بانک خاورمیانه
Middle East Bank

RECENT ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Summer 1404
2025Q3

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Economic Research Department, Middle East Bank

Contributors: Hossein Soltanabadi, Arian Aghabeigi, Yaser Pakdaman, Bagher Ghaedi and Mehran Mahmoudi
Graphic Designer: Hannaneh Niazmand
Layout Designer: Mitra Dehghani

NOTE:

- In this Report the growth rate of a variable means the percentage change of that variable during the period under review, or at the point under discussion, compared to the similar period or point in the preceding year. As such, “the growth rate of oil revenues in the first quarter of 1404” indicates the percentage change in oil revenues between the first quarter of 1403 and the first quarter of 1404.

- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1403 that starts on March 20, 2024 and ends on March 20, 2025 as well as the first 2 quarters of 1404 that start on March 21, 2025 and end on Sep 22, 2025. The second quarter of 1404 (referred to as 1404Q2), summer of 1404, roughly corresponds to the third quarter of 2025 in the Gregorian Calendar (2025Q3).

The following table provides an easy reference while reading this Report.

1403Q1 = 03/20/2024 - 06/20/2024, roughly 2024Q2

1403Q2 = 06/21/2024 - 09/21/2024, roughly 2024Q3

1403Q3 = 09/22/2024 - 12/20/2024, roughly 2024Q4

1403Q4= 12/21/2024 - 03/20/2025, roughly 2025Q1

1404Q1 = 03/21/2021 - 06/21/2025, roughly 2025Q2

1404Q2 = 06/22/2021 - 09/22/2025, roughly 2025Q3

CONTENTS

Iran's Economy at a Glance 6
Introduction 7
1. Global Economic Developments 8
2. Real Sector 9
2-1. Oil 11
2-2. Housing 12
3. Labor Market 14
4. Prices and Inflation 16
5. Balance of Payments 19
6. Foreign Exchange Market 22
7. Monetary and Credit Aggregates 24
8. Fiscal Policy 28
9. Capital Market 31
9-1. Rate of Return 31
9-2. Market Capitalization 32
9-3. Value of Transactions 33
9-4. Finance 34
10. Other Developments 35
11. Key Points 36

IRAN'S ECONOMY AT A GLANCE

	1402	1403Q1	1403Q2	1403Q3	1403Q4	1403	1404Q1	1404Q2
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	41.3	41.2	41.7	41.2	40.1	41.0	41.2	40.8
Unemployment (15 Years and Over)	8.1	7.7	7.5	7.2	7.8	7.6	7.3	7.4
Unemployment (Youth Aged 15-24)	21.2	20.0	19.4	20.2	21.0	20.1	19.7	19.0
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)								
Gross Domestic Product (GDP)	5.0	2.9	2.6	3.9	3.2	3.1	-	-
Industries and Mining	5.1	2.7	0.9	4.0	2.0	2.4	-	-
Oil	18.8	7.5	6.1	0.1	4.6	4.6	-	-
Agriculture	0.8	3.0	3.6	4.1	2.8	3.6	-	-
Services	4.0	2.2	2.8	4.4	3.9	3.3	-	-
Non-oil GDP	4.0	2.5	2.3	3.9	3.1	3.0	-	-
Gross Fixed Capital Formation (at market prices)	*6.3*	*2.2*	*3.6*	*4.4*	*4.5*	*3.8*	-	-
Oil (daily average - thousand barrels)								
Production*	3,004	3,237	3,296	3,301	3,311	3,286	3,283	-
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	40.7	31.3	31.7	31.8	34.8	32.5	37.1	43.0
Growth Rate of Producer Price Index (1395=100)	38.4	30.8	27.9	30.3	38.4	31.7	40.1	-
Balance of Payments (USD million)								
Oil Exports	56,796	18,028	15,878	16,165	15,770	65,841	-	-
Non-oil Exports	43,723	11,519	11,332	13,208	13,521	49,580	-	-
Imports of Goods	79,442	18,089	21,771	20,882	27,849	88,591	-	-
Goods Account (net)	21,077	11,458	5,439	8,491	1,442	26,830	-	-
Non-oil Goods Account (net)	-33,215	-6,300	-9,945	-7,161	-15,605	-39,011	-	-
Current Account	8,964	8,491	2,427	5,236	-2,814	13,340	-	-
Capital Account	-20,457	-7,937	-4,478	-1,631	-7,633	-21,679	-	-
Change in Foreign Reserves	-112	1,312	201	-801	92	804	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	514,999	611,620	593,642	675,159	862,096	684,269	883,354	936,730
Secondary Market (remittance)**	382,158	414,654	444,904	504,877	669,470	507,183	691,774	697,147
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	10,921	11,130	11,542	12,165	13,594	13,594	14,444	-
CBI Claims on Banks	7,714	6,685	5,859	8,225	11,702	11,702	7,315	-
CBI Claims on Public Sector (net)	-1,787	-635	-879	-1,438	-3,690	-3,690	-1,026	-
CBI Net Foreign Assets	18,537	19,084	21,704	26,278	31,886	31,886	33,591	-
Liquidity (M2)	78,775	83,540	90,705	96,036	101,660	101,660	110,588	-
Money (M1)	19,146	20,537	22,351	23,443	26,317	26,317	26,496	-
Sight Deposits	17,678	19,101	20,908	21,952	24,526	24,526	24,581	-
Non-sight Deposits (quasi-money)	59,628	63,003	68,355	72,593	75,342	75,342	84,092	-
M2 Money Multiplier	7.21	7.51	7.86	7.89	7.48	7.48	7.66	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,195,092	2,043,980	2,097,005	2,210,217	2,710,088	2,710,088	2,984,605	2,540,174
Financial Index	1,917,728	1,795,664	2,664,767	1,949,564	2,311,206	2,311,206	2,810,518	2,574,062
Industrial Index	2,089,989	1,944,126	1,996,195	2,101,115	2,589,606	2,589,606	2,804,554	2,354,195
Market Capitalization (IRR trillion)	79,408	96,930	95,669	117,301	120,583	120,583	132,174	114,593

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Center of Iran (SCI) and Tehran Stock Exchange (TSE); Gold, Coin, and Currency Information Network
* According to OPEC reports from secondary sources
** From the beginning of the 11th month of 1403, all foreign exchange transactions in the secondary market were carried out in its newly added subdivision at higher rates.

INTRODUCTION

This quarterly Report investigates the Iranian economy by its various sectors and opens with investigating the effects of the Fed Funds Rate cuts on the Iranian economy as well as the global commodity prices. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in spring 1404 (hereafter referred to as 1404Q1) on the basis of the reports of the Statistical Center of Iran (SCI) and the developments of production and price of Iran's crude oil in the first half of 1404 (hereafter referred to as 1404H1).

Chapter 3 covers the developments of the labor market in 1404Q2. The fourth chapter covers the developments of the Consumer Price Index (CPI) inflation rate in monthly, annual, and point-to-point terms on the basis of SCI data in 1404Q2 and that of the Producer Price Index (PPI) on the basis of the Central Bank of Iran (CBI) data in 1404Q1.

In the fifth chapter, the developments of the Balance of Payments (BOP) in the year 1403 as a whole and the changes in the customs imports and exports in 1404H1 are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1404Q2 in chapter 6. In the succeeding chapter, the monetary and credit aggregates are analyzed by Monetary Base (M0), Money (M1), Quasi-money, and Liquidity (M2) in 1404Q1. A summary of assets and liabilities of the banking system, the balances of deposits and extended facilities, and the data on extended facilities by various sectors of the economy for the first 5 months of 1404 are presented in the same chapter.

Chapter 8 of the Report presents Government performance in Tax Revenues in the first 4 months of 1404 and the sales of Government Debt Securities in 1404H1. As for the capital market, the developments of the rate of return, market capitalization, value of transactions, and finally the methods of finance by the listed companies by the end of 1404Q2 are discussed in chapter 9. The Report proceeds with an examination of the costs associated with the activation of the Snapback Mechanism and finally concludes with the key points.

1. GLOBAL ECONOMIC DEVELOPMENTS

The developments of Federal Funds Rate in the United States could be considered as a dominant driver of the world economy and subsequently the Iranian economy. Any change in that Rate translates to the change in the global prices of commodities and also change in the composition of the investment portfolios of individuals and legal entities in USD. Generally, it is expected that any cut in Federal Funds Rate results in USD depreciation, hence the USD denominated securities, especially the US Treasury Bonds yield less. On the other hand, given the inverse relationship between the USD price and price of commodities in the global markets, cheaper USD causes other commodities including oil, gold, and basic metals to gain more value against the USD. As previously announced, in mid-Sep 2025, the Federal Reserve cut the Rate by 0.25 percentage point and would possibly cut that twice more in the remainder of the same year. However, on the basis of some analyses, any improvement in the US labor market indices might result in cancellation of further cuts in the Rate in future. On the contrary, the US President insists on further interest rate cuts to enhance the activities of the economic agents. All in all, fewer interest rate cuts in 2025 hints lower USD depreciation in the remainder of the year and subsequently less rise in oil prices than expected. Additionally, some international institutions have forecasted decline in oil prices in the remainder of 2025 and in the year 2026. For instance, on the basis of Goldman Sachs, the global oil prices are forecasted to fall below USD60 per barrel in the coming months of 2025 and in 2026, mainly due to the increase in oil supply by the non-OPEC oil producers, and in line with that institution, in the International Monetary Fund (IMF) report on the Middle East, the fall in oil prices in 2026 is considered as a major assumption. Accordingly, if the effect of the rise in oil supply on the oil prices outperform that of the fall in the Federal Funds Rate, the fall in oil prices seems highly plausible in 2026. As for Iran, the case is more complicated, i.e., its oil exports revenues not only depend on the market mechanisms and Fed Funds Rate changes, but also on reimposition of United Nations sanctions as a result of snapback triggering. Hence, should no agreement on Iran’s nuclear issue be obtained, further hardships is likely to appear in the Iranian economy.

2. REAL SECTOR

The Latest available SCI report on the Iranian national accounts while preparing this Quarterly Report suggests 0.1 percent contraction of the Iranian economy in 1404Q1 at constant 1400 prices. In fact, the GDP growth rate that was continually taking positive values from 1400 onwards has reversed course in the first quarter of the year 1404.

In 1404Q1, all the main sectors of the Iranian economy contracted but the Services sector. In 1404Q1, the Industries and Mining Sector served as the main driver of the 0.1 percent GDP contraction with negative 0.2 percentage point share in the GDP growth rate of that quarter. However, the 0.5 percent expansion of the Services sector during the period under review partly offset the contraction of the other Iranian economic sectors. Among the various subsectors of Industries and Mining in the SCI books, the Manufacturing constituted 0.2 percentage point of the negative 0.1 percent GDP growth rate of 1404Q1 and the share of Mining registered negative 0.4 percentage points. The developments of the subsectors of Industries and Mining consequently caused that sector to contract by 0.3 percent in 1404Q1 to form negative 0.2 percentage point of the GDP growth rate of the same quarter. The Extraction of Oil and Natural Gas as well as Other Mining as the components of Mining subsector, respectively expanded by 0.8 percent and 2.3 percent in 1404Q1. The Extraction of Oil and Natural Gas itself constituted 0.2 percentage point of the GDP growth rate of 1404Q1. As for other subsectors of Industries and Mining, the Water and Electricity Supply experienced a substantial contraction of 11.8 percent in 1404Q1, however, given its small share in the Iranian economy, its share in GDP growth registered negative 0.1 percentage point. The Manufacturing subsector that forms 21.6 percent of the GDP at current prices, contracted by 1.7 percent at constant prices to reduce the GDP growth rate of 1404Q1 by 0.4 percentage point. The Natural Gas Supply also experienced negative 0.6 percent growth rate in the same quarter. All in all, the Industries and Mining with 51.2 percent contribution to the GDP at current prices in 1404Q1, is referred to as the largest sector of the Iranian economy in the SCI books.

In the national accounts issued by the SCI, the Agriculture Sector is broken down into two subsectors of Farming as well as Fishing. The 3.5 percent contraction in the former subsector in conjunction with the 7.0 percent expansion in the latter - with a negligible share in GDP - resulted in the 2.7 percent contraction of Agriculture Sector in 1404Q1, with negative 0.1 percentage point share of that sector in the quarterly growth rate of GDP. Note that the Agriculture Sector formed 4.7 percent of GDP at current prices in 1404Q1.

The Services Sector that formed 44.1 percent of GDP at current prices in 1404Q1, expanded by 0.5 percent at constant prices in the same quarter. Among the Services subsectors, “Financial and Insurance Services” experienced the highest expansion of 10.9 percent to constitute 0.4 percentage point of the GDP growth rate of 1404Q1, followed by “Social Services” with 3.5 percent, “Public Services, Education, Human Health and Social Work Activities” with 1.4 percent and “Real Estate, Renting and Business Activities” with 0.9 percent expansions. The remaining subsectors of the Services Sector contracted during the period under review with “Transport, Storage and Communication” with the most severe contraction of 3.5 percent and negative 0.3 percentage point share in GDP growth rate of 1404Q1. Table 1 presents the GDP growth rate by the main sectors of the Iranian economy.

