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Agreement between Iran and the P5+1 countries depresses oil price

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The negotiations between Iran and the UN veto powers plus Germany were concluded successfully on Tuesday, 14 July. Iran will curtail its nuclear programme. In exchange, the international economic sanctions will be reduced.

The result is remarkable in so far as the interests of the P5+1 (the five permanent members of the UN Security Council and Germany) and of Iran differ strongly in many areas. The sanctions apparently had a very serious impact on the Iranian economy, and the P5+1 no longer wanted to hamstring Iran as a political and economic power in the region.

The agreement is depressing the oil price because more oil will be hitting the market over the medium term. Oil supply is already significantly higher than demand now. This is putting the oil producers under pressure while oil consumers are seeing increases in their purchasing power.

The Iranian economy will clearly profit from this. The opening in the areas of trade, technology, finances, and energy will lead to higher economic growth (just under 3% last year) and will dampen inflation (roughly 17% last year). Overall, the Iranian economy will develop positively.

Opinions differ on the implications for the geopolitical power structure in the Middle East. Instability has doubtlessly increased in the region. We can only hope that another diplomatic channel has been opened now.

The details on the timing and scope of the lifting of the sanctions and of the inspections of the military facilities have not yet been released. There are of course still stumbling blocks. Open questions are to be clarified by the end of the year. If the agreement holds, the net effects will be positive for the global economy.

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