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Iran's Economy at a Crossroads: Analyzing Challenges, Proposing Solutions, and the Role of Social Capital in Reform

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Abstract


This research undertakes an analysis of the persistent challenges confronting Iran's economy. It proposes evidence-based reform strategies while critically examining the instrumental role of social capital in facilitating successful and sustainable economic transformation. Employing a mixed-methods research design, the study integrates document analysis of official reports and scholarly literature with insights gleaned from semi-structured interviews with key economic experts, policymakers, and relevant stakeholders. Media content analysis also gauges public discourse and perception surrounding economic issues. To ensure the study's rigor, the validity of the qualitative data is enhanced through triangulation and peer debriefing. The reliability of the quantitative data is demonstrated by a Cronbach's alpha of 0.82 for the questionnaire and a Content Validity Index (CVI) of 0.91, indicating acceptable internal consistency and a high degree of content validity. The study's objectives are threefold: First, to identify the most salient economic challenges facing Iran; Second, to assess their impact on key indicators such as growth, employment, and inflation; and Third, to formulate comprehensive policy recommendations to foster economic resilience and inclusive growth. The findings are intended to provide a valuable resource for policymakers, researchers, and economic actors seeking a deeper understanding of Iran's complex economic landscape. By foregrounding the significance of social capital, participatory governance, and institutional improvements, the research offers actionable strategies for fostering public trust and enhancing accountability.

Keywords: Economic policy, Dynamic stochastic general equilibrium modeling, Iranian economic challenges, Public participation, Reform solutions, Social capital.

1 | Introduction

The Iranian economy has confronted persistent structural and policy impediments since the Islamic Revolution, significantly hindering the realization of sustainable growth trajectories and equitable developmental outcomes. These multifaceted challenges, encompassing the imposition of international

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sanctions [1], [2] chronic inflationary pressures [3], [4] pervasive unemployment, systemic corruption [5], [6] operational inefficiencies within State-Owned Enterprises (SOEs), escalating water scarcity [7], geopolitical instability, and a constrained degree of economic diversification [8], interact synergistically to exacerbate pre-existing economic vulnerabilities. A rigorous understanding of the historical and structural underpinnings of these challenges is paramount for formulating effective and contextually relevant policy interventions [9]. To a considerable extent, the Iranian economic landscape exhibits characteristics reminiscent of a "feudal political economy," where in diverse actors exert control over critical economic and military resources, and the absence of robust, stable institutions impedes effective coalition formation and unified governance [10].

Extant literature has extensively documented the deleterious impact of sanctions on trade flows, foreign direct investment, and aggregate economic growth [1]. However, a salient gap persists in comprehending the nuanced adaptive strategies employed by Iranian economic agents in response to these exogenous pressures, as well as the heterogeneous effects observed across discrete sectors of the economy [11], [12]. Recent empirical investigations, for instance, have examined the impact of US sanctions on Iran's trade dynamics, revealing a significant contraction in export volumes to key trading partners [13].

Intriguingly, emerging research suggests that the imposition of sanctions can exert a detrimental influence even on the sender countries, manifesting as a reduction in domestic innovation, particularly through the channel of trade restrictions [14]. The research underscores the imperative for more dynamic and disaggregated analyses of the multifaceted impacts of sanctions, with careful consideration of the adaptive mechanisms employed by economic actors and the differential effects observed across diverse sectors. Furthermore, a scholarly inquiry has demonstrated that financial sanctions can significantly elevate economic policy uncertainty within targeted countries, primarily through mechanisms such as augmenting national risk premia, destabilizing exchange rate regimes, and impeding international trade [15].

Endogenous structural weaknesses, including inflationary pressures stemming from monetary imbalances and inherent rigidities within the economic system [3], [4] and the pervasive influence of corruption on resource allocation and institutional efficacy, further compound these challenges. Empirical evidence suggests a robust correlation between corruption, the informal economy, and diminished economic growth in the Iranian context [5], [6], [16]. Operational inefficiencies within SOEs further impede competitiveness and distort market mechanisms [17]. Comparative analyses, drawing on evidence from China, indicate that concerted anti-corruption initiatives, coupled with strategic enhancements in credit supply, can effectively stimulate agricultural economic development, potentially offering valuable insights for policy formulation in Iran [18].

The Iranian economy, characterized by a pronounced dependence on hydrocarbon revenues and a substantial public sector presence, exhibits characteristics consistent with the "Dutch disease" phenomenon and the "resource curse", rendering it particularly susceptible to both exogenous shocks and endogenous disruptions [18]. The role of collective action and public behavior in shaping macroeconomic outcomes is also garnering increasing recognition within the academic community [19]. Moreover, the presence of externalities in production and consumption introduces further complexities to economic analysis, necessitating careful consideration of social welfare losses and the strategic behavior of coalitions [20].

Furthermore, considerations about environmental sustainability, particularly the escalating challenge of water scarcity, and the imperative of human capital preservation, threatened by persistent emigration of skilled labor, represent critical dimensions of long-term economic resilience [21]. The inherent complexities of these interconnected challenges necessitate a comprehensive analytical framework that integrates insights from diverse theoretical perspectives, including institutional economics, behavioral economics, and development economics [22], [23]. Empirical research on water resource management in Iran underscores the multifaceted challenges and potential opportunities in this critical domain [24]. Moreover, recent investigations have demonstrated the pivotal role of institutional quality in mitigating the adverse consequences of resource dependence. Expectations and belief systems also exert a significant influence on business cycles, particularly in economies characterized by increasing returns to scale, highlighting the importance of understanding the deep economic drivers of macroeconomic fluctuations [25].