Table 1. Growth Rates of GDP by Major Sectors of the Iranian Economy at Constant 1400 Prices (percent-percentage point)

	1402	1403					1404	Share in Growth of 1404
	Year	Q1	Q2	Q3	Q4	Year	Q1	
Agriculture	-2.4	2.3	3.1	4.2	2.5	3.2	-2.7	-0.1
Industries and Mining	6.2	5.9	4.1	0.9	2.7	3.4	-0.3	-0.2
Services	3.6	3.1	1.9	2.4	3.0	2.6	0.5	0.2
Non-oil GDP (at basic prices)	**1.9**	**2.9**	**2.3**	**1.6**	**1.8**	**2.1**	**-0.4**	-
GDP (at basic prices)	**4.6**	**4.7**	**3.1**	**1.7**	**2.8**	**3.1**	**-0.1**	**-0.1**

Source: Statistical Center of Iran

As for the demand side of the economy, the Private Consumption Expenditures (at constant prices) contracted by 1.1 percent in 1404Q1. Given its 55.2 percent share in GDP at current prices, the Private Consumption Expenditures constituted negative 0.5 percentage point of the GDP growth rate of 1404Q1 at constant prices. On the contrary, the Government Consumption Expenditures expanded by 2.5 percent during the period under review. The expansion of this component of GDP that had started since 1400, maintained and extended to 1404Q1.

The SCI report suggests 1.9 percent contraction in the Gross Fixed Capital Formation in 1404Q1. Among its subgroups, the Gross Fixed Capital Formation expanded by 0.4 percent in Construction, while contracted by 3.3 percent in Machinery.

Regarding the International trade, the Exports of Goods and Services fell by 4.9 percent and the Imports of Goods and Services diminished by 11.8 percent at constant 1400 prices in 1404Q1. Table 2 presents the GDP growth rates from the expenditure side.

Table 2. Growth Rates of GDP From Expenditure Side at Constant 1400 Prices (percent-percentage point)

	1402	1403					1404
	Year	Q1	Q2	Q3	Q4	Year	Q1
Private Consumption Expenditures	**1.4**	**2.3**	**-0.7**	**-1.5**	**-0.2**	**-0.1**	**-1.1**
Government Consumption Expenditures	**7.8**	**3.8**	**3.8**	**3.8**	**3.8**	**3.8**	**2.5**
Gross Fixed Capital Formation	**5.1**	**3.4**	**0.9**	**-1.2**	**0.0**	**0.7**	**-1.9**
Machinery	6.2	4.2	2.5	-1.3	-1.5	0.9	-3.3
Construction	3.6	2.2	-1.2	-0.9	1.5	0.5	0.4
Net Exports of Goods and Services							
Exports of Goods and Services	2.3	13.1	7.6	10.8	-3.0	7.2	-4.9
Imports of Goods and Services	8.9	2.5	6.2	5.2	-3.4	2.4	-11.8
Inventory Changes and Errors	**21.9**	**-0.6**	**11.8**	**1.0**	**16.6**	**7.1**	**-1.9**
GDP at Market Prices	**5.1**	**4.9**	**3.8**	**1.7**	**2.5**	**3.2**	**-0.4**

Source: Statistical Center of Iran

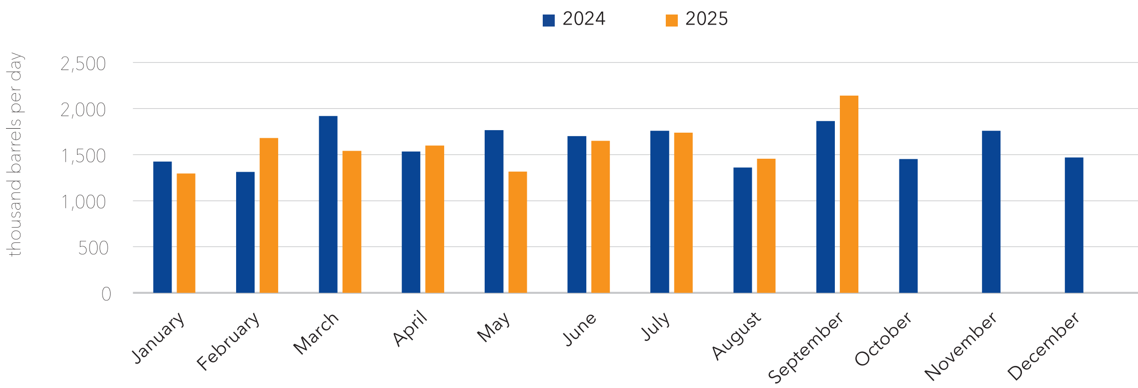
2-1. Oil

As no official data on Iran's oil exports have been released in recent years, the available figures in that regard mainly come from international sources and independent estimates. For instance, TankerTrackers[1] website estimated Iran's oil exports at around 1.7 million barrels per day (mbpd) for July 2025, 1.5 mbpd for August 2025 and 2.1 mbpd for September 2025 (roughly corresponding to 4th, 5th and 6th months of the year 1404 in the Iranian calendar), respectively, down 1.2 percent, while up 0.7 percent and 14.7 percent from those of the corresponding months of 2024.

Despite the unfavorable international conditions, Iran's oil exports currently stand above its levels of 1398 to 1400 (roughly corresponding to 2019–2021), the early years in the aftermath of the U.S. withdrawal from the JCPOA. However, in recent months Iran's oil exports have been considerably volatile. Tight restrictions on financial transfers and shipping insurance have highly limited Iran's oil exports through official channels, resulting in fall in petrodollars. Accordingly, much of Iran's oil is exported through informal channels with substantial price discounts. Still, high transaction costs keep Iran's oil exports exposed to ongoing political and operational risks.

Part of fluctuations in Iran's oil exports could be attributed to the developments of the global oil demand. The economic slowdown in China as Iran's largest oil customer, together with the global shift towards renewable energy, has caused the demand for Iran's crude oil to fall. Additionally, intense competition among major oil exporters such as Russia and Saudi Arabia has further constrained Iran's market share. As a result, even in periods of expansion in Iran's production capacity, the country faces challenges in selling oil in global markets. Finally, Iran's oil production capacity and limited investment in its oil sector remain key constraints on its oil exports. Prolonged restrictions on access to modern technology and the withdrawal of major international companies from the Iranian oil industry have slowed down the development of oil fields and have reduced efficiency in Iran's upstream oil sector. As a result, even if conditions allow for higher exports, technical and infrastructure bottlenecks limit the country's ability to sustain supply at elevated levels. The combination of these structural and political factors explains the volatile and fragile pattern of Iran's oil exports in recent years. Graph 1 illustrates Iran's oil export developments during 2024 and 2025.

Graph 1. Iran's Oil Exports in 2024 and 2025



Source: TankerTrackers website

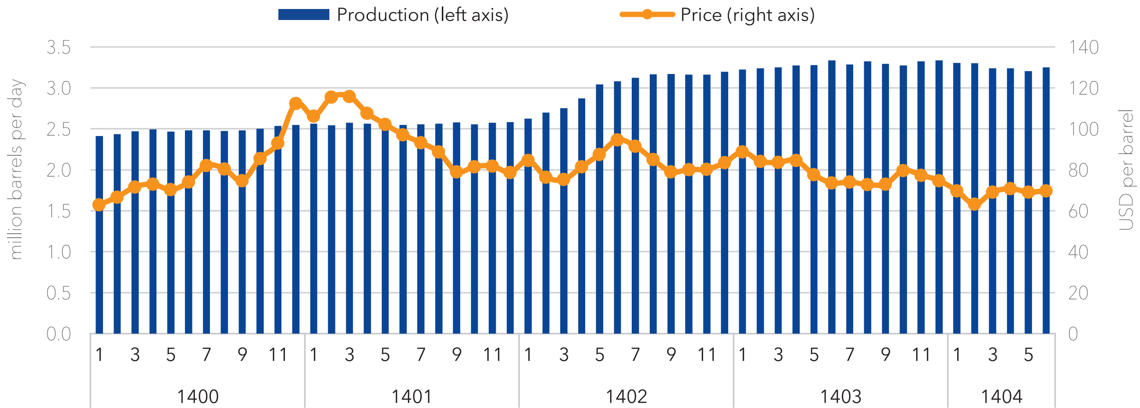
1. TankerTrackers is an independent online service that monitors and reports on the shipment of crude oil and gas condensates across different regions. The website uses daily satellite data, coastal imagery, and AIS (Automatic Identification System) information to produce its analyses and reports on maritime exports.

In recent months, one of the main concerns regarding the future of Iran's oil industry has been the triggering of the Snapback Mechanism under UN Security Council Resolution 2231. So far, most sanctions have been imposed unilaterally by the United States, but the reinstatement of UN sanctions could create far stricter constraints on Iran's oil exports.

As no official data on Iran's oil production have been available since the imposition of new sanctions from 1397 (roughly corresponding to 2018) the most reliable data in that regard come from OPEC reports from the secondary sources. According to these reports, Iran's average crude oil production in September 2025 (roughly 6th month of 1404) reached about 3.3 mbpd, marking a 2.6 percent decline compared to the same month a year earlier.

Due to technical constraints and aging infrastructure and oil wells, Iran's oil production has reached its maximum. Even if sanctions and international restrictions were fully lifted, a further short-term increase in Iran's oil supply appears unlikely. Graph 2 shows the average daily crude oil production and the average price of Iran's heavy crude oil from the beginning of 1400 to the end of 1404Q2.

Graph 2. Average Daily Crude Oil Production and Average Price of Iran's Heavy Crude Oil



Source: OPEC Monthly Oil Market Reports, production data based on secondary sources
Note: OPEC data are reported in Gregorian calendar months, which have been approximately converted to Iranian calendar months here.

In recent months, global crude oil prices have been influenced by various factors such as demand from China, supply policies by the OPEC Plus, geopolitical tensions in the Middle East, and changes in US interest rates. The average price of Iran's heavy crude oil in September 2025 (roughly sixth month of 1404) reached USD69.8 per barrel, representing a 5.1 percent decline compared to the same month of its preceding year.

2-2. Housing

The CBI data on Tehran city housing market have not been updated since the 2nd month of 1403Q2 and no official data is available from other sources. Accordingly, in this section the drivers of the developments of Tehran housing market are investigated.

The housing market of Tehran city faces stagflation. However, it seems that it suffers more from the recession than the inflation. Precisely speaking, the gap between the purchasing power of applicants and the price of housing has widened remarkably. On the basis of the CBI database, the price of a square meter of residential units in Tehran city averaged IRR749.1 million in 1402, while in the same year the annual income of a representative household averaged IRR2,569.4 million based on the SCI. Subsequently, these 2 figures altogether indicate that the average expected years for purchasing a 70-square-meter residential unit in Tehran city have increased to 20.4 in the year 1402, more than 2-fold of the 9.1 of 1396.

The recession in the housing market has made this market highly illiquid, in a sense that in some zones of Tehran city the transactions in that market materialize in terms of barter and in a non-cash manner. This situation even exacerbated in the aftermath of the 12-day War between Iran and Israel. In addition, the 12-day War affected the price of housing in various zones of Tehran city differently. For instance, in the north of Tehran city, the housing market experienced more severe fall in price relative to the other zones, the unofficial sources suggest. Note that in the unofficial reports solely the supply side of the housing market has been investigated, i.e., only the prices offered by the suppliers have signaled the fall in housing price and the actual price of housing in transactions should have fallen much more.

In order to stimulate the housing market, an Act was passed in the year 1400 aimed at enhancement of the purchasing power of the demand side of the housing market through establishment of a national housing fund, mandatory bank mortgages and finally mortgage-backed securities as the 3 major pillars of that Act. The goal of this Act was basically stimulation of non-speculative practices in the market. However, it was not fulfilled due to the lack of sufficient sources of financing.

On the basis of the Act, at least 20 percent of the annual extended facilities of the banking system in total is required to be considered for the housing sector. In other words, in the Act, the minimum of the first year of the Plan is set IRR3,600 trillion and this minimum is supposed to be adjusted by the CPI inflation rate per annum. However, this Act was highly challenging for the banking system as it not only ignored the basic economic facts, but also did not take into account the financial position of the banks on the basis of their balance sheets. Moreover, as the banks borrow short (short-term deposits) and lend long (long-term loans), such mandatory facilities impose excessive risk of mismatch of their assets and liabilities, making the banking system highly vulnerable to liquidity shocks.

In addition, extending mandatory facilities to the housing sector regardless of the risks and returns of that practice translates to misallocation of resources and also insufficient facilities to other sectors of the economy that subsequently results in GDP contraction. On the basis of the Ministry of Road and Urban Development, from the beginning of the implementation of the aforementioned Act since the past 3 years and 7 months, IRR4,690 trillion facilities have been extended to the housing sector, equaling 25 percent of the law requirements in that period. As for Partnership contracts, in the period under discussion 453 thousand contracts have been signed while still more than 505 thousand applicants are in queue.

