

Iran: A hardliner victory by default

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- Iran's election comes amid rising discontent over the poor state of the economy; the country has been crippled due to US sanctions following Washington DC's withdrawal from the Joint Comprehensive Plan of Action (JCPOA).
- Voters lack confidence in the country's election process. The upcoming polls are forecast to witness one of the lowest voter turnouts in history.
- Chief Justice Ebrahim Raisi is the regime's favourite candidate. He is set to win the ticket regardless of turnout, as he enjoys nationwide support due to his populist appeal.

President election (or selection)

With Iran's presidential election just over two weeks away, the countdown is on. Campaigning is in full force in the capital Tehran. Although several contenders are in the running, Ebrahim Raisi appears to be the regime's favourite.

- Before his promotion to Chief Justice, Raisi was Iran's prosecutor general. He was appointed chairman of the powerful bonyad (Islamic charity) Astan Quds Razavi, which is reported to hold billions of dollars in donations.
- Over the past two years, Raisi has made fighting corruption within the elite a focal point of his career, making him a popular figure with the masses.
 - He published a 'judicial development document' last year, outlining his priorities to root out corruption and increase the government's efficiency.
 - He appeals hugely to the country's disenfranchised populations and has framed himself as a populist.
 - His campaigning has focused on visiting rural areas as well as hospitals.
- Raisi is expected to bring in support among hardline political groups (which dominate the country's parliament) and to roll out a hawkish administration.
 - He is a supporter of gender segregation, Islamisation within university curriculums, a revision to internet laws and the censorship of western culture. He also supports the development of the agricultural sector over commercial retail.
- Domestically, his policies could have the biggest impact; his presidency may trigger popular discontent and protests. This is especially likely if any legal reforms in Iran's urban centres like Tehran and Mashhad mirror his religious and political ideologies.
- Internationally, Raisi's reputation precedes him. He is known as a cleric who signed off on the executions of various political prisoners under the rule of the former supreme leader Ayatollah Ruhollah Khomeini.
 - This prompted the US to impose sanctions against him. His reputation on the global stage could cause diplomatic issues with potential foreign partners.
 - When he comes to power, Raisi would be the country's first president to be sanctioned by the US before taking his seat.
 - The Chief Justice was the frontrunner against Rouhani in 2017, raking in 38% of the vote.

Table 1 - Iran's Macroeconomic Indicators¹

	2017/18	2018/19	2019/20	2020/21	2021/22f
Real GDP Growth (%)	3.9	-6.0	-6.8	1.5	2.5
Crude Oil Production (M Bpd)	3.6	3.5	2.1	2.2	2.4
CPI Inflation (%)	9.6	30.2	34.6	36.5	39.0
Fiscal Balance (% of GDP)	-1.4	-2.0	-5.1	-8.4	-6.8
C/A Balance (% of GDP)	3.8	5.9	0.6	-0.7	1.2
Total Gov't. Gross Debt (% of GDP)	39.5	38.5	47.9	42.8	36.6
Total Gross Extern'l Debt (% of GDP)	2.2	2.3	1.6	1.8	1.6
Gross Official Reserves (Mos. of Imports)	14.3	122.5	12.4	4.0	12.2
Nominal GDP (USD B)	430.7	456.6	581.3	635.7	682.9
Population (Millions)	81.1	82.0	83.2	83.9	85.0

- Trailing Raisi, but contenders nonetheless, are:
 - Central Bank of Iran (CBI) governor Abdolnaser Hemmati;
 - Expediency Council secretary and Islamic Revolutionary Guard Corps (IRGC) commander Mohsen Rezaee;
 - Former nuclear negotiator and foreign minister for European and American affairs Saeed Jalili;
 - Deputy speaker of parliament Amir-Hossein Ghazizadeh Hashemi;
 - Former vice president Mohsen Mehralizadeh;
 - Former conservative MP Alireza Zakani.
- The final list is dominated by hardliners with little ideological difference between them.
 - Hemmati and Mehralizadeh are seen as the most liberal of the contenders.
- While Hemmati is known throughout the international community, few Iranians actually know who he is.

Voter resignation, low turnout

According to public opinion in Tehran, Raisi is a shoo-in for the presidency. Due to scepticism regarding the legitimacy of the upcoming election, we expect a low voter turnout this cycle.

- Over the years, the voter turnout in the Islamic Republic has been decreasing. This is because public confidence in the electoral cycle is low. This year, doubts will be compounded by fear surrounding the COVID-19 pandemic.
 - Fars News Agency, the semi-official government news outlet, expects the voter turnout to be at around 53%, with around 72.5% of the votes which are cast set to go to Raisi.
 - 53% is slightly above the lowest historical turnout in an Iranian presidential election (50% in 1993).
 - Voting has been extended from 18 June until 2am on 19 June. The country's health minister has warned of another spike in COVID-19 cases if health protocols are not respected.
- More than 585 candidates for president were registered to be vetted by the country's Guardian Council.
 - The former speaker of parliament Ali Larijani, although labelled as a conservative, has reformist tendencies. He was seen as the favourite for reformists but was ultimately disqualified.
 - Larijani hails from the country's political elite. His brother is a member of the Guardian Council. He recently acted as a negotiator for the 25-year strategic cooperation agreement with China.

¹ Arabia Monitor; IMF.