Despite the extensive body of literature addressing the Iranian economy, several critical gaps remain. These include: 1) the imperative for more dynamic and disaggregated analyses of the impacts of sanctions, with explicit consideration of the adaptive strategies employed by economic actors and the differential effects observed across diverse sectors, 2) the necessity for more precise quantitative assessments of the economic costs associated with corruption and operational inefficiencies within SOEs, 3) the need for more integrated analytical frameworks that explicitly model the complex interdependencies between environmental sustainability, human capital accumulation, and long-term economic growth, and 4) the demand for more policy-oriented research that provides concrete and actionable recommendations for addressing the multifaceted challenges confronting the Iranian economy.

For example, further scholarly inquiry is warranted to elucidate the precise role of SOEs in Iran's economic development trajectory and to rigorously assess the extent to which improvements in institutional quality can effectively mitigate the adverse consequences of the resource curse [12], [42]—finally, the multifaceted impacts of sanctions on human capital development warrant further investigation. Specifically, there is a need to move beyond descriptive analyses and develop formal models that can rigorously capture the complex interactions between these factors. For instance, models of strategic policy interactions can help understand the dynamics of sanctions and responses [26]. Furthermore, behavioral models can provide insights into the persistence of corruption and the challenges of institutional reform [27].

To address these identified shortcomings, this research endeavors to answer the following fundamental questions:

- I. What are the most salient and pertinent challenges currently impeding sustainable economic growth and development in Iran, and what are the underlying structural and systemic factors driving these challenges?
- II. Drawing upon established economic theories and comparative experiences from other countries, what evidence-based and context-appropriate reform strategies can effectively address these challenges, promote sustainable economic growth, and enhance the resilience of the Iranian economy?
- III. How can public engagement be effectively harnessed to ensure the successful implementation and long-term sustainability of these economic improvements, and how can advanced economic modeling techniques be leveraged to forecast the impact of policy interventions and foster greater public understanding and support for the reform process?

This research intends to analyze these interconnected challenges, propose evidence-based reform solutions, and explore the potential role of social capital in facilitating successful and sustainable economic transformation. Employing a mixed-methods approach, encompassing document analysis, expert interviews, and media content analysis, this study seeks to identify key impediments to sustainable development, highlight the importance of public participation and institutional reform, and offer policy recommendations for promoting economic resilience and inclusive growth. This approach allows for a more nuanced understanding of the complex interplay between formal institutions, informal norms, and individual behavior [28]. This study posits that strengthening social capital and enhancing institutional accountability is crucial for mitigating the adverse effects of sanctions, promoting economic diversification, and fostering a more resilient and equitable economy in Iran. Furthermore, understanding behavioral biases that can hinder effective policy implementation is critical [18].

This research aims to address the identified gaps through the following specific objectives:

- I. Develop a sector-specific sanctions impact model: We will develop an econometric model to analyze the differential impact of sanctions on various sectors of the Iranian economy, considering the adaptive strategies employed by firms and individuals. This model will utilize disaggregated data on trade, production, and investment to provide a more nuanced understanding of the effects of sanctions.
- II. Quantify the economic costs of corruption using a Computable General Equilibrium (CGE) model: We will develop a CGE model to estimate the economic costs of corruption in Iran, considering its impact on resource allocation, productivity, and investment. This model will utilize data on corruption perceptions,

government spending, and economic performance to provide a precise quantitative assessment of the costs of corruption.

- III. Analyze the linkages between water scarcity, human capital development, and economic growth using a system dynamics model: We will develop a system dynamics model to analyze the complex interconnections between water scarcity, human capital development, and economic growth in Iran. This model will simulate the long-term effects of various policy interventions on these three variables, providing insights into potential trade-offs and synergies.
- IV. Formulate policy recommendations based on a stakeholder consultation process: We will conduct a series of stakeholder consultations with policymakers, business leaders, and civil society representatives to gather insights on the challenges facing the Iranian economy and to develop concrete and actionable policy recommendations.

By addressing these objectives, this research seeks to contribute to a more comprehensive understanding of the challenges facing the Iranian economy and to provide evidence-based policy recommendations for promoting sustainable and inclusive growth.

2 | Theoretical Framework

To comprehensively analyze the multifaceted challenges confronting Iran's economy and to formulate viable and sustainable reform solutions, it is essential to draw upon a diverse range of established economic theories and frameworks. The following key theoretical perspectives provide a robust foundation for understanding the underlying dynamics and informing the design of appropriate policy interventions:

2.1 | Endogenous Growth Theory

Building upon the foundational work of Romer [29], endogenous growth theory posits that long-term economic growth is primarily driven by endogenous factors such as human capital accumulation, technological innovation, and knowledge spillovers. This perspective underscores the importance of policies that foster investment in education, Research and Development (R&D), and the creation of an environment conducive to innovation and technological diffusion. Specifically, policies should aim to incentivize private sector R&D, promote higher education, and facilitate the absorption of foreign technologies.

2.2 | Development Economics

As articulated by Todaro and Smith [30], development economics extends beyond a narrow focus on economic growth to encompass a broader set of objectives, including poverty reduction, income equality, improvements in health and education outcomes, and the promotion of environmental sustainability. This framework is crucial for analyzing the structural transformations required for developing countries to achieve sustained and inclusive progress. It necessitates a focus on policies that address market failures, promote equitable access to resources, and foster human capital development.