From such circumstances, it is grasped that the banks are reluctant to observe the Act criteria completely in order to get rid of taking excessive risks. Moreover, the mortgage-backed securities as another pillar of the Act could not be effective in liquidity management of the banks so long as the ground for such financial tools is not well prepared in the Iranian capital market.

On the basis of the CBI report, during the first 5 months of 1404, IRR186.7 trillion has been extended for purchase of second-hand house, IRR205.0 trillion for purchase of new builds, and IRR190.9 trillion for tenancy deposits with respective growth rates of 79.7 percent, negative 11.2 percent and 33.5 percent, compared to the first 5 months of 1403. Accordingly, the extended facilities for purchase of second-hand house experienced highest growth rate, could be translated to the slowdown in the supply side of that market. Table 3 present the extended facilities to the housing market by various types of facilities during the first 5 months of the years 1403 and 1404.

Table 3. Extended Facilities to the Housing Market (IRR billion)

Type of Facility	First 5 Months of 1403			First 5 Months of 1404		
	Businesses	Households	Total	Businesses	Households	Total
Purchase of Second-Hand House	2,102	101,816	103,919	3,872	182,833	186,705
Purchase of New-Builds	40,251	190,462	230,713	27,407	177,556	204,963
Tenancy Deposit	482	142,550	143,032	282	190,650	190,931

Source: Central Bank of Iran

3. LABOR MARKET

The latest report of the SCI on the Iranian labor market suggests that in 1404Q2, the unemployment rate of the population aged 15 and above registered 7.4 percent, 0.1 percentage point down from 1403Q2, while up from its preceding quarter. Moreover, in 1404Q2, the rate of underemployment (working less than 44 hours a week) grew by 0.3 percentage point from 7.3 percent in 1403Q2 to 7.6 percent. As for other indices of the labor market, employment ratio as well as economic participation rate, respectively, declined by 0.7 and 0.9 percentage points in 1404Q2 compared to 1403Q2. The unemployment rate of the population with higher education in 1404Q2 registered 10.6 percent, indicating 1.0 percentage point improvement compared to the same quarter of 1403.

In 1404Q2, the unemployment rate of males registered 5.8 percent and that of females registered 15.2 percent, respectively, indicating 0.3 percentage point fall in the former, whereas 1.0 percentage point rise in the latter from 1403Q2. During the period under review, the number of the employed population declined by 171.2 thousand, i.e., the number of males rose by 121.7 thousand while that of the females fell by 292.9 thousand. Note that the figure 121.7 thousand added to the employed males was not in proportion to the total population added to the males at working age, subsequently the employment ratio of males and females at working age, respectively, registered 64.2 percent and 11.5 percent in 1404Q2, down 0.4 and 1.0 percentage points from those of 1403Q2. All in all, in 1404Q2, the employment ratio fell by 0.7 percentage point compared to 1403Q2 to 37.8 percent.

Out of the 2.0 million unemployed population in 1404Q2, 1.3 million aged 18 to 35. Accordingly, the unemployment rate for this age group registered 14.4 percent in that quarter, indicating 0.4 percentage point fall from 1403Q2. In the same quarter, 798.0 thousand individuals with higher education were unemployed, translating to 10.6 percent unemployment rate in this group in total and, respectively 7.1 percent among males and 18.3 percent among females by gender, 0.9 and 1.2 percentage points below those of 1403Q2, respectively. In summer 1404, around 40.3 percent of the total unemployed population of the country had higher education, indicating 3.6 percentage points fall from 1403Q2. In the same quarter, males and females, respectively, constituted 46.1 percent and 53.9 percent of the 798.0 thousand unemployed population with higher education.

In 1404Q2 and compared to the same quarter of its preceding year, 804.9 thousand individuals including 391.4 thousand males and 413.5 thousand females were added to the total working age population. In the same period, 51.6 thousand individuals were added to the male active population, while that of the females fell by 288.4 thousand, causing the total active population to fall by 236.8 thousand that even could not be offset through the rise in the working age population. Hence, in 1404Q2, 40.8 percent of the population at working age were active, indicating a considerable fall of 0.9 percentage point compared to 1403Q2. This low rate of participation is mainly attributed to the female population of the country, in a sense that out of the 33.1 million females aged 15 and above, only 4.5 million were able and willing to work in 1404Q2. In other words, the female participation rate in that quarter registered 13.6 percent only. Out of the 4.5 million females that were willing to work, only 3.8 million were successful in finding a job.

In 1404Q2, out of 25.0 million employed population, 53.1 percent participated in the Services Sector, 32.6 percent in the Industry Sector, and the remaining 14.2 percent in the Agriculture Sector. In the same quarter, 1.9 million of the employed population (7.6 percent) were underemployed, up 0.3 percentage point from that of 1403Q2, i.e., they have worked less than 44 hours a week due to some economic problems like fall in production and as such, notwithstanding their willingness to work more. Table 4 compares the major labor market indices in summers of 1403 and 1404.

Table 4. Major Labor Market Indices by Gender for the Population Aged 15 and Above

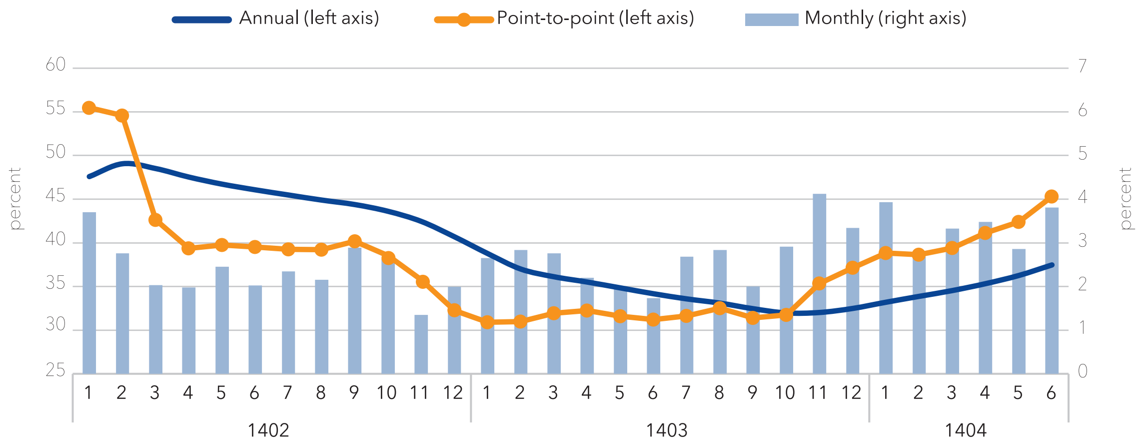
		1403Q2			1404Q2		
		Total	Male	Female	Total	Male	Female
Economic Participation	Rate (percent)	41.7	68.8	14.6	40.8	68.1	13.6
	Number (million)	27.2	22.4	4.8	26.9	22.5	4.5
Employment	Rate (percent)	38.5	64.6	12.5	37.8	64.2	11.5
	Number (million)	25.1	21.0	4.1	25.0	21.2	3.8
Unemployment	Rate (percent)	7.5	6.1	14.2	7.4	5.8	15.2
	Number (million)	2.0	1.4	0.7	2.0	1.3	0.7
Unemployment of Population Aged 18 to 35	Rate (percent)	14.8	12.1	25.1	14.4	11.3	26.0
	Number (million)	1.5	0.9	0.5	1.3	0.8	0.5
Unemployment of Population with Higher Education	Rate (percent)	11.6	8.0	19.5	10.6	7.1	18.3
	Number (million)	0.9	0.4	0.5	0.8	0.4	0.4
Share of Underemployment (percent)		7.3	7.8	4.7	7.6	8.1	4.3
Population Aged 15 and Over (million)		65.2	32.6	32.7	66.0	33.0	33.1

Source: Statistical Center of Iran

4. PRICES AND INFLATION

The SCI report on the CPI suggests that the increasing path of the annual CPI inflation rate of 1404Q1 has extended to 1404Q2 and that rate that had opened the year 1404 at 33.2 percent, closed 1404Q2 at 37.5 percent. Moreover, the Point-to-point CPI inflation rate that was continually below 40 percent from the beginning of 1402Q4, maintained its upward path that had started from 1403Q4 and by surpassing 40 percent in the first month of 1404Q2, closed that quarter at 45.3 percent. From a monthly view point, the CPI inflation rate in 1404Q2 stood above that of 1403Q2 on average. Graph 3 depicts various CPI inflation rates from the beginning of 1402 to the end of summer 1404.

Graph 3. CPI Inflation Rates



Source: Statistical Center of Iran

The annual CPI inflation rate that had registered its low of 32.0 percent in the 2nd month of 1403Q4, reversed course from its succeeding month and closed the year 1403 at 32.5 percent and in the 3 consecutive months of 1404Q1, respectively, registered 33.2 percent, 33.9 percent, and 34.5 percent. The upward path of the annual CPI inflation rate maintained in 1404Q2 and that rate reached 35.3 percent, 36.6 percent, and 37.5 percent in the 3 consecutive months of that quarter, respectively. The point-to-point CPI inflation rate that was not that volatile during the first 10 months of 1403, stepped in an upward path from the 11th month of that year which intensified in 1404Q2. The point-to-point CPI inflation rate that was continually below 40 percent from the beginning of winter 1402, exceeded that threshold from the first month of 1404Q2 and respectively, registered 41.1 percent, 42.4 percent, and 45.3 percent in the 3 consecutive months of that quarter, signaling higher annual CPI inflation rates in the coming months.

As for the factors of increase in CPI inflation rates, the developments of monetary aggregates are of high importance. The monthly growth rates of M2 indicates an upward path from the beginning of the year 1403 onwards. On the basis of the CBI news, due to the undesirable state of the Iranian economy and the heightened uncertainty as result of the tensions with the West, the CBI opted for an accommodative approach towards the banks, i.e., it left more room for banks to make loans to businesses to stimulate the domestic economy. The 12-day War also exacerbated that situation and given the triggering of Snapback Mechanism and heightened tensions between Iran and the West, the CPI inflation rates are expected to increase. An examination of the CPI inflation rates by the 12 main groups of the consumption basket of goods and services reveals that at the end of 1404Q2, the highest annual and point-to-point inflation rates are attributed to the group of Other with respective rates of 47.6 percent and 58.5 percent and the lowest ones belonged to Communication at 24.7 percent and 28.4 percent, respectively. As for the monthly inflation rates, Foods and Beverages experienced the highest rate of 5.3 percent, while Health experienced the lowest rate of 1.8 percent in the last month of 1404Q2.

Going over the CPI inflation rates by the weights assigned to each group of the consumption basket of goods and services indicates that during 1404Q2, the annual and point-to-point inflation rates in Housing, Water, Electricity, Gas and Other Fuels with the highest weight in the basket have been hovering around 38.0 percent and 36.0 percent, respectively, with a continuous upward path regarding its monthly inflation rate. As for Foods and Beverages as the 2nd group in terms of weight in the basket, the annual and point-to-point inflation rates have been continually rising during 1404Q2 with its monthly inflation rate of 4.8 percent on average. Table 5 presents the inflation rates of the 12 main groups of the consumption basket of goods and services.

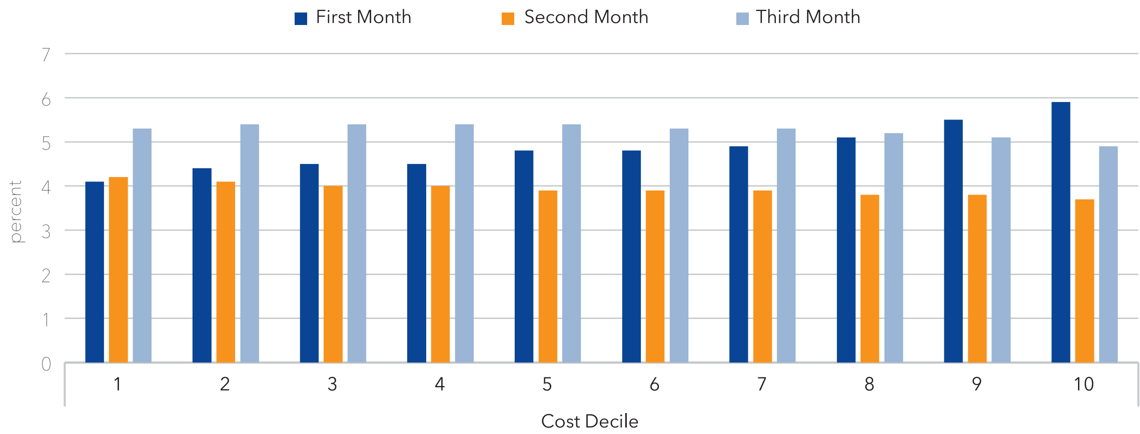
Table 5. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1404Q2

	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**3.8**	**45.3**	**37.5**
Housing, Water, Electricity and Other Fuels	36.11	3.1	36.0	37.5
Foods and Beverages	28.82	5.3	57.9	39.8
Transport	8.93	2.7	37.2	31.5
Health	6.68	1.8	45.5	37.3
Clothing and Footwear	4.52	2.7	37.7	32.6
Other Goods and Services	4.42	4.7	58.5	47.6
Household Equipment	4.40	2.8	46.0	35.4
Communication	2.41	2.4	28.4	24.7
Restaurants and Hotels	1.35	3.0	35.7	31.7
Education	088	4.9	38.6	35.2
Recreation and Culture	0.87	4.6	41.2	33.6
Tobacco	0.62	2.6	50.4	35.0

Source: Statistical Center of Iran

The SCI report on the CPI inflation rate by various cost deciles suggests that during the 3 consecutive months of 1404Q2, the highest point-to-point CPI inflation rates were attributed to the bottom three cost deciles, while the lowest to the top one. From a monthly view point, except in the first month of 1404Q2, in the rest of the months of that quarter the bottom cost deciles have incurred higher inflation rates in Foods and Beverages as well as in Tobacco relative to other deciles. The monthly inflation rates of Foods and Beverages as well as Tobacco by various cost deciles in 1404Q2 are depicted in Graph 4.

