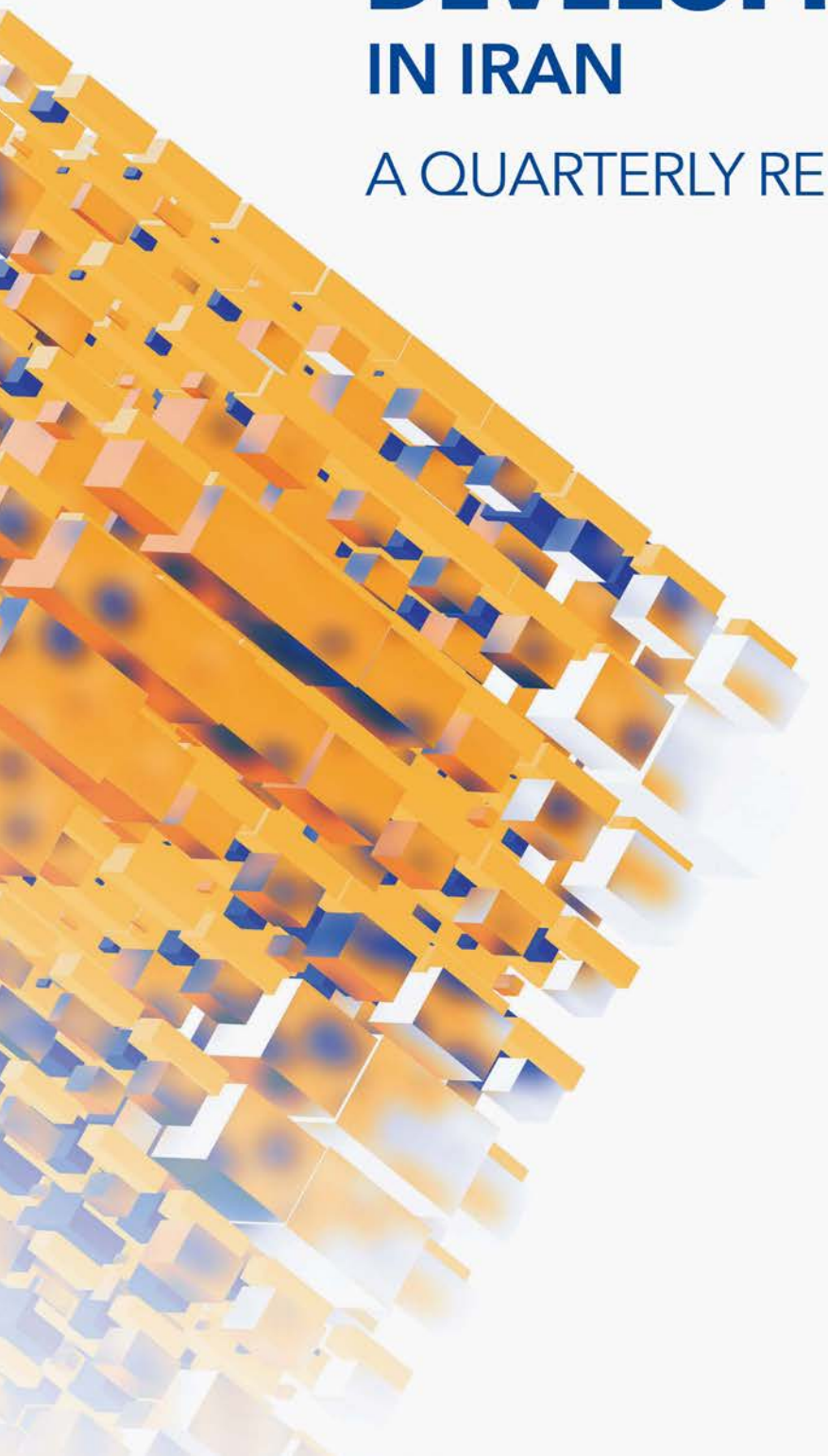
بانک خاورمیانه
Middle East Bank

RECENT

ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Fall 1404
2025Q4



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The data, information and analyses presented in this Report are for information purposes only. All data and information used are the latest available at the time of publication (December 2025) and have been taken from the referenced sources. While every effort has been made to keep them up-to-date and correct, no representations or warranties of any kind, express or implied, are made about their completeness, accuracy, reliability or suitability for any purpose. Your use of this Report does not entail any responsibility or obligation by Middle East Bank or any entity or person associated with it.