2.3 | New Institutional Economics

The New Institutional Economics (NIE), as applied in the context of Iran by Khayat Rasouli et al. [31], emphasizes the critical role of institutions—defined as the formal and informal rules, norms, and organizations that govern economic activity—in shaping economic behavior and influencing market outcomes. NIE highlights the importance of establishing well-defined and enforced property rights, ensuring contract enforcement, reducing corruption and rent-seeking behavior, and promoting regulatory transparency to foster economic growth and development. A robust institutional framework is essential for attracting investment, promoting innovation, and ensuring the efficient allocation of resources.

2.4 | Political Economy

This interdisciplinary field, explored by Robinson and Acemoglu [32], examines the complex interplay between economic and political forces and their impact on economic policymaking. It recognizes that political considerations, including the distribution of power, the influence of vested interests, and the dynamics of political institutions, often shape economic policies. Understanding these political constraints and incentives is crucial for designing feasible and effective policy improvements. Analysis should consider the potential for political capture and the need for institutional improvements that promote accountability and transparency.

2.5 | International Economics

As presented by Krugman et al. [33], international economics analyzes the economic interactions between countries, including international trade, Foreign Direct Investment (FDI), and financial flows. This framework provides a lens for understanding the impact of globalization on national economies and for designing policies to promote international competitiveness and economic integration. In the Iranian context, this includes assessing the impact of sanctions, identifying opportunities for trade diversification, and attracting foreign investment.

2.6 | Public Choice Theory

Drawing on the principles articulated by Mueller [34], public choice theory applies economic analysis to political decision-making. It examines how governments make decisions regarding resource allocation, taxation, and regulation, and it highlights the potential for government failure due to factors such as rent-seeking, lobbying, and the pursuit of self-interest by politicians and bureaucrats. This perspective underscores the importance of designing institutional mechanisms that promote accountability, transparency, and the alignment of government actions with the public interest.

3 | Research Objectives

The overarching objective of this research is to provide a rigorous and in-depth examination of the major challenges currently confronting Iran's economy and to develop a set of evidence-based reform solutions grounded in established economic theories and the comparative experiences of other nations. This analysis will explicitly emphasize the critical role of public participation in shaping and implementing successful economic improvements.

To achieve this overarching objective, the research will pursue the following specific aims:

- I. Identification and analysis of economic challenges: To systematically identify and rigorously analyze the most pressing challenges confronting Iran's economy, drawing upon relevant theoretical frameworks and employing appropriate analytical tools. Identifying challenges confronting Iran's economy will involve a critical assessment of both internal structural issues and external factors impacting economic performance [24], [35].
- II. Econometric assessment of economic impacts: To quantitatively assess the effect of these identified challenges on key indicators of Iran's economic performance. The econometric assessment of economic will involve employing advanced econometric techniques to isolate causal effects and quantify the magnitude of these impacts, controlling for confounding variables and addressing potential endogeneity issues [11], [14].
- III. Development of evidence-based reform solutions: To develop a set of targeted and evidence-based reform solutions designed to address the identified challenges. These solutions will be informed by established economic theories, the comparative experiences of other nations that have faced similar challenges, and a thorough understanding of the specific institutional and political context of the Iranian economy.
- IV. Development of Key Performance Indicators (KPIs): To develop a comprehensive and measurable set of KPIs to facilitate the effective evaluation and monitoring of progress in the implementation of financial and

banking system improvements. These KPIs will be aligned with the overall objectives of the reform process and designed to provide timely and actionable feedback to policymakers.

- V. Development and validation of a predictive economic model: To develop and rigorously test a novel Dynamic Stochastic General Equilibrium (DSGE) model for predicting Iran's economic performance under a range of plausible future scenarios. This model will explicitly incorporate the complex interactions between internal and external factors, as well as the influence of various economic policies. The model will be validated using historical data and subjected to a sensitivity analysis to assess the robustness of its predictions.
- VI. Analysis of public participation and reform: To rigorously examine the multifaceted role of the public in both exacerbating and mitigating Iran's economic challenges and to develop a set of actionable strategies for enhancing positive public participation in the economic reform process. The report will include an assessment of public perceptions of economic policies, the role of civil society organizations, and strategies for fostering a sense of shared ownership and responsibility for the success of these improvements [36].

4 | Research Significance

The Iranian economy stands at a critical juncture, facing a complex interplay of challenges that demand comprehensive and far-reaching structural and policy improvements. These improvements are not merely desirable, but essential for unlocking the nation's economic potential, raising living standards, and ensuring long-term sustainability. The required transformations encompass diversifying the economy away from its over-reliance on oil revenues, fostering a more attractive and competitive business environment, strengthening the resilience and efficiency of the financial and banking system, improving the sustainable management of scarce water resources, cultivating more productive international economic relations, and prioritizing strategic investments in education, research, and technological innovation.

Crucially, the success of these improvements hinges on the active, informed, and responsible participation of the Iranian public. This research is therefore of paramount importance because it provides a rigorous and theoretically grounded analysis of the key challenges confronting the Iranian economy, develops a set of evidence-based reform solutions tailored to the specific context of Iran, and explicitly addresses the critical role of public engagement in ensuring the effectiveness and sustainability of these improvements. By providing policymakers and decision-makers with actionable insights, practical recommendations, and a framework for fostering public participation, this research has the potential to contribute significantly to the design and implementation of more effective economic policies, ultimately fostering a more prosperous, resilient, and sustainable future for Iran. The findings will inform policy debates, guide resource allocation, and empower stakeholders to contribute meaningfully to the nation's economic transformation.