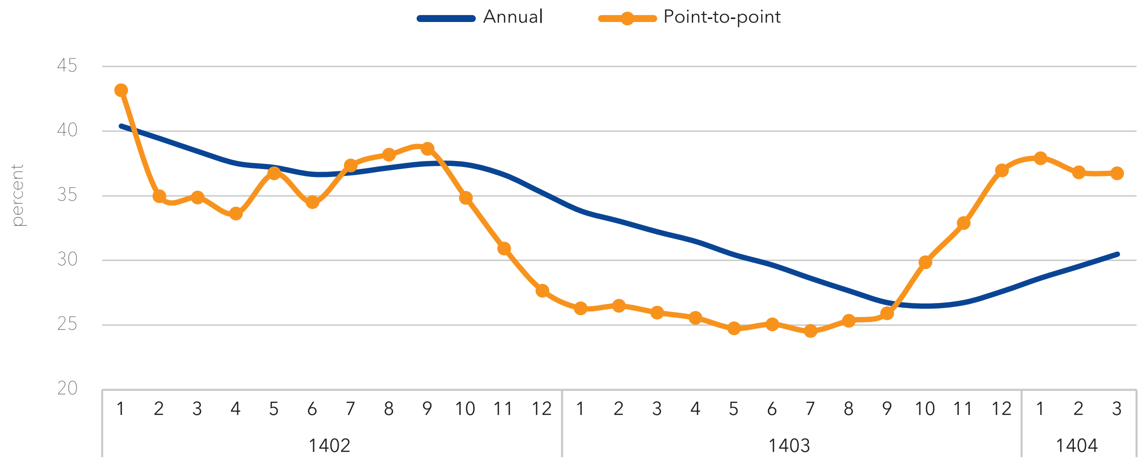
Graph 4. Monthly Inflation Rates of Foods and Beverages and Tobacco During 1404Q2



Source: Statistical Center of Iran

The latest reports of the SCI and CBI on the PPI cover till the end of 1404Q1 while preparing this Report. Note that the SCI uses the year 1395 as the base year and issues PPI index on a quarterly basis, while the CBI issues the same index on a monthly basis using the year 1400 as the base year. On the basis of the CBI report, the annual PPI inflation rate as a leading indicator of the CPI inflation rate, fell to its low of 26.5 percent in the 10th month of 1403 following a downward path, but from its succeeding month, reversed course and finally closed 1404Q1 at 30.5 percent. The point-to-point PPI inflation rate that had reached its low of 24.5 percent in the 7th month of 1403, reversed course and escalated to the high of 37.9 percent in the first month of 1404 and finally closed 1404Q1 at 36.7 percent. In addition, the SCI report suggests that the annual PPI inflation rate has risen to 34.3 percent at the end of 1404Q1 in an upward path. Despite the difference between the PPI inflation rates calculated by both issuing authorities, they have followed same trends. Graph 5 depicts the developments of the annual and point-to point PPI inflation rates from the beginning of 1402 to the end of 1404Q2 on the basis of CBI data.

Graph 5. Annual and Point-to-point PPI Inflation Rates



Source: Central Bank of Iran

5. BALANCE OF PAYMENTS

The CBI estimated BOP - the aggregate of Current Account, Capital Account and Errors and Omissions - at USD804 million for the year 1403 as a whole, far different from the negative USD112 million of its preceding year. However, the CBI has yet to publish BOP data for any time span in the year 1404, while preparing this Report.

In the year 1403, the Current Account experienced a surplus of USD13.3 billion to stand 55.3 percent above the USD8.6 billion surplus of 1402. Moreover, the Net Capital Account deficit that had registered USD19.9 billion in 1402 rose to USD21.7 billion in 1403. The Current Account itself, contains Goods Account, Services Account, Income Account [2], and Current Transfers Account. The expansion in Current Account during 1403 is mainly emanated from the considerable growth of the Goods Account. The Goods Account that is the difference of goods exports value and goods imports value, reached USD26.8 billion in 1403, up 27.3 percent from the USD21.1 billion in 1402. The Non-oil Trade Balance deficit in 1403 marked USD36.3 billion, 9.4 percent above that of 1402. As for the Oil Trade Balance surplus, it rose by 16.3 percent to USD63.2 billion during the same year.

The Services Account deficit registered USD12.1 billion in 1403 to stand 8.6 percent above the USD11.2 billion of 1402. In addition, the Income Account deficit fell to USD1.2 billion in 1403 from USD1.3 billion of 1402.

The expansion of the Current Account was such sizeable that even offset the rise in Capital Account deficit and the decrease in Errors and Omissions from USD11.1 billion in 1402 to USD9.1 billion in 1403 and finally, caused the balance of foreign reserves to rise. Moreover, although the 18.2 percent fall in the Errors and Omissions translates to more transparency in BOP calculations, the figure for this component of BOP is still considerably large which could compromise the validity of the other components.

Amid various drivers of the BOP developments, the exchange rate developments also play a dual role. On the one hand, the USD appreciation against IRR in the free market incentivizes exporters for more exports - part of the rise in non-oil exports could be attributed to this factor. On the other hand, in the presence of multiple exchange rates, there would be enough room for economic rent seeking, i.e., over-invoice of imports and under-invoice of exports that altogether disrupt trade statistics and the effectiveness of the CBI exchange rate policy. The details of BOP in 1402 and 1403 are presented in Table 6.

Table 6. Balance of Payments (USD million)

	1402	1403	Percentage Change
Current Account	**8,592**	**13,340**	**55.3**
Goods Account	21,077	26,830	27.3
Exports (FOB)	100,519	115,421	14.8
Oil	56,796	65,841	15.9
Non-oil	43,723	49,580	13.4
Imports (FOB)	79,442	88,591	11.5
Gas and Oil Products	2,504	2,679	7.0
Other Goods	76,937	85,912	11.7
Services Account	-11,158	-12,120	8.6
Income Account	-1,288	-1,161	-9.9
Current Transfers Account	-38	-209	450.0
Net Capital Account	**-19,882**	**-21,679**	**9.0**
Errors and Omissions	11,178	9,143	-18.2
Overall Balance	**-112**	**804**	**-**

Source: Central Bank of Iran

2. Mainly including compensation of workers and revenues and expenditures associated with investments

On the basis of the Islamic Republic of Iran Customs Administration (IRICA), during 1404H1, Iran's exports of goods reached around 75.0 million tons valued at USD25.9 billion, while its goods imports registered 18.8 million tons valued at USD28.4 billion. In 1404H1, Iran's customs exports expanded by 6.3 percent in weight but in terms of value remained unchanged compared to 1403H1 and as for customs imports, it expanded by 2.0 percent in weight and contracted by 15.4 percent in value, translating to lower value of both export and import goods. Therefore, the deficit of customs Trade Balance that had registered USD7.6 billion in 1403H1 fell to USD2.4 billion in 1404H1.

During 1404H1, the exports of petrochemicals diminished both in weight and in value, however the top five exported items in the period under discussion were Natural Gas, Liquefied Propane, Bitumen, Liquified Butane, and Methanol. The top five imported items in the same period were Crude Gold, Cattle-feed Corn, Safflower Oil, Rice, and Soybean. Details of Iran's customs trade are shown in Table 7.

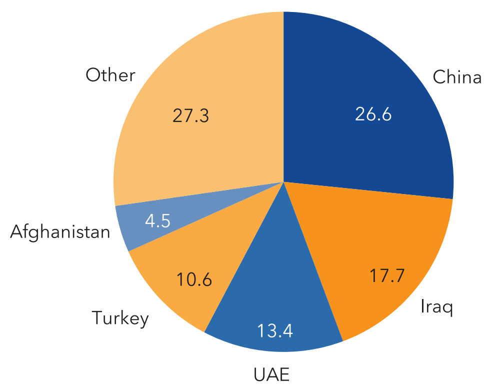
Table 7. Iran's Customs Trade

	1403H1			1404H1			Percentage Change	
	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight (1000 ton)	Value (USD million)	Value to Weight Ratio (USD per ton)	Weight	Value
Exports	70,586	25,947	367.6	74,997	25,944	346.0	6.3	0.0
Imports	18,381	33,513	1,823.3	18,757	28,367	1,512.3	2.0	-15.4
Customs Trade Balance	**52,205**	**-7,566**	-	**56,240**	**-2,423**	-	**7.7**	**-68.0**

Source: Islamic Republic of Iran Customs Administration

During 1404H1, 72.7 percent of Iran's total exports was destined for China, Iraq, UAE, Turkey, and Afghanistan as its top 5 exports parties. In the period under review, customs exports to China registered USD6.9 billion to constitute 26.6 percent of the total exports of Iran, followed by Iraq at USD4.6 billion with 17.7 percent share, UAE at USD3.5 billion with 13.4 percent share, Turkey at USD2.7 billion with 10.6 percent share and finally Afghanistan at USD1.2 billion with 4.5 percent share in total. The major customs exports destinations of Iran by their share in total customs exports of Iran are shown in Graph 6.

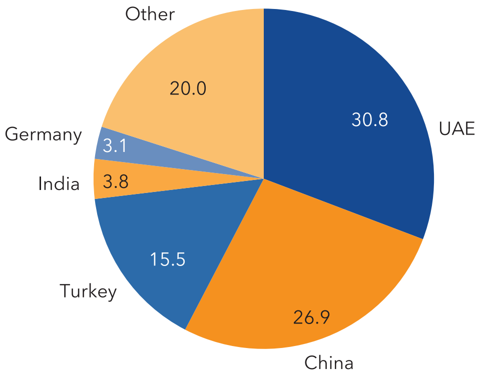
Graph 6. Major Customs Exports Destinations of Iran in 1404H1(percent)



Source: Islamic Republic of Iran Customs Administration

With regard to Iran's customs imports, UAE ranked as the top one source, providing USD8.7 billion of Iran's imports with 30.8 percent share in total imports of the country during 1404H1. In the same period, the imports from China and Turkey registered USD7.6 billion and USD4.4 billion, respectively, constituting 26.9 percent and 15.5 percent of Iran's total customs imports. Accordingly, UAE, China and Turkey as the top 3 sources of imports have provided 73.1 percent of Iran's import needs, translating to excretion of high risk of concentration on Iran's international trade. India with USD1.1 billion and Germany with USD0.9 billion exports to Iran ranked as 4th and 5th of Iran's sources of imports with 3.8 percent and 3.1 percent share in total Iran's customs imports, respectively. All in all, it could be claimed that the approach of the top 3 sources of Iran's imports - China, UAE and Turkey - plays a dominant role in how effective the Snapback Mechanism and resumption of UN sanction on the Iranian economy would be. In Graph 7 the major sources of Iran's customs imports by their share in total customs imports of the country are depicted.

Graph 7. Major Sources of Customs Imports of Iran in 1404H1 (percent)

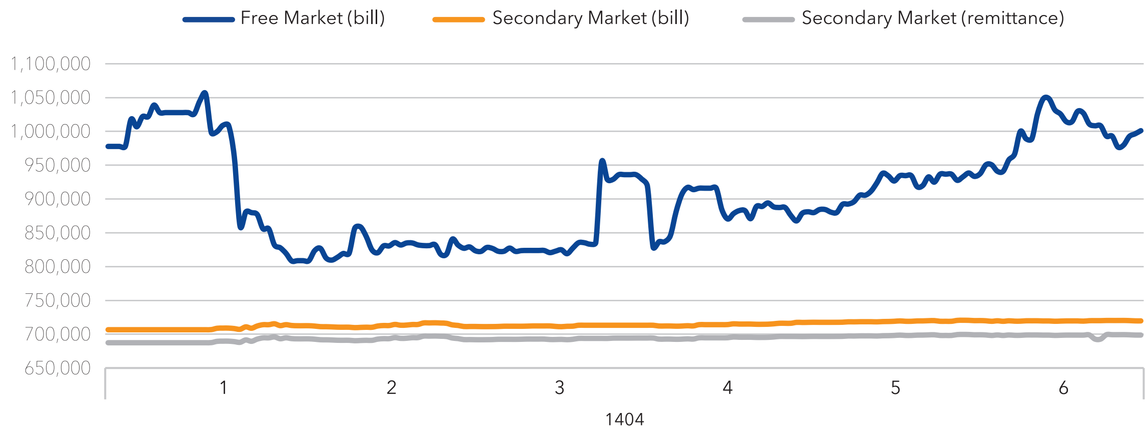


Source: Islamic Republic of Iran Customs Administration

6. FOREIGN EXCHANGE MARKET

During 1404H1, the USD price in the Iranian foreign exchange market was highly volatile, mainly attributed to the domestic and international political developments. The USD price that had diminished due to the air of optimism in the aftermath of the resumption of the nuclear talks in Oman, reversed course as a result of the 12-day War between Israel and Iran, but again slightly declined after the cease fire in the early summer. However, Rial depreciation intensified and speeded up due to the European Troika claim for triggering Snapback Mechanism During 1404Q2, leading to the average free-market USD/IRR exchange rate rise of 57.8 percent during the same quarter compared to 1403Q2 and by 6.0 percent compared to 1404Q1. Graph 8 depicts the developments of the USD/IRR exchange rate in the free market and the secondary market.

