

### President Rouhani lays out his priorities for a second term

*As the new administration emerges from the election and presents its priorities for another four year term, it is clear that the economy is at the top of the list. Banking reform, diversification, investment, jobs: but one obstacle unites them all and is attaining a prominent place in the public consciousness. That is corruption.*

**President Rouhani has firmly placed economic objectives at the heart of his agenda for his second term as President of the Islamic Republic.** In the days and weeks after his election victory, the President quickly laid out his intention to listen to the demands of the people, expressed during the election campaign, and to focus his energies on creating jobs. This means attracting investment and reforming the banking system in order to stabilise the business environment, and incentivising the development of knowledge based companies, including training programmes, in order to diversify the Iranian economy.

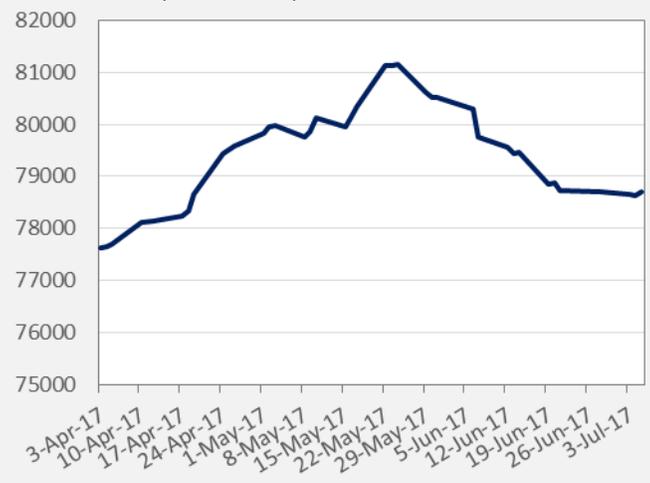
**Many businesspeople are waiting to see how the new President will deliver on his pledge to root out corruption: he has started positively by publicly criticising the counter-productive role of the Revolutionary Guards and armed forces in the economy.** In an Iftar

speech, the President condemned the history of privatisation in Iran, describing a state of affairs that is a complete mutation of the principles of the Article 44 amendment– the constitutional amendment mandating the privatisation of state-owned enterprises. In fact, the President claimed that instead of entering into private hands and boosting competition, enterprises were “handed over from the unarmed part of the government to the part with guns”. Done properly, privatisation should lead to more productive investment, greater innovation and faster growth. Recent studies have shown that a maximum of only 13% of privatizations between 2005-2013 actually made it into private hands.

**There is a widening gap between the narrative of Iran's improving macroeconomic performance and the real experience of small businesses and ordinary people: corruption is clogging up the transmission mechanism.** The Iranian economy reportedly grew 8.3% in the year to March 2017, according to the Statistical Centre of Iran, but business surveys continue to reveal sentiment amongst small business owners that the economy remains stagnant. The Iranian economy has received a substantial boost from the relaxation of financial sanctions and expanded oil exports in the past year, so why has this windfall not been felt by businesses on the ground? The answer is corruption. The Revolutionary Guards control a business empire worth over \$100 billion that is unanswerable to the government and choking off competition. Unproductive, state and military

**Fig 1. TEDPIX (All shares index)**

1 April 2017 to present

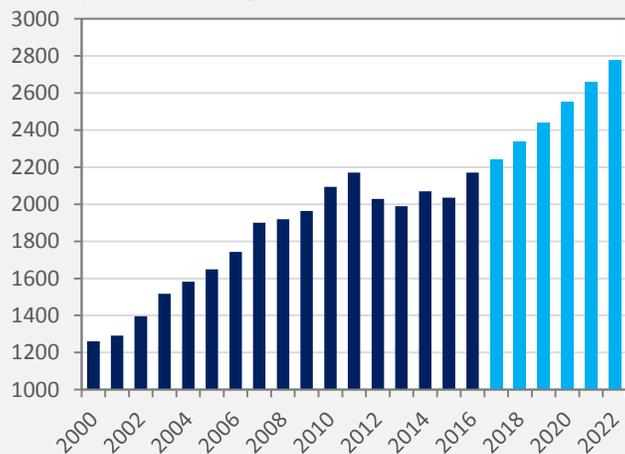


owned companies are crowding out small businesses and innovative start-ups from accessing finance. Empirical studies have shown a negative correlation between the share of bank lending taken up by government-run projects and economic growth. The election brought these tensions and injustices to the forefront, and the business community are increasingly agitated by the effect it is having on performance.

**The President has also renewed his pledge to free the Islamic Republic from economic sanctions, which implies a cooling of relations with the United States.** However, the recent break down in relations between Saudi Arabia and Qatar has found the two countries lined up on the opposite side of a diplomatic crisis. Iran has opened up its airspace and ports to Qatari businesses and has been sending 1100 tonnes of fruit and vegetable supplies over the border daily. In the US, President Trump has firmly backed the Saudi authorities, following a very warm reception on his recent visit to Riyadh, at which he “sabre danced” with Saudi royal family. However, despite these atmospheric, the facts of the relationship remain that the US State Department again confirmed to the US Senate Iran’s compliance with the terms of the JCPOA and voted for a continuation of sanctions relief. Furthermore the major US\$16 billion deal between Boeing and Iran air remains on track as yet unbroken by legal or political obstacles. The actions of the US administration have been broadly supportive of and in keeping with the deal, in spite of the negative words used to describe it.

**The Financial Action Task Force (FATF) is the key to Iran’s reintegration into the global banking system, and Iran should strive to prove it deserves to be removed from the organisation’s blacklist.** The intergovernmental body decided in June to deny the Iranian government’s request for permanent lifting of sanctions attached to money laundering and terrorist financing. However the body did approve a further temporary suspension of sanctions against Iran for another year, based on progress in meeting the FATF requirements. Being fully removed from the FATF blacklist means more transparency about financial transactions and cooperation from the Iranian government. However, the pursuit of FATF white-listing has received push-back from within the Iranian elite. Why? International sceptics might contend that it will expose funding arrangements that are in breach of international law, or are indeed being channelled to militant groups and classified as financing terrorism. Verity Iran’s domestic sources suggest such transparency might shed light on a degree of corruption at the highest levels of government and throughout the Iranian state that the Iranian government is reluctant to admit.

**Fig 2. Iranian GDP**  
(Rials, constant prices)



**Fig 3. Iranian investment rate**  
(Gross Fixed Capital Formation as % of GDP)