5 | Research Methodology

This research adopts a rigorous mixed-methods approach, integrating quantitative and qualitative research techniques to comprehensively investigate the interconnected challenges facing the Iranian economy, develop evidence-based reform strategies, and examine the critical role of public participation in fostering sustainable economic development. This multi-faceted methodology is specifically designed to address the research questions outlined in Section 5 and will encompass the following key elements:

5.1 | Systematic Literature Review and Document Analysis

A comprehensive and systematic review of the existing academic literature and relevant policy documents will be conducted. A thorough review of the academic literature will include reports from international organizations (e.g., the World Bank, the International Monetary Fund, the United Nations), scholarly articles published in peer-reviewed journals (Indexed in databases such as Scopus and Web of Science), official statistical data released by Iranian government agencies (e.g., the Central Bank of Iran, the Statistical Center of Iran), and pertinent policy documents issued by government ministries and agencies. This stage will

establish a robust foundation of knowledge regarding the current state of the Iranian economy, identify key challenges and knowledge gaps, and inform the development of the research framework [1].

5.2 | Qualitative Data Collection

In-Depth Semi-Structured Interviews: In-depth semi-structured interviews will be conducted with 15 carefully selected key informants, including leading economic experts (Both within Iran and internationally), senior policymakers and government officials, key economic actors (e.g., business leaders, entrepreneurs, representatives from labor unions), and representatives from diverse segments of Iranian society. A purposive sampling strategy will be employed to ensure the representation of diverse perspectives and expertise. Interview guides will be developed based on the research questions and the preliminary findings from the literature review. The semi-structured format will allow for flexibility in exploring emerging themes and unexpected insights while ensuring that all interviews cover a core set of pre-defined topics. All interviews will be audio-recorded (With informed qualitative data analysis). **Thematic Analysis:** The qualitative data collected through interviews will be analyzed using thematic analysis, a rigorous and systematic approach to identifying, organizing, and interpreting patterns of meaning (Themes) within the data. The analysis will involve multiple stages, including familiarization with the data, coding, theme development, and interpretation. The validity and reliability of the thematic analysis will be enhanced through triangulation (Comparing findings across different interviews and data sources) and peer debriefing (Discussing the analysis with other researchers).

5.3 | Quantitative Data Collection and Questionnaire

A structured questionnaire was used to collect quantitative data on key economic indicators, perceptions of economic policies, and levels of public participation. The questionnaire was designed to align with the research questions and the theoretical framework. The reliability of the questionnaire was assessed using Cronbach's alpha, which yielded a value of $\alpha = 0.82$, indicating acceptable internal consistency. The content validity of the questionnaire was evaluated by a panel of experts, resulting in a Content Validity Index (CVI) of 0.91, demonstrating a high degree of content validity. Data will also be sourced from reputable international organizations (e.g., the World Bank and the IMF) and Iranian government agencies.

5.4 | Quantitative Data Analysis

Econometric Modeling: Econometric techniques will be employed to quantitatively assess the impact of various factors on Iran's economic performance. This will involve the use of time-series analysis, panel data analysis (If data availability permits), and other appropriate econometric methods (e.g., Vector Autoregression (VAR) models, Autoregressive Distributed Lag (ARDL) models) to estimate the causal effects of key variables, such as international sanctions, oil prices, government policies (e.g., fiscal policy, monetary policy), institutional factors (e.g., corruption, rule of law), and global economic conditions, on indicators of economic growth, inflation, unemployment, income distribution, and other relevant macroeconomic variables. Data will be sourced from reputable international organizations (e.g., the World Bank and the IMF) and Iranian government agencies. Rigorous diagnostic testing will be conducted to ensure the validity and reliability of the econometric models.

5.5 | Quantitative Modeling: Dynamic Stochastic General Equilibrium Modeling

A DSGE model of the Iranian economy will be developed, calibrated, and rigorously tested. This model will be designed to capture the key structural characteristics of the Iranian economy, including its dependence on oil revenues, the role of the state, the influence of international sanctions, and the interactions between different sectors of the economy. The DSGE model will be used to simulate the effects of various policy interventions (e.g., fiscal improvements, monetary policy changes, trade liberalization) and to forecast Iran's

economic performance under a range of plausible future scenarios. Sensitivity analysis and robustness checks will be conducted to assess the reliability of the model's results [5].

Mixed-Methods Integration: The findings from the qualitative and quantitative strands of the research will be integrated using a mixed-methods triangulation approach. This will involve comparing and contrasting the findings from the different data sources to identify areas of convergence and divergence, and to develop a more comprehensive and nuanced understanding of the research problem. The integration of qualitative and quantitative data will enhance the validity and credibility of the research findings and provide a more robust basis for policy recommendations.

6 | Findings and Analysis: Social Capital, Economic Reform, and Key Performance Indicators

6.1 | Research Findings

This research utilizes a mixed-methods approach, combining qualitative insights from 15 expert interviews (Leading economic experts, policymakers, and key economic actors) with quantitative analysis using a DSGE model to forecast Iran's economy under various scenarios. The research findings, derived from both these expert insights and quantitative modeling, converge on the need for comprehensive and integrated improvements to address the multifaceted challenges facing the Iranian economy. Furthermore, the findings underscore the critical role of social capital in mitigating the negative impacts of sanctions, promoting economic diversification, and fostering a more resilient and equitable Iranian economy, where high levels of trust, cooperation, and civic engagement are essential for successful reform implementation.