- Another notable contender who has been disqualified in the reformist camp is Eshaq Jahangiri, the first vice president under President Rouhani.
 - o Jahangiri is very closely associated with both the regime of Hassan Rouhani and the plight of the economy due to sanctions and COVID-19; he would therefore not have been a popular contender in the race.
- Rouhani wrote a letter to the Guardian Council in which he sought to appeal the disqualifications in order for more reformists to contend the election.
 - Ultimately, it is the supreme leader's decision whether candidates are reinstated.
 - Supreme Leader Khamenei allowed two reformist candidates, Mohsen Mehralizadeh and Mostafa Moeen, to re-enter the race in 2005 after they were disqualified by the Guardian Council.
 - Rouhani's appeal has thus far been unsuccessful.
 - The only way in which the supreme leader would agree to Rouhani's request would be if he saw it as a move that legitimised the election process, as opposed to a manoeuvre that gave the reformist contenders any chance to win the election.
- As always, it is important to remember that the supreme leader calls the shots, regardless of whether the administration is run by reformists or hardliners. Decisions regarding Iran's domestic and foreign policy always pass through the office of the Ayatollah.

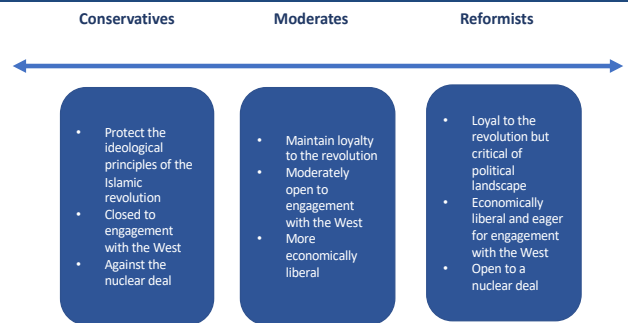
Growth Outlook: Ebbing and flowing

Iran's economic recovery, despite remaining in the positive growth territory in 2020, is forecast to be slow and gradual. This comes on the back of both a slow vaccination rollout and weak demand from regional trading partners. Sanctions relief from the US could support the rebound, but this will likely only be reflected in 2022.

- Despite the initial COVID-19-induced shock to GDP, the strong rebound in H2 2020 led to a modest expansion by 1.5%, making Iran, besides Egypt, the only country in the MENA region to post growth in FY 2020/21.
 - Last year's forecast was revised up from the estimated 5% contraction issued in October 2020.
 - The less acute hit to GDP was mainly due to Iran's pre-existing average growth contraction of 6.4% between 2018 and 2019.
 - The economic rebound in H2 2020 was also stronger than expected, for both oil and non-oil sectors; these grew by 16% and 3% YoY, respectively.
 - o The increase in oil GDP amid a decline in exports indicates that oil production was largely directed to domestic consumption.
- Growth momentum is expected to be maintained in FY 2021/22. The IMF forecasts GDP at 2.5%.
 - According to the Institute of International Finance (IIF), Iran's economy could expand by as much as 4.4% in 2021 and by 6.9% in 2022, if sanctions are removed.
- In the meantime, the fiscal space will remain constrained. This stems mainly from last year's decline in oil revenues and the lingering cost of COVID-19 measures, which caused a surge in government debt.
 - Based on IMF estimates, Iran's total budget deficit for FY 2020/21³ was around USD 58B (about 8.4% of GDP, up from 5.1% in 2019), making it the highest deficit rate in recent history.
 - Government revenues reached 55% of the USD 18B FY 2020/21 budget target.

² Arabia Monitor.

Figure 1 - Iran's Political Factions²



- o Similarly, only 6% of oil revenue materialised due to both lower oil export volumes and prices.
- This resulted in the budget shortfall having to be financed primarily through bond issuance (70%), with the remainder via asset sales and strategic reserve withdrawals.
 - Debt to GDP ratio in 2020 reached around 43%. For 2020, debt is forecast to narrow to 37% this year if oil revenue picks up.
 - Continued reliance on debt and stock market sales of assets could increase financial contagion risks and place additional pressure on the under-capitalised banking sector.
- The restricted access to FX due to US sanctions and the sharp currency devaluation have also heightened inflation to 36.5% in 2020. In April 2021, inflation reached 50%, its highest level in three years.
- Additionally, Iran's balance forecast for FY 2021/22 (1.2% of GDP vs. -0.7% in 2020) could be revised downward if further trade restrictions are imposed or demand from China and other key export partners does not recover rapidly in the medium term.
- Upside risk is the potential of a stronger recovery in the oil market.
 - The revival of the JCPOA will pave the way for sanctions relief and a boost to the country's oil production.
 - However, Iranian output is expected to increase in the coming months, even if a deal is delayed. This could lead to higher-risk premiums in oil prices.
- Iranian officials announced that crude production could rise from 600K bpd in May to 2.5M bpd by December after a framework deal outlines the terms for full sanctions relief.
 - For context, immediately before the US reimposed sanctions in 2018, production peaked at 3.9M bpd, and exports averaged a high of 2.9M bpd in May 2018.
- Official estimates on oil exports in 2020 are not clear; yet according to Iranian officials, exports reached 700K bpd. The IMF estimates that production averaged at 2.23M bpd.
 - As long as Iran is exempt from OPEC+ cuts, the country should meet this year's production target.
 - Recovery is already underway. In April, oil production reached 2.43M bpd, a rise from 2M bpd at the end of 2020.
 - This comes despite the fact that after the nuclear deal was implemented in January 2016, it took five months for Iran to increase oil exports from 1.1M bpd to 2.1M bpd.

³ Iran's fiscal year runs from March 21 to March 20.

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