

Iran: Hard-line victory by default

Florence Eid-Oakden, Ph.D, Chief Economist
Charlene Rahall, Senior Analyst
Leila Lajevardi, Analyst

- Iran's parliamentary elections on 21 February are set to be a shoo-in victory for conservative MPs, giving them a large majority of seats.
- Iran's vetting body, the Guardian Council, rejected a record number of reformist candidates, including allies of President Hassan Rouhani. Their disqualification has triggered a backlash from politicians and citizens alike, with the potential for unrest to emerge around election time.
- The default conservative victory will bring years of reformist dominance in Iran to an end. It will make Iranian domestic and foreign policy more hard-line and hostile towards the West.

A default conservative victory

Conservatives are set to gain a majority of the seats in elections for Iran's parliamentary Islamic Consultative Assembly on 21 February after a majority of the reformist candidates were disqualified by the Guardian Council. This will spell more trouble for the JCPOA nuclear deal and relations with the West.

- All candidates applying to run for the Assembly (*Majlis*) are subject to approval by the Guardian Council -- a 12-member body made up of six specialists in Islamic canon law appointed by the Supreme Leader, and six civil jurists nominated by the Supreme Judicial Council, which roughly acts as the Assembly's upper house.
 - Candidates must be aged between 30 and 75, have a master's degree, and show loyalty to Islam (with small religious exceptions) and the Islamic Republic. Once they have passed an initial screening by the Ministry of the Interior, their applications are then vetted by the Guardian Council.
 - The 290 Assembly members represent Iran's 207 electoral districts with 20 seats devoted to representatives from Tehran -- the country's largest district -- and five seats reserved for ethnic and religious minorities.
 - After the last election in 2016, a coalition between moderates and reformists won the most seats under the name "List of Hope". Along with a large bloc of independents (largely supportive of the reformist government), this left conservatives with just a third of the seats.
 - The 2016 results were largely indicative of Iranians' support for the JCPOA, nuclear deal, the recently lifted sanctions, and reformist President Hassan Rouhani.
- This will all end this time around, following a major winnowing of candidates by the Guardian Council.

Table 1 - Iran Macroeconomic Indicators¹

	2015/16	2016/17	2017/18	2018/19	2019/20f
Real GDP Growth (%)	-1.6	12.5	3.7	-3.9	-9.5
Crude Oil Production (M Bpd)	2.9	3.6	3.8	3.4	2.5
CPI Inflation (%)	11.9	9.1	9.6	28.1	34.1
Fiscal Balance (% of GDP)	-1.8	-2.3	-1.4	-3.2	-4.2
C/A Balance (% of GDP)	0.3	4.0	3.8	4.3	-0.4
Total Gov't. Gross Debt (% of GDP)	38.4	47.5	39.5	33.2	30.0
Total Gross Extr'n'l Debt (% of GDP)	5.6	2.1	2.0	2.0	2.0
Gross Official Reserves (Mos. of Imports)	19.4	15.5	15.2	16.8	16.2
Nominal GDP (USD B)	375.4	404.4	430.7	452.3	484.7
Population (Millions)	79.3	80.2	81.1	82.0	83.2

- The Council only approved 35.7% of prospective candidates (5,000 out of 14,000), rejecting mainly moderates and reformists. This compares with 51.4% approval in 2016 (6,229 out of 12,123).
- Reformist politicians say the disqualifications have left conservatives with no competition for 200 out of 290 of the seats, giving them a default majority.
- Those disqualified include prominent figures in Iranian politics such as Shahindokht Molaverdi, a former vice president for women and family affairs, and a former legal advisor to Rouhani. Emad Bahavar, head of the oppositionist Freedom Movement of Iran, was also rejected.
- Ninety sitting MPs were barred from running for re-election on accusations of fraud and disloyalty to the Islamic Republic.
- Three-term conservative-turned-reformist MP Ali Motahari was barred, as was Mahmoud Sadeqi, who sat as one of the "List of Hope" representatives from Tehran.

The end of a reformist chapter

The elimination of such a high proportion of parliamentary candidates of a reformist persuasion has already triggered a backlash from lawmakers and students. We expect this to grow with the possibility of street protests as the election day approaches.

- Tehran's reformist youth have already begun to voice their frustration with the electoral system by refusing to participate in the election.
 - The decision has the support of some reformist lawmakers who are asking Iranians to protest the election.
 - Abstaining from voting, however, will further strengthen the hand of the conservatives in the Assembly as it reduces the chances of those reformists who remain as candidates, from winning seats.
- In the last election, nearly 34 million out of 55 million people, or approximately 62% of the eligible Iranian electorate, turned out to vote.

¹ Arabia Monitor; IMF.