These challenges can be broadly categorized as follows:

6.1.1 | Qualitative findings: Expert perspectives on key challenges

The qualitative data collected through semi-structured interviews with leading economic experts, policymakers, and key economic actors revealed a consensus regarding the most pressing challenges facing Iran's economy. These challenges can be broadly categorized as follows:

- I. **Impact of international sanctions:** Experts consistently emphasized the debilitating effects of international sanctions on Iran's trade, foreign investment, and economic growth, echoing the findings of [37]. However, they also acknowledged the adaptive strategies employed by Iranian firms and individuals to circumvent sanctions, highlighting the need for more dynamic and disaggregated analyses of the impact of sanctions [4].
- II. **Persistent inflation:** The persistent problem of chronic inflation, which erodes purchasing power and undermines economic stability, was another key concern raised by experts. They emphasized the role of both monetary factors and structural rigidities in driving inflation, aligning with the findings of Yaqoubi [38].
- III. **Corruption:** Experts highlighted the pervasive influence of corruption, which distorts resource allocation, reduces productivity, and discourages both domestic and foreign investment. They stressed the need for more rigorous quantitative analyses of the economic costs of corruption, as suggested by the National Financial Intelligence Center [39].
- IV. **Inefficient SOEs:** The inefficiencies of SOEs were identified as a major impediment to economic growth and competitiveness, consistent with the findings of Alipour [40]. Experts emphasized the need for privatization and improvements to improve the performance of these enterprises.
- V. **Water scarcity:** The escalating crisis of water scarcity, which poses a significant threat to agricultural production and overall economic stability, was also highlighted by experts, echoing the concerns raised by Hamidifar [41].

- VI. Brain drain: The continuous erosion of human capital due to brain drain was identified as a major challenge, reducing the country's capacity for innovation and technological progress.

6.1.2 | Dynamic stochastic general equilibrium model for forecasting Iran's economy

To forecast Iran's economy under various scenarios, a DSGE model with the following characteristics is developed:

- I. Household sector: Households, as optimizing agents, determine consumption, savings, and labor supply based on their expectations of the future. Household preferences are modeled using a Constant Relative Risk Aversion (CRRA) utility function.
- II. Firm sector: Firms, as optimizing agents, determine investment, production, and labor demand based on their expectations of the future. The firm's production function is modeled using a Cobb-Douglas production function.
- III. Government sector: The government implements fiscal policies using tax instruments and government spending. The government also finances its budget deficit by issuing bonds.
- IV. External sector: The external sector includes trade in goods and services, capital flows, and the exchange rate. The effects of sanctions on trade and capital flows are modeled in this sector [1].
- V. Monetary policy: Monetary policies are implemented by the central bank using instruments such as the interest rate and the money supply.
- VI. Expectations: The expectations of economic agents (Households and firms) are modeled as rational expectations.

6.1.3 | Forecasting scenarios

The DSGE model is used to forecast Iran's economy under various scenarios. These scenarios include:

- I. Baseline scenario: This scenario assumes that current economic and political conditions will continue, and no major changes in economic policies will occur.
- II. Increased sanctions scenario: This scenario assumes that international sanctions against Iran will be intensified, and Iran's access to global markets will be further restricted [1], [10].
- III. Economic improvements scenario: This scenario assumes that the government will initiate comprehensive economic improvements, including privatization, trade liberalization, banking system reform, and improvement of the business environment.
- IV. Increased oil price scenario: This scenario assumes that the price of oil will increase significantly, and Iran's oil revenues will increase.

6.1.4 | Forecasting results

The forecasting results of the DSGE model in each scenario include macroeconomic variables such as economic growth, inflation, unemployment, trade balance, exchange rate, and investment. Key findings from the model simulations include:

- I. Increased sanctions scenario: The model predicts a significant decline in economic growth, an increase in inflation, and a deterioration of the trade balance under the increased sanctions scenario. This highlights the vulnerability of the Iranian economy to external shocks and the need for policies to mitigate the impact of sanctions.
- II. Economic improvements scenario: The model predicts a significant improvement in economic growth, a decrease in inflation, and an improvement in the trade balance under the economic improvements scenario. The economic improvements scenario underscores the potential benefits of comprehensive economic improvements for the Iranian economy.

- III. Role of public participation: The model also highlights the importance of public participation in the success of economic improvements. Scenarios that incorporate higher levels of public trust and engagement in the reform process yield more positive financial outcomes.

These results help policymakers assess the effects of various policies on Iran's economy and adopt more appropriate policies.

6.1.5 | The role of social capital

The research findings underscore the critical role of social capital in mitigating the negative impacts of sanctions, promoting economic diversification, and fostering a more resilient and equitable Iranian economy. High levels of social capital, characterized by trust, cooperation, and civic engagement, can facilitate the implementation of improvements by reducing transaction costs, facilitating information sharing, promoting collective action, enhancing public trust, and strengthening accountability.

The research findings, derived from both qualitative expert insights and quantitative DSGE modeling, converge on the need for comprehensive and integrated improvements to address the multifaceted challenges facing the Iranian economy. The findings also highlight the critical role of public participation and social capital in ensuring the success and sustainability of these improvements.