Graph 8. USD/IRR Exchange Rate in Various Markets*



Source: Central Bank of Iran; Gold, Coin and Currency Information Network
* From the last month of fall 1403, a subdivision was added to the secondary market. In its initial stages, limited number of importers and exporters were able to trade foreign exchanges in the newly established market albeit at higher rates. From the second month of winter 1403, all foreign exchange transactions in the secondary market (except for imports of essential goods) were subject to be done in the new subdivision.

The free-market price of USD that had surpassed IRR1 million in the initial days of 1404Q1, maintained its upward path till the end of the first 3 weeks of that quarter. Once the news regarding the new nuclear talks was released (7 years after the unilateral withdrawal of USA from the JCPOA), the USD/IRR exchange rate diminished by 11 percent right on the day after the first round of the new talks. As various rounds of nuclear talks were continually held, the USD price in the free market was hovering around IRR830 thousand before the Israel attack on Iran, just 2 days prior to the 6th round of negotiations. After the outbreak of the 12-day War, the Iranian foreign exchange market experienced significant fluctuations. However, the USD/IRR exchange rate fell slightly on the 2nd day of 1404Q2 when the ceasefire was announced but again reversed course in a few days. As no agreement was obtained regarding Iran's nuclear issue in the post-war era, the uncertainties in the Iranian economy exacerbated again and from mid-1404Q2, the USD price exceeded IRR900 thousand in the Iranian free market. Moreover, as the tensions between Iran and the International Atomic Energy Agency (IAEA) prolonged, the uncertainty in the Iranian economy increased and caused the Iranian Rial to depreciate, which was further speeded up after triggering the Snapback was proposed by the European Troika, increasing the USD price to above IRR1 million from the beginning of the last 2 weeks of summer 1404. It is worth to mention that the fall in USD/IRR exchange rate due to the results of the nuclear talks between Iran and the IAEA hosted by Egypt did not last long and the rejection of South Korea's proposal for suspension of Snapback triggering caused the USD price to stand above IRR1 million.

An examination of the most recent CBI data on monetary aggregates reveals that the CBI Net Foreign Reserves have not changed much during 1404Q1 and the same situation should have maintained during 1404Q2. Table 8 presents the developments of the USD/IRR bill exchange rate in the free market during 1403 and 1404H1 by various quarters. The last column of the Table indicates that from 1403Q3 onwards, the Iranian free market for foreign exchanges has been grappling with high volatility.

Table 8. USD/IRR Bill Exchange Rates in the Free Market

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
1403Q1	611,620	695,000	568,500	27,926	0.05
1403Q2	593,642	616,910	572,200	10,961	0.02
1403Q3	675,159	773,650	595,500	44,376	0.07
1403Q4	862,096	977,800	762,400	56,146	0.07
1404Q1	883,354	1,055,550	808,350	81,056	0.09
1404Q2	936,730	1,058,600	828,700	55,436	0.06

Source: Central Bank of Iran; Gold, Coin, and Currency Information Network; Research Calculations

Contrary to the Iranian free market for foreign exchanges, the USD price was not that volatile in the secondary market in 1404Q2 as in its preceding quarter. The USD/IRR bill exchange rate in the Commercial Foreign Exchange Market - as a subdivision of the secondary market - that had opened 1404Q2 at IRR713 thousand, closed that quarter at IRR719 thousand, indicating 0.9 percent growth rate. As for the USD/IRR remittance exchange rate, it closed the same quarter at IRR698 thousand, up 0.6 percent only from the beginning of that quarter. The increasing path of the USD/IRR bill exchange rate in the free market on the one hand and the stability of the USD/IRR bill and remittance exchange rates in the secondary market on the other hand ended up in wider gap between the rates of the 2 markets. Accordingly, the establishment of the Commercial Foreign Exchange Market that was an exercise towards exchange rate unification diverged far from its goal. The gap between the USD/IRR bill exchange rate in the free market and the secondary market averaged 24.0 percent, 28.0 percent, and 39.0 percent, respectively, in the 3 consecutive months of summer 1404, translating to more room for rent seeking in the foreign exchange market. While preparing this Report, that gap even rose to above 50 percent. Moreover, the gap between the USD/IRR bill exchange rate in the free market and the USD/IRR remittance exchange rate averaged 27.0 percent, 32.0 percent and 44.0 percent, respectively, in the 3 consecutive months of 1404Q2.

The CBI actions in response to the USD/IRR exchange rate fluctuations are also worth to mention. On the basis of the new CBI decision, from the 2nd month of 1404Q3, the retail merchants and businesses are also entitled to purchase foreign currencies from the Commercial Foreign Exchange Market, albeit up to a ceiling set by the CBI. This practice of the monetary authority could be considered as a reaction to the reimposition of the United Nations sanctions due to the triggering of Snapback. However, the CBI claims that its decision solely aims to help small businesses to expand. All in all, continuation of Iran's international tensions leads to further Rial depreciation in the near future and wider gap between free market and secondary market exchange rates, hence the CBI aforementioned practice - the so-called contribution to expansion of small businesses - would be obsolete and solely serves as a source of rent.

7. MONETARY AND CREDIT AGGREGATES

The CBI preliminary report suggests that the Liquidity with the annual rate of 32.4 percent has expanded to IRR110,588.0 trillion at the end of 1404Q1. The monthly growth rate of Liquidity averaged 2.8 percent in 1404Q1, above the rates of 2.0 percent in 1403Q1 and 2.2 percent in the year 1403 as a whole, conveying that the CBI has opted for an accommodative approach towards the banks vis-a-vis making loans in some periods of 1403 and also 1404Q1. The Monetary Base also closed 1404Q1 at IRR14,444.4 trillion to stand respectively 6.3 percent and 29.6 percent above that of the end of 1403 and end of 1403Q1. Table 9 presents the developments of Monetary Base and Liquidity at the end of 1404Q1.

Table 9. Liquidity and Monetary Base with Growth Rates of Their Components (IRR trillion-percent-percentage points)

	End of Period Balance			Growth Rate at the End of 03/1404 Compared to		Share in M0 Growth Rate at the End of 03/1404 Compared to	
	03/1403	12/1403	03/1404	03/1403	12/1403	03/1403	12/1403
Monetary Base (M0)	**11,145.3**	**13,594.3**	**14,444.4**	**29.6**	**6.3**	**29.6**	**6.3**
CBI Foreign Assets (net)	19,084.1	31,885.8	33,591.2	76.0	5.3	130.2	12.5
CBI Claims on Public Sector (net)*	-635.4	-3,545.5	-1,025.9	61.5	-71.1	-3.5	18.5
CBI Claims on Public Sector	4,802.2	6,803.9	7,830.3	63.1	15.1	27.2	7.5
Public Sector Deposits with CBI	5,437.6	10,349.4	8,856.2	62.9	-14.4	-30.7	11.0
CBI Claims on Banks	6,684.8	11,701.9	7,314.6	9.4	-37.5	5.7	-32.3
Other Assets (net)*	-13,988.2	-26,447.9	-25,435.6	81.8	-3.8	-102.7	7.6
Balance of Implementation of Monetary Policy	2,328.8	4,039.9	3,853.8	65.5	-4.6	13.7	-1.4
						Share in Liquidity at the End of	
Liquidity (M2)	**83,539.9**	**101,659.5**	**110,588.0**	**32.4**	**8.8**	**12/1403**	**03/1404**
Money (M1)	**20,536.6**	**26,317.3**	**26,496.1**	**29.0**	**0.7**	**25.9**	**24.0**
Notes and Coins with the Public	1,435.9	1,791.3	1,914.7	33.3	6.9	1.8	1.7
Sight Deposits	19,100.7	24,526.0	24,581.4	28.7	0.2	24.1	22.2
Checks (net)	546.0	634.3	686.7	25.8	8.3	0.6	0.6
Quasi-Money	**63,003.3**	**75,342.2**	**84,091.9**	**33.5**	**11.6**	**74.1**	**76.0**
Interest-free Saving Deposits	8,099.3	11,500.5	12,069.0	55.7	9.6	11.3	11.0
Short Term Deposits	17,632.2	21,193.9	22,425.3	27.2	5.8	20.8	20.0
One-year Deposits	14,283.3	15,851.9	19,806.6	38.7	24.9	15.6	18.0
Two-year Deposits	4,478.3	2,820.2	2,717.8	-39.3	-3.6	2.8	3.0
Three-year Deposits	16,342.7	20,746.8	23,285.2	42.5	12.2	20.4	21.0
Four-Year Deposits	8.6	280.6	301.3	-	7.4	0.3	0.0
Five-year Deposits	67.3	63.7	60.4	10.3	-5.2	0.1	0.0
Miscellaneous Deposits	2,091.6	2,884.6	2,886.3	38.0	0.1	2.8	3.0
M2 Money Multiplier	**7.496**	**7.478**	**7.656**	**2.1**	**2.4**	**-**	**-**

Source: Central Bank of Iran
* The expansion/contraction of absolute form of any component that takes negative value is a factor of decrease/increase in the Monetary Base in aggregate.

The developments of the Liquidity in the past 5 quarters reveals that this monetary aggregate has expanded by 2.0 percent in 1403Q1, 2.8 percent in 1403Q2, 1.9 percent in 1403Q3 and 1403Q4 and finally 2.8 percent in 1404Q1 on average per month. On the basis of the CBI news, the uncertainties from the political tensions in 1404 have caused the monetary authority to leave more room for the banks to extend facilities in excess of the decreed cap, aiming for protecting domestic economy. Given lack of a political agreement between Iran and the West, the 12-day War and the uncertainties about future, the Liquidity growth rate should have speeded up in 1404Q2 which could be also justified by the upward path of the point-to-point inflation rate in that quarter.

The annual growth rate of Liquidity that had started a downward path from mid-1400 as a result of the CBI practice for controlling banks' balance sheets, marked its low of 24.1 percent in the first month of 1403 and from that point on, was fluctuating till the mid-1403Q3 and stood at 28.1 percent in the 2nd and 3rd month of that quarter. This rate reached 28.4 percent, 27.8 percent, and 29.1 percent, respectively, in the 3 consecutive months of 1403Q4. Contrary to 1403Q1, the annual growth rate of Liquidity experienced an upward path in 1404Q1 and registered 32.1 percent in the first 2 months and 32.4 percent in the last month of that quarter.

An examination of the Liquidity by its components, Money and Quasi-money, reveals that at the end of 1404Q1, Money has grown by 0.7 percent and Quasi-money by 11.6 percent compared to the end of 1403, causing the share of Quasi-money in Liquidity to rise by 1.9 percentage points to 76.0 percent during 1404Q1. This rise in the share of Quasi-money in Liquidity in 1404Q1 could be attributed to the air of optimism due to the 5 rounds of nuclear talks held in Muscat that caused the return of investing in commodities such as gold and foreign currencies to fall, making long-term deposits more appealing. Among the components of Quasi-money, the three-year deposits expanded by 12.2 percent, while the two-year deposits contracted at the end of 1404Q1 compared to the end of 1403. The expansion of the three-year deposits throughout 1404Q1 emanates from the arbitrary waiver of the penalty for prematurity withdrawal by some banks and also conversion of matured one-year and two-year deposits to the three-year deposits with higher interest rate.

The Money (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits altogether formed 54.9 percent of the Liquidity at the end of 1404Q1, below the 58.0 percent share at the end of 1403. This 3.1 percentage points fall in the aggregate share of highly-liquid components of Liquidity in that monetary aggregate could be considered as a result of the downward inflation expectations between the first round of nuclear talks and the 12-day War outbreak. However, given the rise in CPI inflation rate in 1404Q2, the post-war uncertainties and further Rial depreciation, the share of Money in Liquidity should have increased in summer 1404 and its further increase in fall seems plausible.

The latest CBI data suggests that the annual growth rate of Monetary Base that had reached its low of 21.1 percent in the second month of 1403, reversed course and continually increased in its 3 following months, while it fell to 18.7 percent in the last month of summer 1403, far below the 41.7 percent at the end of summer 1402. In a downward path, that rate registered 21.3 percent, 20.7 percent, and 20.0 percent in the 3 consecutive months of 1403Q3, but reversed course and, respectively, grew to 21.2 percent, 22.0 percent, and 24.5 percent in the 3 consecutive months of 1403Q4. Extending its upward path to 1404Q1, the Monetary Base growth rate reached 25.9 percent and 30.1 percent in the first 2 month of 1404Q1, respectively, and by 0.5 percentage point fall, closed that quarter at 29.6 percent.