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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 third quarter of 1404" indicates the percentage change in oil revenues between the third quarter of 1403 and the third 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 first 3 quarters of the year 1404 that starts on March 21, 2025 and ends on Dec 21, 2025. The third quarter of 1404 (referred to as 1404Q3), fall of 1404, roughly corresponds to the fourth quarter of 2025 in the Gregorian Calendar (2025Q4).

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

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

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

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

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

1404Q3 = 09/23/2025 - 12/21/2025, roughly 2025Q4

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IRAN'S ECONOMY AT A GLANCE

	1403Q1	1403Q2	1403Q3	1403Q4	1403	1404Q1	1404Q2	1404Q3
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	41.2	41.7	41.2	40.1	41.0	41.2	40.8	-
Unemployment (15 Years and Over)	7.7	7.5	7.2	7.8	7.6	7.3	7.4	-
Unemployment (Youth Aged 15-24)	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)	2.9	2.6	3.9	3.2	3.1	-2.0	0.5	-
Industries and Mining	2.7	0.9	4.0	2.0	2.4	-6.5	-0.4	-
Oil	7.5	6.1	0.1	4.6	4.6	0.1	2.1	-
Agriculture	3.0	3.6	4.1	2.8	3.6	-2.5	-3.1	-
Services	2.2	2.8	4.3	3.9	3.3	1.1	2.5	-
Non-oil GDP	2.5	2.3	3.9	3.1	3.0	-2.2	0.4	-
Gross Fixed Capital Formation (at market prices)	*2.2*	*3.6*	*4.4*	*4.5*	*3.8*	*-13.9*	*-9.1*	-
Oil (daily average - thousand barrels)								
Production*	3,237	3,296	3,301	3,311	3,286	3,283	3,240	-
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	35.3	35.5	34.7	37.4	35.8	40.6	42.0	48.2
Growth Rate of Producer Price Index (1400=100)	26.2	25.1	25.3	33.3	27.6	37.1	44.9	57.5
Balance of Payments (USD million)								
Oil Exports	18,036	15,881	16,196	15,728	65,841	15,232	-	-
Non-oil Exports	11,554	11,337	13,223	13,466	49,580	10,699	-	-
Imports of Goods	18,097	21,796	20,914	27,787	88,567	17,250	-	-
Goods Account (net)	11,493	5,449	8,505	1,407	26,854	8,681	-	-
Non-oil Goods Account (net)	-6,272	-9,939	-7,179	-12,917	-36,308	-6,249	-	-
Current Account	8,502	2,303	5,343	-2,916	13,232	5,412	-	-
Capital Account	-7,937	-4,478	-1,706	-6,593	-20,714	-8,930	-	-
Change in Foreign Reserves	1,312	201	-8,1	92	804	965	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	611,620	593,642	675,159	862,096	684,269	883,354	936,730	1,114,261
Secondary Market (remittance)**	414,654	444,904	504,877	669,470	507,183	691,774	697,147	710,858
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	11,130	11,542	12,165	13,594	13,594	14,444	16,124	-
CBI Claims on Banks	6,685	5,859	8,225	11,702	11,702	7,315	9,378	-
CBI Claims on Public Sector (net)	-635	-879	-1,438	-3,690	-3,690	-1,026	-551	-
CBI Net Foreign Assets	19,084	21,704	26,278	31,886	31,886	33,591	34,552	-
Liquidity (M2)	83,540	90,705	96,036	101,660	101,660	110,588	124,087	-
Money (M1)	20,537	22,351	23,443	26,317	26,317	26,496	30,303	-
Sight Deposits	19,101	20,908	21,952	24,526	24,526	24,581	28,151	-
Non-sight Deposits (quasi-money)	63,003	68,355	72,593	75,342	75,342	84,092	93,784	-
M2 Money Multiplier	7.51	7.86	7.89	7.48	7.48	7.66	7.70	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,043,980	2,097,005	2,210,217	2,710,088	2,710,088	2,984,605	2,540,174	3,898,235
Financial Index	1,795,664	2,664,767	1,949,564	2,311,206	2,311,206	2,810,518	2,574,062	3,391,863
Industrial Index	1,944,126	1,996,195	2,101,115	2,589,606	2,589,606	2,804,554	2,354,195	3,716,399
Market Capitalization (IRR trillion)	96,930	95,669	117,301	120,583	120,583	132,174	114,313	166,104