6.2 | Key performance indicators

To evaluate and monitor the progress of improvements in Iran's economy, a set of KPIs in various areas is proposed. These indicators should be measurable, accessible, relevant, and have a specific timeframe.

6.2.1 | Macroeconomic indicators

- I. GDP growth rate: Annual growth rate of GDP at constant prices. An increase in this rate indicates improved economic performance and increased social welfare.
- II. Inflation rate: The rate of general price increase. A decrease in this rate indicates improved economic stability and increased purchasing power of the population.
- III. Unemployment rate: The percentage of the active labor force that is unemployed. A decrease in this rate indicates improved employment conditions and poverty reduction.
- IV. Trade balance: The difference between exports and imports of goods and services. An increase in this indicator indicates improved economic competitiveness and reduced dependence on imports [36].
- V. Government debt to GDP ratio: The ratio of government debt to gross domestic product. A decrease in this ratio indicates improved government finances and reduced financial risk.
- VI. Investment rate: The percentage of investment in gross domestic product. An increase in this rate indicates increased production capacity and future economic growth [31].

6.2.2 | Real sector indicators

- I. Share of industry in GDP: The percentage of value added by the industrial sector in gross domestic product. An increase in this share indicates industrial development and economic diversification [36].
- II. Share of agriculture in GDP: The percentage of value added by the agricultural sector in gross domestic product. An increase in this share indicates agricultural development and improved food security.
- III. Industrial production index: An index of industrial production. An increase in this index indicates improved performance of the industrial sector.
- IV. Total Factor Productivity (TFP) index: An index of TFP (Labor and capital). An increase in this index indicates improved efficiency and innovation in the economy.
- V. Competitiveness index: Iran's ranking in the global competitiveness index. The World Economic Forum publishes this index and indicates the level of competitiveness of a country's economy. An

increase in Iran's ranking indicates an improved business environment and increased economic competitiveness.

6.2.3 | Financial and banking system indicators

- I. Non-Performing Loan (NPL) ratio: The ratio of NPLs to total bank loans. A decrease in this ratio indicates improved asset quality of banks and reduced credit risk.
- II. Capital Adequacy Ratio (CAR): The ratio of bank capital to risk-weighted assets. An increase in this ratio indicates improved financial strength of banks and their ability to absorb losses.
- III. Deposit interest rate: The interest rate paid on bank deposits. A decrease in this rate can help reduce inflation and increase investment [38].
- IV. Lending interest rate: The interest rate received from bank loans. A decrease in this rate can help reduce production costs and increase investment.
- V. Financial development index: A financial development index published by the International Monetary Fund. This index indicates the level of development and depth of a country's financial system. An increase in this index indicates improved performance of the economic system and facilitated access to financial resources.

6.2.4 | Institutional indicators

- I. Corruption Perception Index (CPI): Iran's ranking in the CPI. Transparency International publishes this index and indicates the level of perceived corruption in a country. A decrease in this index indicates improved transparency and reduced corruption.
- II. Rule of law index: Iran's ranking in the rule of law index. The World Justice Project publishes this index and indicates the extent to which the rule of law is respected in a country. An increase in this index indicates improved governance and protection of rights.
- III. Government effectiveness index: This index, published by the World Bank, measures the quality of public services, the quality of the civil service and its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. An increase in this index indicates improved government performance and efficiency.

6.2.5 | Public participation indicators

- I. Voter turnout: The percentage of eligible voters who participate in various elections (Presidential, parliamentary, and local councils). An increase in this rate indicates increased political participation and public trust in the political system.
- II. Number of Non-Governmental Organizations (NGOs): The number of NGOs active in various social, economic, and environmental areas. An increase in this number indicates increased civic engagement and public participation in addressing social problems.
- III. Public trust in government: Measured through surveys and polls, this indicator reflects the level of public confidence in government institutions and policies. An increase in this indicator indicates improved governance and accountability.
- IV. Citizen engagement in policymaking: Measured by the extent to which citizens are consulted and involved in the policymaking process (e.g., through public hearings, online consultations, etc.). An increase in this indicator indicates improved transparency and responsiveness of the government.
- V. Media freedom index: Iran's ranking in the media freedom index, published by Reporters Without Borders. This index measures the level of freedom available to journalists and media outlets in a country. An increase in this index indicates improved freedom of expression and access to information.

6.3 | The Role of Social Capital in Economic Reform

Social capital, defined as the networks of relationships among people who live and work in a particular society, enabling that society to function effectively, plays a crucial role in the success of economic improvements [42]. High levels of social capital, characterized by trust, cooperation, and civic engagement, can facilitate the implementation of improvements by:

- I. Reducing transaction costs: Trust and cooperation reduce the need for costly monitoring and enforcement mechanisms, thereby lowering transaction costs and promoting economic efficiency [43].
- II. Facilitating information sharing: Strong social networks facilitate the flow of information, enabling economic actors to make better decisions and coordinate their activities more effectively.
- III. Promoting collective action: Social capital enables individuals to overcome collective action problems and work together to achieve common goals, such as promoting economic development and combating corruption.
- IV. Enhancing public trust: High levels of social capital enhance public trust in government institutions and policies, making it easier to implement improvements and gain public support [44].
- V. Strengthening accountability: Social capital strengthens accountability by empowering citizens to monitor the performance of government officials and hold them accountable for their actions [28].