Going over the Monetary Base components indicates that at the end of 1404Q1, Net CBI Claims on the Public Sector has served as the main contributor to the 3-month expansion of the Monetary Base with 18.5 percentage points share. From the end of 1403 to the end of 1404Q1, the CBI claims on the Public Sector expanded by 15.1 percent while the Public Sector Deposits with the CBI contracted by 14.4 percent, making the Net CBI Claims on the Public Sector as a factor of increase in the Monetary Base. Moreover, the Net CBI Foreign Assets at the end of 1404Q1 rose by 5.3 percent compared to the end of 1403, constituting 12.5 percentage points of the 3-month growth rate of Monetary Base as another factor of increase in that monetary aggregate. Reconverting this component of Monetary Base using the USD/IRR remittance exchange rate to USD, it has expanded by 4.3 percent in terms of USD from USD46.4 billion at the end of 1403 to USD48.4 billion at the end of 1404Q1.

At the end of 1404Q1, the CBI Net Other Assets that generally takes negative values, contracted by 3.8 percent from the end of 1403 to serve as the last factor of increase in Monetary Base during the period under discussion with 7.6 percentage points share in the 3-month growth rate of that monetary aggregate. At the end of 1404Q1, the Balance of the Implementation of the Monetary

Policy as a positive subgroup of the CBI Net Other Assets contracted by 4.6 percent, translating to contractionary monetary policy of that authority during the 3-month period under discussion.
Finally, the CBI Claims on banks with 37.5 percent contraction at the end of 1404Q1 from the end of 1403 was the only factor of decrease in Monetary Base, constituting negative 32.3 percentage points of the Monetary Base growth rate in the same period.
The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of 1404Q1, their Assets (Liabilities) less below the line items have grown by 2.6 percent from the end of 1403. On the Assets side, Foreign Assets, Claims on Non-public Sector, and Deposits with the CBI, respectively, were the top 3 contributors to the 3-month growth rates of the Assets. Moreover, on the Liabilities side, Deposits of Non-public Sector, Foreign Liabilities, and Capital Account were the top 3 drivers of the 3-month expansion of the Liabilities. A summary of Assets and Liabilities of the banks and non-bank credit institutions is presented in Table 10.

Table 10. Summary of Assets and Liabilities of Banks and Non-bank Credit Institutions (IRR trillion)

	End of Period Balance			Share of Banks and Non-bank Credit Institutions at the End of 03/1404			03/1404 Percentage Change Compared to	
	03/1403	12/1403	03/1404	Public Commercial	Public Specialized	Non-public	03/1403	12/1403
Assets (excluding below the line Items)	**158,822.9**	**224,087.0**	**229,829.4**	**50,223.2**	**35,493.1**	**144,113.1**	**44.7**	**2.6**
Foreign Assets	37,807.9	60,891.1	68,812.5	10,145.2	16,427.9	42,239.4	82.0	13.0
Notes and Coins	219.4	400.1	413.1	169.3	19.4	224.4	88.3	3.2
Deposits with the CBI	9,490.0	11,402.9	12,116.6	3,162.5	773.6	8,180.5	27.7	6.3
Claims on Public Sector	10,811.4	13,168.2	13,805.7	6,643.4	2,421.6	4,740.7	27.7	4.8
Claims on Non-public Sector	69,318.1	88,301.2	91,898.6	18,952.3	12,190.0	60,756.3	32.6	4.1
Other	31,176.1	49,923.5	42,782.9	11,150.5	3,660.6	27,971.8	37.2	-14.3
Liabilities (excluding below the line Items)	**158,822.9**	**224,087.0**	**229,829.4**	**50,223.2**	**35,493.1**	**144,113.1**	**44.7**	**2.6**
Deposits of Non-public Sector	82,104.0	99,868.2	108,673.3	27,619.4	9,847.2	71,206.7	32.4	8.8
Debt to CBI	6,684.8	11,701.9	7,314.6	2,464.6	1,062.5	3,787.5	9.4	-37.5
Deposits of Public Sector	698.1	867.9	1,034.2	471.1	404.7	158.4	48.1	19.2
Capital Account	3,009.9	6,904.6	7,516.7	508.8	968.8	6,039.1	149.7	8.9
Foreign Liabilities	32,411.7	49,083.3	55,873.5	8,825.0	14,170.2	32,878.3	72.4	13.8
Other	33,914.4	55,661.1	49,417.1	10,334.3	9,039.7	30,043.1	45.7	-11.2

Source: Central Bank of Iran

At the end of the 5th month of 1404, the balance of extended facilities by banks and non-bank credit institutions registered IRR117,859.7 trillion, up 41.6 percent from the IRR83,258.7 trillion at the end of the same point in 1403. The balance of deposits also grew by 44.5 percent to IRR157,929.8 trillion in the same period. Accordingly, the ratio of extended facilities to deposits less the legal reserves reached 81.6 percent at the end of the 5th month 1404, down 2.1 percentage points from that of the same point in 1403. The balance of extended facilities and deposits of the banks at the end of the 5th month of 1404 are presented in Table 11.

Table 11. Balances of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	05/1403	05/1404	Percentage Change
Extended Facilities	83,258.7	117,895.7	41.6
Deposits	109,257.7	157,929.8	44.5
Deposits Less the Required Reserves	99,515.1	144,383.6	45.1
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	83.7	81.6	-

Source: Central Bank of Iran

During the first 5 months of 1404, IRR32,337.7 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 37.1 percent rise compared to the same period of its preceding year. Out of the total extended facilities in the period under discussion, 75.5 percent, equivalent to IRR24,417.7 trillion is attributed to the businesses (individuals and legal entities) and the remaining 24.5 percent at IRR7,920.0 trillion to the final consumers (households). Going over the extended facilities by various sectors of the economy reveals that during the 5-month period under discussion, Industries and Mining sector had the highest share of 43.7 percent in total extended facilities to the businesses, followed by Services sector at 35.3 percent. Among various types of extended facilities, in the same period, 82.9 percent of the extended facilities to businesses and 62.6 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by the type of recipients in the first 5 months of 1404 are shown in Table 12.

Table 12. Extended Facilities by Type of Recipients in the First 5 Months of 1404 (IRR trillion–percent)

	Sector of the Economy	Amount	Share in Businesses
Businesses	Agriculture	1,267.1	5.2
	Industries and Mining	10,675.1	43.7
	Housing and Construction	791.4	3.2
	Commerce	3,061.8	12.5
	Services	8,620.1	35.3
	Miscellaneous	2.1	0.0
			Share in Total
	All Sectors	**24,417.7**	**75.5**
Final Consumers (households)		**7,920.0**	**24.5**
Total		**32,337.7**	**100.0**

Source: Central Bank of Iran

8. FISCAL POLICY

As official authorities were yet to publish their reports on the Government budget performance in the year 1404 while preparing this Report, the unofficial data from some domestic news agencies have been used here. According to unofficial sources, in 1404Q1 the actual General Sources of the Government Budget of 1404 (1404 Budget for short) registered IRR5,410.0 trillion and its actual General Uses reached IRR6,890.0 trillion. The realization ratio of the former in the period under review reached 43.7 percent and that of the latter registered 55.6 percent and the 11.9 percentage points gap between those realization rates resulted in the Overall Budget Deficit of IRR1,480.0 trillion in 1404Q1 that was financed via withdrawal from State-owned companies accounts with the Treasury (IRR620.0 trillion) and also Revolving Fund of the Treasury (IRR860.0 trillion). Note that all the funds raised for covering the overall budget deficit are supposed to be repaid by the end of the year 1404.

In 1404Q1, the actual Tax Revenues (less customs duties) as a subgroup of General Sources registered IRR3,013.9 trillion, the Iranian National Tax Administration (INTA) report suggests. According to the weekly auctions of the Government Debt Securities, in the same quarter the Government financed IRR402.1 trillion of its budget deficit (beyond the overall budget deficit) through Issuance of Government Debt Securities. In fact, out of the IRR5,410.0 trillion realized General Sources in 1404Q1, IRR3,416.0 trillion is attributed to the Tax Revenues as well as Issuance of Government Debt Securities (63.1 percent of total) and the remaining IRR1,994.0 trillion is obtained through other components of General Sources including Customs Duties and Other Revenues as a subgroup of General Revenues, Oil Revenues as a subgroup of Disposal of Non-financial Assets, and Withdrawal from the National Development Fund (NDF) as a subgroup of Disposal of Financial Assets. In the Budget Law of 1404 (1404 Law for short), IRR18,200.0 trillion is legislated for Tax Revenues (excluding customs duties) of which, 35.0 percent is attributed to Indirect Tax (tax on goods and services) and the remaining 65.0 percent to Direct Tax (corporate tax, income tax and wealth tax). As a result, the corresponding figure for Tax Revenues for the first 4 months of 1404 equals IRR6,066.7 trillion. Therefore, 65.3 percent of the legislated figure for Tax Revenues for that period has been realized on the basis of INTA report.

As for Direct Tax, the realization ratio registered 65.8 percent in the first 4 months of 1404 and among its components, actual Tax on Wealth reached IRR125.6 trillion (up 62.2 percent from its actual value in the first 4 months of 1403) to enjoy the highest realization ratio of 69.0 percent in the period under review. In the same time span, the Tax on Stamp Duty as a subgroup of Tax on Wealth had the highest realization ratio of 99.2 percent and formed 18.4 percent of the actual Tax on Wealth in that period, succeeded by Tax on transactions of Properties with 83.3 percent realization ratio and 26.5 percent share in the actual Tax on Wealth. The property transactions tax during the first 4 months of 1404 realized 21.1 percent above the that of the same period of 1403. In the same period, 56.8 percent of Tax on Shares Transfers was realized at IRR34.7 trillion, indicating remarkable 116.3 percent rise compared to the first 4 months of 1403.

In the first 4 months of 1404, Corporate Tax realized 66.0 percent of its legislated figure, amounting to IRR1,781.3 trillion, of which, 80.2 percent (IRR1,428.4 trillion) is attributed to the Tax on Non-public Legal Entities. Moreover, during the same period, 85.7 percent of the legislated figure for Tax on public legal entities was realized and its actual level stood 50.0 percent above that of the same period of 1403. This source formed 9.1 percent of Corporate Tax with the highest realization ratio among other components of Corporate Tax.

The actual Income Tax in the first 4 months of 1404 accounted for 65.9 percent of its legislated figure to register IRR701.4 trillion, standing 35.0 percent above its corresponding figure in the same period of 1403. Among the components of Income Tax, the actual Tax on Other Income experienced the highest realization ratio of 220.4 percent, amounting to IRR4.4 trillion. However, this source of Tax Revenues accounted for only 0.6 percent of the actual Income Tax in the first 4 months of 1404. The Tax on Salary of Private Sector Employees with 47.4 percent share in the actual Income Tax ranked the 2nd component of Income Tax in terms of realization ratio at 86.7 percent in the same period. The actual Tax on Salary of Public Sector Employees that formed 19.3 percent of the actual Income Tax in the period under review, accounted for 62.4 percent of its corresponding figure in 1404 Law, equaling IRR135.2 trillion and up 10.6 percent from that of the first 4 months of 1403. In the first 4 months of 1404, 71.9 percent of the legislated figure for Tax on Professions was materialized, up 61.0 percent from that of the first 4 months of 1403 and constituting 27.2 percent of the actual Income Tax in the time span under discussion.

In the first 4 months of 1404, the actual Tax on Goods and Services amounted to IRR1,355.5 trillion, up 42.2 percent from that of the same period of its preceding year with 63.9 percent realization rate. Among the components of this source of budget, the actual Value-added Tax amounted to 61.6 percent of its legislated amount at IRR736.4 trillion and formed 54.3 percent of the actual Tax on Goods and Services in the period under discussion. Table 13 presents the figures associated with Tax Revenues in the first 4 months of 1404.

Table 13. Tax Revenues in the First 4 Months of 1404 (IRR trillion- percent)

	Realized in the First 4 Months of 1403	Legislated for the First 4 Months of 1404*	Realized in the First 4 Months of 1404	Point-to-point Percentage Change of the Realized	Realization Ratio in the First 4 Months of 1404	Share in Actual Tax Revenues in the First 4 Months of 1404
Tax Revenues	**3,004.5**	**6,066.7**	**3,963.8**	**31.9**	**65.3**	**100.0**
Direct Taxes	**2,051.1**	**3,945.5**	**2,608.3**	**27.2**	**66.1**	**65.8**
Corporate Tax	1,454.3	2,699.6	1,781.3	22.5	66.0	44.9
Income Tax	519.4	1,063.8	701.4	35.0	65.9	17.7
Wealth Tax	77.4	182.1	125.6	62.2	69.0	3.2
Indirect Taxes	**953.4**	**2,121.2**	**1,355.5**	**42.2**	**63.9**	**34.2**
Tax on Goods and Services	953.4	2,121.2	1,355.5	42.2	63.9	34.2

Source: Budget Law of 1404 and the Iranian National Tax Administration
*The legislated figure for the first 4 months of 1404 is one-third of the legislated figure for the year 1404 as a whole.

