February 2013

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Highlights

Highlights of GAO-13-326, a report to the Chairman, Committee on Homeland Security and Governmental Affairs, U.S. Senate

IRAN

U.S. and International Sanctions Have Adversely Affected the Iranian Economy

Why GAO Did This Study

Since 1987, the United States has implemented a broad range of sanctions targeting Iran to deter it from developing its nuclear program, supporting terrorism, and continuing its human rights abuses. Beginning in 2010, Congress has enacted additional financial sanctions which generally restrict Iranian access to the U.S. financial system. In addition, the United Nations and the European Union have adopted several sanctions to compel Iran to suspend its nuclear program. However, concerns have been raised in Congress and by the United Nations about the impact of these sanctions, including the effect of recent financial sanctions on exports of humanitarian goods to Iran. The export of certain humanitarian goods to Iran is allowed by U.S. law, under certain conditions.

In this report, GAO (1) describes recent laws and executive orders that have added to Treasury's authority to implement financial sanctions targeting Iran, (2) describes U.S. efforts to administer and enforce the financial sanctions, and (3) analyzes evidence of the effect that recent U.S. and international sanctions have had on the Iranian economy. GAO reviewed U.S. public laws, executive orders, and agency guidance; met with U.S. agency officials; and analyzed trade and economic data from the International Monetary Fund, European Union, and others, as well as forecasts of Iran's future economic performance.

View GAO-13-326. For more information, contact Thomas Melito at (202) 512-9601 or melitot@gao.gov.

What GAO Found

Since 2010, congressional legislation, such as the Comprehensive Iran Accountability, Sanctions, and Divestment Act of 2010 (CISADA), as well as a number of executive orders, have established additional U.S. financial sanctions targeting Iran. For example, CISADA authorized the imposition of sanctions on foreign financial institutions that facilitated certain activities or financial transactions by entities including Iran's Islamic Revolutionary Guard Corps. According to an Under Secretary of the Treasury, CISADA "set a new precedent," because "[i]t gave the Secretary of the Treasury the authority for the first time to require U.S. banks to terminate correspondent banking relationships with foreign banks that knowingly engaged in significant transactions with designated Iranian banks."

The Department of the Treasury (Treasury)–along with other U.S government agencies–administers and enforces U.S. financial sanctions targeting Iran. Treasury administers the sanctions by developing regulations, conducting outreach to domestic financial regulators and foreign banks, identifying apparent sanctions violations, and assessing the effects of the sanctions. State administers some investment and trade sanctions, principally energy sanctions, targeting Iran. U.S agencies and federal and state banking regulators have taken a range of actions to ensure compliance with financial sanctions. Specifically, in recent years, Treasury and the Department of Justice (Justice) have taken actions against banks for systematic and willful violations of sanctions laws, including violations of U.S. financial sanctions regulations targeting Iran. For example, in 2012, Justice announced that both HSBC Holdings, PLC and HSBC Bank USA NA had agreed to forfeit $1.256 billion to the United States in connection with violations of sanctions targeting Iran, among other countries.

The combination of U.S. and international sanctions has adversely affected the Iranian economy and its future outlook. According to GAO's analysis, the Iranian economy has consistently underperformed the economies of comparable peer countries across a number of key economic indicators since 2010, when recent sanctions were enacted. In contrast to its peers, Iran's oil production, oil export revenues, and economic growth estimates have fallen, and its inflation has increased. For example, Iran's oil export revenues fell by 18 percent from 2010 to 2012, while its peers' oil export revenues increased by 50 percent. In addition, professional and International Monetary Fund forecasts of the Iranian economy were downgraded to reflect deterioration in Iran's expected economic performance after the implementation of recent sanctions. Some experts have stated that Iran's recent economic deterioration has resulted from a combination of sanctions and Iranian economic mismanagement. GAO's analysis of European Union and U.S. exports to Iran of humanitarian goods indicates that exports of these goods, such as agricultural goods and medicines, increased in the first 10 months of 2012 compared with 2011. UN reports have raised concerns about the availability of such goods in Iran. According to open sources, the government of Iran has tried to adapt to the sanctions through various means, including using alternative payment mechanisms such as barter agreements and changing its trading partners. However, these recent agreements have thus far not fully offset the reduced exports of oil to the European Union and others.