- With this election projected to have an even lower turnout, Supreme Leader Ayatollah Ali Khamenei has called on Iranians to turn up to the polls as a duty.
- Low voter turnout risks delegitimising the election and the new conservative parliament.

A new hard-line era

A conservative victory will prompt a shift in Iran's politics, both within the country and internationally. We see Iran becoming much more hard-line ahead of next year's presidential election.

- Despite its clashes with the US government under President Donald Trump, Iran has taken a relatively moderate stance under Rouhani since 2013 and the majority reformist Assembly coalition since 2016.
- A conservative win now will increase hostile policy towards the US and Europe -- jeopardising what is left of the JCPOA.
 - Conservative lawmakers have pushed for ending dialogue with the West. A conservative Assembly could successfully do this as well as introduce legislation to end the JCPOA.
- Internally, the Assembly takeover may impact the 2021 presidential election, which will mark the end of eight years of Rouhani's reformist presidency. Potential candidates who have been touted for next year's presidential elections include:
 - Mohammad Javad Azari, Iran's information and communications technology minister under Rouhani;
 - Mehrdad Bazrpash, an aide in former hard-line President Mahmoud Ahmadinejad's administration and a former member of parliament, and;
 - Ali Motahari, a prominent conservative MP has been disqualified from sitting for his parliamentary seat for speaking out against the Ayatollah and questioning the current government. He has however, expressed a continued interest in running for president.

Economy under strain

Lower oil revenues from oil exports have dealt a blow to the currency, driving inflation to record highs and leading to some import shortages. In response, Iran has sought to boost its non-oil sectors.

- The chance of Iran meeting its budget goals remains unlikely: the IMF says that oil prices need to be triple current levels for that to happen, and oil exports need to be higher than 500 Kb/d.
 - Overall Iranian oil exports have dropped significantly, from a peak of 2.8 Mb/d in 2018 to an estimated 300 Kb/d now.

Table 2 – Political Views, Key Groupings²

Conservatives	Against all interaction with the West
	Maintain that other factions are anti-revolutionary
	Against the nuclear deal & the actions of the current government
Moderates	Seek cordial relations and further outreach with the West
	Hold a softer approach on social issues
	Maintain loyalty to the revolution
Reformists	Supported normalised relations with the West
	Loyal to the revolution, but critical of current political landscape
	Worked to preserve the nuclear deal

- Sanctions have halted trade with regular buyers, such as India and South Korea. China, nonetheless, remains a buyer, as does Syria.
- How China pays for its oil from Iran is unclear. It may be paying cash for this relatively small quantity of crude, but some of the oil imports may be offset against Iranian debt to Sinopec and CNPC, which have investments and financial claims in Iran.
- To further add to Iran's financial strains, exports to Syria are also not paid for in cash.
- At this rate, the IMF projects that Iran would need oil priced at USD 195 pb to balance its budget in 2020.
 - The Energy Information Administration forecasts Brent crude oil spot price will average USD 65 per barrel in 2020 and USD 68 per barrel in 2021.
- We see Iran trying to focus their exports on non-oil products such as raw materials, but this will not make up all the lost oil revenue.
- Iranian officials say that, excluding the oil sector, the economy grew by 0.4% in the last Iranian fiscal year (from late March 2018 to late March 2019). This was driven by the expansion in manufacturing and mining sectors, such as steel and copper.
 - In an effort to continue to support this growth, Iran announced a new domestic bond to support manufacturers and non-oil sectors.
 - Iran hopes the new bond will raise up to USD 12B based on the Central Bank of Iran's official fixed exchange rate. That would be worth USD 3.6B at the black-market rate.
 - The four national banks involved -- Melli, Mellat, Tejarat, and Saderat -- will use the bond proceeds to finance local manufacturing.
- Iran also faces a decision on 16 February by the Financial Action Task Force (FATF) as to whether it is complying with international restrictions on money-laundering.
 - Approval would enable Iran to secure funds from Asia and Europe.
 - If FATF, however, decides to put Iran back on the global money-laundering blacklist, the move would only isolate the Islamic Republic further.

² Arabia Monitor.

Disclaimer

© Arabia Monitor 2020

This is a publication of Arabia Monitor Limited (AM Ltd), and is protected by international copyright laws and is for the subscriber's use only. This publication may not be distributed or reproduced in any form without written permission.

The information contained herein does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. Under no circumstances should the information provided on this publication be considered as investment advice, or as a sufficient basis on which to make investment decisions. The information contained herein has been gathered by AM Ltd from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. AM Ltd is not responsible for and provides no guarantee with respect to any of the information provided herein or through the use of any hypertext link.

Arabia Monitor is an independent research firm specializing in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward-looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an off-shore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor

Aston House | Cornwall Avenue | London L3 1LF

Tel +44 203 239 4518

info@arabiamonitor.com

www.arabiamonitor.com