In 1404 Law, IRR8,100.0 trillion was legislated for issuance of Government Debt Securities, up 218.1 percent from the corresponding figure in 1403 Law at IRR254.6 trillion. However, in 1403 the actual Issuance of Government Debt Securities registered IRR5,196 trillion, far above the legislated figure in 1403 Law. Accordingly, the approved figure of this source of budget in 1404 Law stands 55.9 percent above the realized figure of the year 1403. In this regard, the CBI coupled with the Ministry of Economic Affairs and Finance started to hold weekly auctions of Government Debt Securities from the late 1404Q1 in both money market and capital market.

By the end of 1404H1, 15 rounds of auctions were held and IRR2,750.0 trillion Government Debt Securities were issued. Out of this figure, IRR1,203.4 trillion Securities were demanded by banks and non-bank credit institutions and 99.7 percent of that was confirmed by the Ministry of Economic Affairs and Finance. Moreover, IRR1,176.1 trillion Government Debt Securities were sold in the capital market. Accordingly, in 1404H1 the value of Government Debt Securities transactions in auctions registered IRR2,375.5 trillion to stand 61.4 percent above the IRR1,471.4 trillion of 1403H1. Out of the Government Debt Securities issued in 1404H1, 6.3 percent equivalent to IRR172.9 trillion ought to be deducted as the discount in the face value of those securities. In addition, IRR201.6 trillion Government Debt Securities that were not sold in 1404H1 would be supplied in the auctions of 1404H2. Accordingly, in fact the Government has raised IRR2,375.5 trillion through Issuing Debt Securities in 1404H1.

The report of the Treasury suggests that during 1404H1, IRR1,808.8 trillion Government Debt Securities have been purchased by banks and credit institutions, far different from the figure in the CBI report on the weekly auctions. Comparing the reports of the both issuing authorities indicates that the banks have indirectly purchased IRR609.4 trillion Debt Securities from the capital market instead of direct purchasing from the money market in 1404H1. All in all, 76.1 percent of the Government Debt Securities has been purchased by banks during the period under discussion. In Table 14, the details of auctions of Government Debt Securities held by the CBI during 1404H1 are presented.

Table 14. Government Debt Securities Auctions Held by the CBI in 1404H1 (IRR trillion-percent)

Month	1403					1404					Point-to-point Growth of Trades in Money Market	Point-to-point Growth of Trades in Capital Market	Point-to-point Growth of Total Trades
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded			
02	1,048.6	11.9	10.9	10.0	20.9	0.0	0.0	0.0	0.0	0.0	-100.0	-100.0	-100.0
03	1,665.2	348.1	348.1	75.4	423.5	750.0	402.1	402.1	0.0	402.1	15.5	-100.0	-5.1
04	792.9	9.8	9.8	261.9	271.7	1,785.4	565.2	565.2	174.2	739.4	5,667.3	-33.5	172.2
05	1,017.3	324.0	324.0	128.8	452.8	1,695.9	213.5	213.5	576.9	790.4	-34.1	347.8	74.6
06	807.4	70.9	70.9	231.6	302.5	1,325.6	22.8	18.8	425.1	443.9	-73.5	83.6	46.7
Total	**5,331.4**	**764.6**	**763.7**	**707.7**	**1,471.4**	**5,556.9**	**1,203.4**	**1,199.4**	**1,176.1**	**2,375.5**	**57.1**	**66.2**	**61.4**

Source: Central Bank of Iran

In addition to the auctions, the Government can also issue debt securities through two other distinct methods, first, selling Murabaha Debt Securities in the capital market via an underwriter, and second, providing government creditors with Islamic Treasury Bonds in exchange of its debts. Given that in 1404H1 only IRR250.0 trillion of debt securities was disposed through the 2nd method, during the period under review, IRR3,000.0 trillion Government Debt Securities has been issued in total, 77.5 percent above that of 1403H1.

From mid-summer 1400 to the end of 1404H1 (accessible data), the net accumulated purchase of Government Debt Securities by the CBI and by the Investment Funds registered IRR2,633.7 trillion and IRR4,927.8 trillion, respectively. Note that the CBI is prohibited from purchasing those sorts of securities through the primary market (IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. It is worth to mention that during summer 1404, the net accumulated purchase of Government Debt Securities by the CBI has diminished by 34.9 percent, translating to contractionary monetary policy of that Organization. The banks that were mainly the suppliers of the Government Debt Securities from mid-summer 1400 to the end of that year (negative net accumulated purchase of IRR556.3 trillion in the primary and secondary markets), shifted to the demand side afterwards. This position maintained in 1404H1 and the net purchase of government debt securities from the primary and secondary markets during 1404H1 by banks and non-bank credit institutions reached IRR3,156 trillion. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1404H1 is estimated around IRR4,855 trillion.

9. CAPITAL MARKET

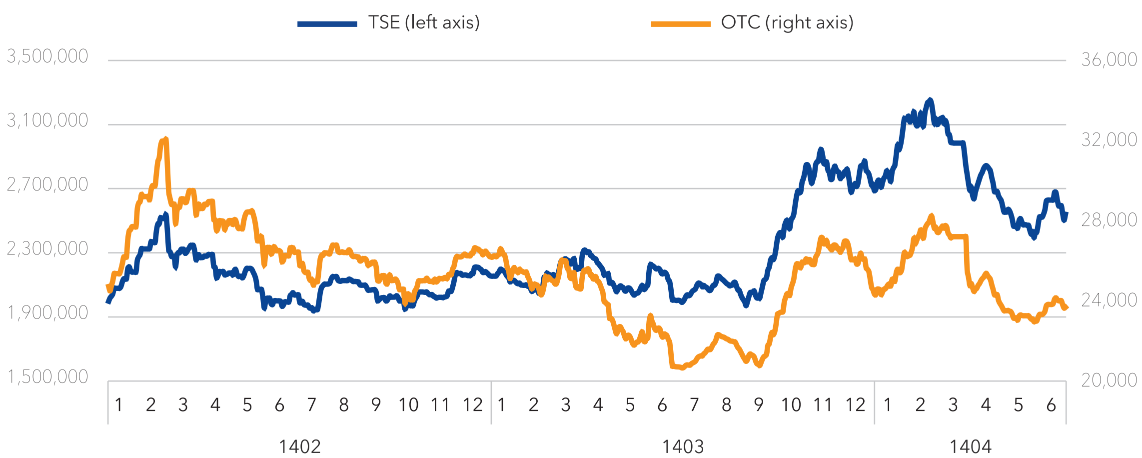
As in summer of its preceding year, the Iranian capital market faced various circumstances in summer 1404 that highly affected the transactions as well as the returns in that market. In the following sections, the Iranian capital market is investigated from various perspectives.

9-1. Rate of Return

The new round of nuclear talks between Iran and the US that started in the third week of the year 1404 positively impacted the Iranian capital market and at the end of the first month of 1404Q1, the Tehran Stock Exchange (TSE) and the Over the Counter (OTC) Overall Indices grew by 13.6 percent and 7.0 percent, respectively, compared to the end of 1403. The political developments in 1404Q1 - prior to the Israel attack on Iran - such as continuation of the nuclear talks and the legislation of some bills in line with the FATF, contributed to the further expansion of the Iranian capital market in that quarter.

In the last 2 weeks of 1404Q1, the outbreak of the Israel-Iran War caused the Iranian capital market to close and no transaction took place till the end of the first 2 weeks of 1404Q2. Ultimately the market opened with massive sell queues, especially in the Stock market as well as the Exchange-traded Funds (ETFs). In the initial month of summer 1402, the outflow of the retail individual investments that mainly took place in the Stock Market and ETFs registered around IRR38 trillion, marking the highest monthly outflow of funds from the capital market since the year 1402, signaling that the retail investors are reluctant to take excessive risk of remaining in the capital market in the post war uncertain era. This situation was even exacerbated in the last 2 months of 1404Q2 due to the fear of igniting a new war as well as activation of the Snapback Mechanism. In addition, the numerous power outages due to the energy supply deficit exerted more risks to the companies which ended up with the fall in the Capital Market Indices. All in all, at the end of 1404Q2, the TSE and OTC Overall Indices fell by 14.9 percent and 12.9 percent compared to the end of 1404Q1, respectively. Graph 9 presents the daily developments of the TSE and OTC Overall Indices from the beginning of 1402 to the end of 1404Q2.

Graph 9. TSE and OTC Overall Indices



Source: http://new.tse.ir, and http://ifb.ir

In the year ended the last day of 1404Q2, among the various types of investments shown in Table 15, Bitcoin ranked 1st with its 151.0 percent rate of return in terms of IRR. During the one-year period under review, the rate of return of Bitcoin in USD registered 76.3 percent, outperforming that of each ounce of gold with 42.9 percent. At the end of 1404Q2, the Gold Funds in the Iranian Capital Market yielded 38.9 percent on average compared to the end of 1404Q1, approximately the same as the rate of return of Bitcoin and 18-Karat Gold in terms of IRR. All in all, the developments of the Iranian capital market indicate that during the two periods ending the last day of 1404Q2 (3-month and 12-month periods), the Fixed Income Mutual Funds as well as the TSE and OTC Overall Indices have not expanded in line with the CPI inflation rates on average, notwithstanding their Bullish trend in some points of the periods under review. It is worth to mention that even though much of the listed companies in the Iranian capital market were export-oriented and subsequently enjoyed foreign proceeds, the USD appreciation in the Iranian FOREX market contributed to their stock prices less than expected, i.e., the exchange rate rise has not necessarily resulted in the boom in the capital market in presence of other factors including political risks or Government interventions in that market.

Table 15. Quarterly and Annual IRR Returns of Various Investment Types at the End of 1404Q2

	Quarterly Return (End of 1404Q2 to End of 1404Q1)	Annual Return (End of 1404Q2 to End of 1403Q2)
Gold Funds (weighted average)	38.9	136.8
Bitcoin	38.4	151.0
18-Karat Gold	38.2	146.0
Gold Coin	33.0	125.9
USD in the Free market	24.5	74.6
Consumer Price Index (CPI)	10.5	45.3
Fixed Income Funds (weighted average)	8.4	34.3
OTC Overall Index	-12.9	8.4
TSE Overall Index	-14.9	21.1

Source: http://new.tse.ir; Statistical Center of Iran; Financial Information Processing of Iran; Gold, Coin, and Currency Information Network

9-2. Market Capitalization

On the basis of the Securities and Exchange Organization of Iran, the market capitalization of the Iranian capital market (TSE, OTC, and Iran Mercantile Exchange) reached IRR114,593 trillion at the end of 1404Q2, up 19.8 percent from that of the end of 1403Q2. During the period under discussion, the highest market capitalization expansion was attributed to the Exchange-traded Funds at 128.1 percent, while the lowest to the Stock market at 12.1 percent. The notable expansion of the Exchange-traded Funds in 1404Q2 was highly emanated from the 4-fold expansion in the market capitalization of Commodity Funds in Iran Mercantile Exchange (mainly Gold and Saffron Funds). At the end of 1404Q2, the TSE, OTC, and Iran Mercantile Exchange, respectively, constituted 70.2 percent, 27.4 percent, and 2.4 percent of the total market capitalization of the Iranian capital market. In Table 16, the market capitalization of the Iranian capital market at the end of summers of 1403 and 1404 are compared.

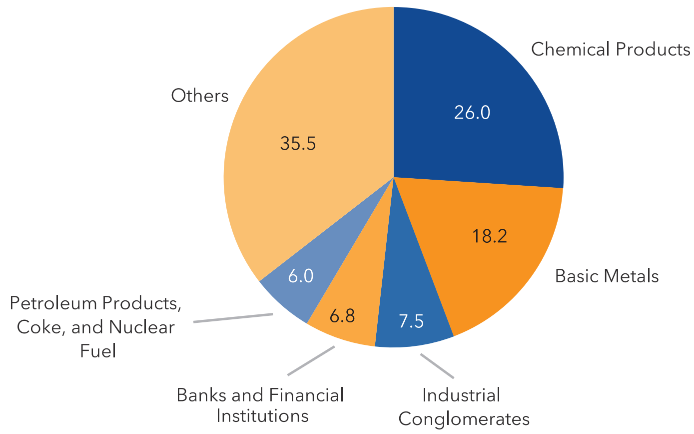
Table 16. Market Capitalization of the Iranian Capital Market by Various Types*

Market	End of 1403Q2 (IRR trillion)	End of 1404Q2 (IRR trillion)	Percentage Change
Shares	83,447	93,547	12.1
Debt Securities	8,613	12,811	48.8
Exchange-traded Funds	3,610	8,235	128.1
Total	**95,669**	**114,593**	**19.8**

Source: Securities and Exchange Organization of Iran
* Including commodity funds of Iran Mercantile Exchange

By the end of 1404Q2, the chemicals industry - mainly including petrochemical producers - with 26.0 percent share in the market capitalization of the Stock market, ranked as the largest listed industry in terms of market capitalization, followed by basic metals industries at 18.2 percent, banks and credit institutions at 7.5 percent, and conglomerates at 6.8 percent. During 1404H1, the Iranian banking industry with IRR1,512.5 trillion value of stocks transactions enjoyed the substantial expansion of 288.1 percent in that regard and ranked as the top one. The value of transactions of the banking industry constituted 22.3 percent of the total value of transactions of the Iranian capital market in 1404H1, ranking as 1st by a 3-place improvement compared to 1403H1. In addition to the CBI requirement of the banks for raising capital, the liquidity of the banking industry coupled with its low-volatile profitability especially in presence of the uncertainties in the economy have altogether made that industry more appealing to the capital market players. Graph 10 depicts the top 5 industries in the Stock market in terms of market capitalization.