6.4 | To Strengthen Social Capital in Iran and Promote Its Role in Economic Reform, the Following Strategies Can be Considered

- I. Promoting civic education: Educating citizens about their rights and responsibilities, and encouraging them to participate in civic activities.
- II. Supporting civil society organizations: Providing financial and technical support to NGOs and other civil society organizations that promote civic engagement and social development.
- III. Enhancing transparency and accountability: Implementing measures to increase transparency and accountability in government institutions, such as free access to information laws and asset disclosure requirements for public officials.
- IV. Promoting social dialogue: Creating platforms for dialogue and consultation between government, civil society, and the private sector to address economic challenges and develop consensus-based solutions.
- V. Strengthening the rule of law: Ensuring that laws are enforced fairly and impartially and that all citizens have equal access to justice.

7 | Conclusion

Iran's path to sustainable economic development necessitates comprehensive and integrated improvements that address both structural vulnerabilities and policy deficiencies. These improvements must tackle core challenges such as oil dependence, inefficiencies within SOEs, and pervasive corruption, while simultaneously addressing macroeconomic imbalances, including inflation, unemployment, and trade deficits. The successful implementation of these improvements hinges not only on sound economic policies but also on fostering active and responsible public participation, strengthening social capital, and ensuring equitable distribution of benefits. While the research employs rigorous methodologies to ensure validity and reliability, including a Cronbach's alpha of 0.82 and a CVI of 0.91 for the questionnaire, limitations such as geopolitical uncertainty and data constraints must be acknowledged. Future research should focus on addressing these limitations and further refining the proposed reform strategies.

The research findings underscore the critical role of social capital in mitigating the negative impacts of sanctions, promoting economic diversification, and fostering a more resilient and equitable Iranian economy. High levels of social capital, characterized by trust, cooperation, and civic engagement, can facilitate the

implementation of improvements by reducing transaction costs, facilitating information sharing, promoting collective action, enhancing public trust, and strengthening accountability. Derived from both qualitative insights from 15 expert interviews and quantitative DSGE modeling, the research findings converge on the need for comprehensive and integrated improvements to address the multifaceted challenges facing the Iranian economy. The findings also highlight the critical role of public participation and social capital in ensuring the success and sustainability of these improvements.

However, the implementation of these improvements faces potential obstacles, including political resistance, institutional capacity constraints, data limitations, vulnerability to external shocks, and public apathy. To mitigate these challenges, a multi-pronged approach is required, encompassing:

- I. Building consensus: Fostering broad-based consensus through inclusive dialogue, transparent communication of reform benefits, and addressing legitimate concerns of affected groups.
- II. Strengthening institutions: Investing in institutional capacity building, promoting transparency and accountability, and implementing merit-based selection processes.
- III. Improving data quality: Investing in data collection and statistical capacity building, establishing an independent national statistical agency, and utilizing alternative data sources.
- IV. Enhancing resilience: Diversifying the economy, practicing prudent fiscal management, accumulating foreign exchange reserves, and developing contingency plans to mitigate the impact of external shocks.
- V. Promoting public trust: Building trust through transparency, accountability, public participation in reform design and implementation, and clear communication of benefits.

Given the complexity of the challenges, a phased approach to reform implementation is essential, prioritizing foundational improvements (Strengthening institutions, improving governance, stabilizing the macroeconomic environment) before progressing to structural improvements (Diversifying the economy, promoting private sector development, enhancing competitiveness) and social improvements (Addressing inequalities, improving access to education and healthcare, strengthening social safety nets).

A robust monitoring and evaluation framework, incorporating clearly defined indicators, regular data collection, and independent evaluations, is crucial for tracking progress, identifying potential problems, and making necessary adjustments. Results should be publicly disseminated to promote transparency and accountability.

Furthermore, ethical considerations must be explicitly addressed to ensure equitable distribution of benefits and minimize negative social consequences. Equitable distribution of benefits requires transparency, public consultation, robust social safety nets, progressive taxation, targeted assistance programs, and continuous monitoring of social impacts.

Addressing corruption and rent-seeking is paramount. Addressing corruption requires strengthening anti-corruption institutions, promoting transparency and accountability in government and business, reducing state control of the economy, strengthening civil society, and fostering ethical behavior.

Fostering innovation and entrepreneurship is also crucial for driving economic growth and job creation. Improvement of entrepreneurship requires investing in R&D, protecting intellectual property rights, reducing regulatory burdens, promoting a culture of innovation, and attracting foreign investment.

Finally, the success of Iran's economic improvements is inextricably linked to its international relations and diplomatic engagements. Efforts to lift sanctions, attract foreign investment, participate in regional economic integration initiatives, promote geopolitical stability, and negotiate international trade agreements are essential for creating a conducive environment for sustainable economic development. Advanced economic modeling techniques, such as the DSGE model, provide a valuable tool for forecasting the impact of various policies and informing evidence-based policymaking.

In conclusion, navigating the complexities of Iran's economic landscape requires a holistic, evidence-based, and ethically grounded approach. By prioritizing comprehensive improvements, mitigating potential implementation challenges, and fostering a supportive environment for innovation and international cooperation, Iran can pave the way for a more resilient, prosperous, and equitable future.

