied for testing it.

METHODOLOGY

ARDL analysis method is a time series regression causal analysis method. When the regression model on current values includes values with past lags of the explanatory variables and includes one or more intermittent variables of the dependent variable as the explanatory variable, it is estimated as an auto-regression model with distributed lag (ARDL).

FINDINGS

Findings show that strong economic sanctions in the short and long term with a coefficient of 12.90 and 9.98 points, respectively, have a negative impact on the capital account, which confirms the research hypothesis.

CONCLUSION

The results, using the annual time series data 1978-2016 for Iran, indicate that strong economic sanctions had a negative and significant effect on capital account in the short and long run, but weak economic sanctions were not significant due to bypassing sanctions. Also, the severity of the impact of strong economic sanctions on capital account in the short run has been much more compared totheir impact in the long run, indicating the success of policymakers in rehabilitating the country's economic structures against sanctions and mitigating their effects (not eliminating all the adverse effects of sanctions). Although somewhat successful in this way, the sanctions have still had a significant negative impact on capital account. Based on results of the study policies such as reducing restrictions on the entry of new technologies into the country ,increasing investment both at home and abroad, developing cooperation with different countries and regions to attract investment and improving the business atmosphere by removing Barriers to production for economic prosperity, e.g. reducing investment risk, are suggested.

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