Graph 10. Top 5 Industries by share in Market Capitalization at the End of 1404Q2 (percent)



Source: Securities and Exchange Organization of Iran

9-3. Value of Transactions

The value of transactions in the Iranian capital market (including the Exchange-traded Funds of Iran Mercantile Exchange) totaled IRR242,724 trillion in 1404H1, up 240.4 percent from that of 1403H1. Among various segments of the Iranian capital market, in the same period, the highest rise in the value of transactions is attributed to Debt Market at 285.8 percent, while the lowest to the Stock market at 120.8 percent. Notwithstanding its 11.2 percent share in the total market capitalization of the Iranian capital market at the end of 1404H1, the Debt Market constituted around 85.7 percent of the total value of transactions of the Iranian capital market. This 85.7 percent share is partly due to Open Market Operations of CBI in conjunction with the attractive rate of return of Debt Securities. Given that much of the Debt Securities are traded in the OTC, 94.6 percent of the total value of OTC transactions in 1404H1 belonged to Debt Securities transactions. Table 17 presents the value of transactions of various types of securities in the Iranian capital market in 1403H1 and 1404H1.

Table 17. Value of Transactions in the Iranian Capital Market in 1403H1 and 1404H1

Market	1403H1		1404H1		1404H1 to 1403H1 Percentage Change
	Value of Transactions (IRR trillion)	Share in Total (percent)	Value of Transactions (IRR trillion)	Share in Total (percent)	
Shares	3,968	5.6	8,762	3.6	120.8
Debt Securities	57,962	81.3	207,979	85.7	285.8
Exchange-traded Funds	9,387	13.2	26,001	10.7	177.0
Total	**71,317**	**100.0**	**242,742**	**100.0**	**240.4**

Source: Securities and Exchange Organization of Iran

9-4. Finance

On the basis of the Securities and Exchange Organization of Iran, during 1404H1, IRR4,493.2 trillion has been financed (including Debt Securities) via TSE and OTC in total, up 12.0 percent from 1403H1. Out of that IRR4,493.2 trillion, 22.0 percent was attributed to raising capital (matured claims and cash contributions, or accumulated reserves and profits), 77.8 percent to Issuance of Debt Securities, and only 0.2 percent to Initial Public Offering (IPO). In 1404H1, 18.0 percent of raising capital itself was financed through matured claims and cash contributions and the remaining 82.0 percent via accumulated reserves and profits. An examination of fund raising through Debt Securities in 1404H1 reveals that 87.6 percent of the funds financed via this method was attributed to Government Debt Securities, 11.3 percent to Corporate Bonds, and the remaining 1.1 percent to Municipal Bonds. Accordingly, 67.0 percent of the total IRR4,493.2 trillion of finance through TSE and OTC in 1404H1, equaling IRR3,008.4 trillion was attributed to the public finance through issuance of Government Debt Securities. This figure conveys that the Iranian capital market that was supposed to serve as a source of private finance is transformed to a source of financing Government's budget deficit. Given that the domestic businesses raised IRR29,301 trillion via the bank facilities (money market) in 1404H1, the share of the Iranian capital market in financing businesses during the period under review equals 13.3 percent, and should the Government Debts Securities be excluded, that share falls to 4.8 percent only. In Table 18, various types of finance through the TSE and OTC in 1403H1 and 1404H1 are presented in detail.

Table 18. Various Types of Finance in TSE and OTC

Type of Finance	1403H1		1404H1		1404H1 to 1403H1 Percentage Change
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Raising Capital (except for asset revaluation and stock premium)	820.8	20.5	988.2	22.0	20.4
Initial Public Offering	3.8	0.1	8.9	0.2	135.5
Issuance of Debt Securities	3,188.2	79.5	3,496	77.8	9.7
Total	**4,012.8**	**100.0**	**4,493.2**	**100.0**	**12.0**

Source: Securities and Exchange Organization of Iran

10. OTHER DEVELOPMENTS

The Snapback Mechanism was ultimately activated on Sep 28, 2025, translating to resumption of the 6 previously suspended resolutions of the United Nations Security Council against Iran[3]. These resolutions that were passed gradually from 2006 to 2010 (roughly corresponding to 1385 to 1389) were altogether suspended after Iran and P5+1 reached an agreement known as the Joint Comprehensive Plan of Action (JCPOA). Going over the economic consequences of the UN sanctions on the Iranian economy could partly shed light on the future effect of the resumption of those sanctions, albeit in much different atmosphere compared to pre-JCPOA.

The long-term path of the growth rate of the Iranian economy indicates that the resumption of UN sanctions is a dominant factor of decrease in the GDP growth rate. During the period 1389 to 1393 and especially in 1391, Iran's GDP growth rate significantly slowed down mainly due to the limitations on the Oil Sector due to economic sanctions followed by the Industry Sector. The Services Sector was also harmed as a result of the economic sanctions but not as significant as the two previously mentioned sectors. The Agriculture Sector could be claimed to be independent of sanctions, which moves in line with the climate changes. However, the reimposition of the UN sanctions that has coincided with the unfavorable weather conditions of Iran as well as energy supply crisis could contribute to further contraction of the Iranian economy.

It is worth to mention that in the aftermath of the unilateral withdrawal of USA from the JCPOA, China has served as the main importer of Iran's crude oil, consequently the effectiveness of the economic sanctions on Iran's oil exports depends on China's reaction to the UN practice. Besides, currently the price of Iran's crude oil is far below its price during 1389 to 1393 and no increase in oil prices is plausible neither in near nor in distant future. Thanks to considerably high prices of oil, much of the adverse effects of the UN sanctions was offset in the initial stages of imposition of them. The remarkable fall in the ratio of budget deficit to GDP in the period under review also justifies this fact.

All in all, the fall in Iran's GDP growth rate, escalated inflation rates as well as IRR depreciation and more willingness to invest in safer assets like gold in the risky situations could be considered as the consequences of the activation of Snapback Mechanism in the Iranian economy. In addition to the risks exerted to the Iranian economy, the risk of military coalition against Iran under Chapter VII of the UN Charter ought to be taken into consideration as another driver of the behavior of the Iranian economic agents.

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3. the 6 resolutions are:

1696: halting uranium enrichment program;

1737: suspending all uranium enrichment activities, including research and extensions;

1747: Banning Iran from transferring, importing, and exporting any arms and Conventional Arms (UNROCA) by its nationals, and using its flag vessels or aircraft;

1803: Reinforcing the requirements set out in the previous resolutions and also adding restrictions on Iran's banks' transactions and requiring all countries to inspect cargo entering or transiting from or to Iran within their territory if there were "reasonable grounds to believe the cargo" included prohibited items;

1835: complying fully and without delay with its obligations under resolutions 1737 (2006), 1747 (2007), and 1803 (2008) and to meet the requirements of the IAEA Board of Governors;

1929: Stressing previous resolutions and strengthening the restrictions on Iran's banks' transactions, increasing the number of Iranian individuals and companies listed on a travel ban and froze their assets. Iran was prevented from transferring, importing, and exporting missiles or missile systems, such as ballistic missiles, and heavy weapons such as battle tanks, combat aircraft, and warships.

11. KEY POINTS

• On the basis of the SCI report, the Iranian economy contracted by 0.1 percent in spring 1404, mainly due to the contraction of the Industries and Mining sector. In the same period, the Services sector expanded by 0.5 percent. In addition to economic and political factors, the energy crisis and continuation of drought altogether affect the growth rate of the Iranian economy.

• The oil exports of Iran was highly volatile as a result of the sanctions, financial and insurance limitations, as well as political uncertainties. However, Iran's oil exports is still above its levels of the early years of US withdrawal from the JCPOA (1398 to 1400). On the basis of OPEC reports, in the 2^{nd} month of 1404Q2, Iran's oil production has registered 3.2 mbpd, down 1.8 percent from that of the same month of 1403Q2.

• In 1404Q2, the unemployment rate of the population aged 15 and above fell by 0.1 percentage point from 1403Q2 to 7.4 percent. During the period under discussion, out of the total unemployed population of the country, 40.3 percent were highly educated, 3.6 percent below that of 1403Q2.

• The upward path of the annual and point-to-point CPI inflation rates that had started from 1403Q4 continued in the first 2 quarters of 1404. The point-to-point CPI inflation rate exceeded 40 percent in the first month of summer 1404 after 18 consecutive months and closed that quarter at 45.3 percent. The annual CPI inflation rate opened the same quarter at 35.3 and closed that at 37.5 percent. The accommodative approach of the CBI towards the banks vis-a-vis making loans, aiming for protection of domestic economy due to extraordinary economic and political state of the country could be referred to as the major driver of the rise in CPI inflation rates in 1404H1.

• The CBI estimated BOP of 1403 at USD804 million, translating to improvement relative to the USD112 million deficit of 1402, emanating from expansion of the Current Account surplus to USD13.3 billion from USD8.6 billion due to the improvement of the Good Account surplus (to USD26.8 billion from USD21.1 billion). The Capital Account deficit on the other hand rose to USD21.6 billion from USD19.9 billion while in the same period the Errors and Omissions fell to USD9.1 billion from USD11.1 billion. The IRICA data suggests customs goods exports of around 75.0 million tons valued at USD25.9 billion and customs goods imports of around 18.8 tons valued at USD28.4 billion during 1404H1. During the period under review, 72.7 percent of the value of Iran's customs exports was attributed to its exports to China, Iraq, UAE, Turkey and Afghanistan and as for value of customs imports, 73.1 percent of Iran's imports took place from UAE, China and Turkey, signaling notable risk of concentration exerted to Iran's international trade.

• The Iranian free market for foreign exchanges was highly volatile during 1404H1 and only calmed down while holding the 5 rounds of nuclear talks in Muscat during spring 1404. However, as a result of the 12-day War between Israel and Iran and failure in obtaining an agreement between Iran and the West, the IRR depreciation intensified and the USD price closed 1404Q2 above IRR1 million. The activation of Snapback Mechanism also led to further depreciation of Rial.

• The statistics of the monetary aggregates that covers to the end of 1404Q1 reveals that the Liquidity has reached IRR110,588 trillion, following its upward path of that quarter. The accommodative approach of the CBI towards the banks in observing the decreed caps on monthly growth rates of their assets could be considered as the major driver of speeding up the Liquidity growth rate. Precisely speaking, in order to protect the domestic industries due to unfavorable conditions of the Iranian economy, the banks were left with more room for extending facilities. In spring 1404 and due to the revival of nuclear talks after 7 years, investing in long-term deposits rose in expense of the notable fall in the value of some assets including gold and foreign currencies. However, due to the 12-day War and uncertainties in the Iranian economy and further depreciation of IRR, the share of Money in Liquidity should have grown in summer to make investment in long-term deposits again less attractive to depositors. The Monetary Base closed 1404Q1 at IRR14,444 trillion and except CBI claims on banks, its other components served as the drivers of the rise in that monetary aggregate at the end of 1404Q1 compared to the end of 1403.

• On the basis of INTA, in the first 4 months of 1404, 65.3 percent of the legislated figure for Tax Revenues (less customs duties) for that period was realized. Moreover, out of the IRR2,750.0 trillion of Government Debt Securities supplied in weekly auctions in 1404H1, IRR2,375.5 trillion were sold. Since the mid-summer 1400 to the end of 1404Q2, the net accumulated purchase of Government Debt Securities by the CBI, banks as well as Funds, respectively, registered IRR2,634 trillion, IRR4,855 trillion and 4,928 trillion.

• At the end of 1404Q2, the Iranian capital market yielded far less than other markets compared to the end of 1404Q1 due to the 12-day War and the resumption of UN sanctions, with the TSE and OTC Overall Indices contracting by 14.9 percent and 12.9 percent. Notwithstanding their small share of 6.8 percent in the total market capitalization of the Iranian Stock market, the Iranian banking industry enjoyed the highest value of stock transactions in the Iranian capital market in 1404H1.

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MIDDLE EAST BANK HEADQUARTERS

Building No. 1

No. 2, 5th St., Ahmad Qasir (Bucharest) Ave.,Tehran, Iran
Tel: (+9821) 4217 8000 Fax:(+9821) 9121 2383

Building No. 2

No. 26, 6th St., Ahmad Qasir (Bucharest) Ave., Tehran, Iran
Tel: (+9821) 8850 9081 Fax:(+9821) 8875 6949

www.middleeastbank.ir
info@middleeastbank.ir