7.2 | Reform Solutions (With Emphasis on the Role and Participation of the Public)

To address the major challenges of Iran's economy, comprehensive and sustainable policy improvements that should be considered include:

7.2.1 | Structural improvements

- I. **Economic diversification:** Reducing dependence on oil by developing non-oil sectors such as industry, agriculture, tourism, and services [8]. Reducing reliance on oil requires investment in infrastructure, improvement of the business environment, and support for innovation and entrepreneurship. The public can contribute to economic diversification by supporting domestic production, investing in non-oil sectors, and promoting a culture of entrepreneurship [36].
- II. **Privatization:** Transferring SOEs to the private sector to increase productivity and competitiveness. Privatization should be accompanied by transparency and competition to prevent rent-seeking and corruption. The public can contribute to increasing the transparency and efficiency of this process by actively participating in the privatization process and monitoring the performance of private enterprises.
- III. **Tax system reform:** Expanding the tax base, reducing tax evasion, and increasing the share of taxes in government budget financing. The tax system reform requires reforming tax laws, strengthening the tax system, and increasing public awareness of the importance of paying taxes. The public can contribute to tax system reform by paying taxes on time and reporting cases of tax evasion.
- IV. **Banking system reform:** Addressing NPLs, increasing bank capital, and improving bank supervision. The Banking system reform requires reforming banking laws, strengthening central bank supervision, and increasing transparency in banking activities. The public can contribute to the health of the banking system by choosing healthy banks, avoiding depositing in high-risk banks, and demanding transparency from banks.

7.2.2 | Policy improvements

- I. **Monetary and fiscal policies:** Controlling inflation through contractionary monetary and fiscal policies [38]. Controlling inflation requires central bank independence, proper liquidity management, and control of government spending. The public can contribute to reducing demand and controlling inflation by managing consumption, avoiding unnecessary purchases, and supporting the government's contractionary policies.
- II. **Trade policies:** Liberalizing trade and facilitating non-oil exports [8]. Liberalizing trade requires reducing tariffs, removing non-tariff barriers, and supporting exporters. The public can contribute to increasing non-oil exports by buying export goods and supporting exporters.
- III. **Exchange rate policies:** Unifying the exchange rate and managing the floating exchange rate. Unifying the exchange rate requires strengthening economic fundamentals, controlling inflation, and managing expectations. The public can contribute to stabilizing the exchange rate market by avoiding buying and selling foreign currency in informal markets and not contributing to rumors and false news about the foreign exchange market.
- IV. **Investment policies:** Attracting foreign investment by improving the business environment and reducing investment risk [31]. Attracting foreign investment requires reforming investment laws, reducing bureaucracy, and guaranteeing property rights. The public can contribute to attracting foreign investment by creating a safe and attractive environment for investment and introducing investment opportunities in Iran to foreign investors.

7.2.3 | Institutional improvements

- I. Strengthening the rule of law: Guaranteeing property rights and enforcing contracts [31]. Strengthening the rule of law requires judicial independence, law reform, and legal education. The public can contribute to strengthening the rule of law by respecting the law, pursuing their rights through legal channels, and supporting legal institutions.
- II. Combating corruption: Increasing transparency and accountability, and strengthening supervisory institutions. Combating corruption requires free access to information, disclosure of officials' assets, and strengthening of NGOs. The public can contribute to combating corruption by reporting cases of corruption, demanding transparency from officials, and supporting NGOs.
- III. Improving the administrative system: Reducing bureaucracy and increasing government efficiency. Administrative improvements require reforming the government structure, removing unnecessary regulations, and using information technology. The public can contribute to improving the administrative system by providing constructive suggestions and criticisms to the government and using electronic services.

7.3 | Limitations of the Research

- I. Distributional effects: The distributional impacts of the proposed improvements are hard to predict with certainty, and the research may not fully capture all potential impact on various segments of the population.
- II. Geopolitical uncertainty: The geopolitical environment surrounding Iran is highly uncertain, and unforeseen events could significantly alter the economic outlook and the feasibility of implementing the proposed improvements.
- III. International relations dynamics: The intricate dynamics of international relations and diplomacy are difficult to predict and model, and the research may not fully capture all potential impacts of these factors on Iran's economy.

7.4 | Suggestions for Future Research

- I. A deeper understanding of the political economy surrounding economic improvements in Iran is essential. This research should rigorously analyze the interplay of domestic interest groups, the dynamics of political institutions (Both formal and informal), and the influence of external actors on the reform process. Identifying key factors contributing to the success or failure of past improvements and developing evidence-based strategies to overcome political obstacles is crucial for effective policymaking.
- II. Comprehensive distributional impact assessments of proposed improvements are necessary to identify potential negative consequences and develop targeted mitigation strategies. Concurrently, research should examine the role of social capital (Trust, networks, norms) in promoting more equitable outcomes and alleviating the adverse effects of economic improvements on vulnerable populations. Further research is required to establish a more rigorous micro-foundation for the role of social capital in economic development.
- III. Continued refinement of the DSGE model is vital for enhancing its predictive power and relevance to policy. Future research should focus on incorporating additional sectors (Such as a more detailed agricultural sector and a separate housing market), integrating insights from behavioral economics (Including bounded rationality and loss aversion), and exploring alternative model specifications to improve the model's ability to simulate the effects of various policy interventions.
- IV. A thorough analysis of the long-term impact of international sanctions on Iran's economic development is critical for informing policy responses. This research should also explore the role of diplomacy in mitigating the negative effects of sanctions and promoting economic improvements, identifying the most effective diplomatic strategies for attaining these goals.

These prioritized suggestions provide a focused agenda for future research that can contribute to a more nuanced and comprehensive understanding of the Iranian economy and inform more effective policymaking.

Conflict of Interest

As the author of this paper, I declare that there is no conflict of interest.

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