Source: Various reports of Central Bank of the Islamic Republic of Iran (CBI), Statistical Centre 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 months of 1403, all foreign exchange transactions in the secondary market were carried out in its newly added subdivision at higher rates. In the late fall 1404, the USD/IRR bill exchange rate in the secondary market was increased to a rate close to that of the free market and from the 2nd week of winter 1404 the exchange rate unification was enforced.

INTRODUCTION

This quarterly Report investigates the Iranian economy by its various sectors and opens with investigating the developments in Artificial Intelligence (AI) from a global view point and its probable effects on the Iranian economy. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in the first half of 1404 (hereafter referred to as 1404H1) on the basis of the reports of the Central Bank of Iran (CBI) and the Statistical Center of Iran (SCI) and the developments of production and price of Iran's crude oil in the first 8 months of 1404.

Chapter 3 covers the developments of various Consumer Price Index (CPI) inflation rates according to the CBI and SCI in fall 1404 (hereafter referred to as 1404Q3) and that of the Producer Price Index (PPI) on the basis of CBI and SCI, respectively in 1404Q3 and 1404Q2.

In the fourth chapter, the developments of the Balance of Payments (BOP) in 1404Q1 based on the CBI and the changes in the customs imports and exports in the first 3 quarters of 1404 on the basis of Islamic Republic of Iran Customs Administration (IRICA) are investigated. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1404Q3 in chapter 5. In the succeeding chapter, the monetary and credit aggregates are analyzed by Monetary Base (M0), Money (M1), Quasi-money, and Liquidity (M2) in the first 8 months of 1404. 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 same period are presented in the same chapter.

Chapter 7 of the Report goes over the Budget Bill of 1405 and Government Fiscal performance in the first 8 months of 1404. The actual Tax Revenues in the first 7 months of 1404 and the sales of Government Debt Securities in the first 9 months of 1404 are also covered in the same chapter. As for the Iranian capital market, the developments of the rate of return, market capitalization, value of transactions, and finally the methods of finance through the capital market by the end of 1404Q3 are discussed in chapter 8. The Report proceeds with an examination of the exchange rate unification policy and estimation of costs associated with the direct cash subsidies and finally concludes with the key points.

1. GLOBAL ECONOMIC DEVELOPMENTS

The Artificial Intelligence (AI) has obtained a pivotal role in the global economy by serving as one of the main indices in the development plans of the large economies. In the America's AI Action Plan, released by the Executive Office of the US President, some pillars in the AI development are specified, among those, "Preparing ground for investment in AI for America's private sector through unencumbering bureaucratic red tapes", "Meeting global demand for AI", and "Stopping America's strategic rivals from making its allies dependent on foreign adversary technology" are of high importance. Among various reports on AI global developments, the "AI Index Report 2025" of Stanford University is highly worth to be pointed out. The report suggests that by a considerable margin, the US ranks as the top country in AI investment. In line with its AI Action Plan, in 2024, the US-based institutions produced 40 notable AI models, compared to China's 15 and Europe's 3. Moreover, the US private AI investment hit USD109.1 billion in 2024, nearly 12 times higher than China's and 24 times than the UK's, signaling that the US Government is aggressively adhered to the US AI Action Plan. From a globally viewpoint, "AI infrastructure, research and governance", "Data management and processing" and "Medical and healthcare" have been the top 3 focus areas of the global private investment in AI in 2024. Moreover, an examination of AI developments from a regional viewpoint reveals that unlike some Arabian countries, Iran's investment in AI barely amounts to USD50 million. Given the negligible AI investment in Iran and lack of commercial and technical ties between Iran and the USA, no bright future of AI development in Iran seems conceivable. Accordingly, deprived of access to the superior AI technology, high dependency of Iran on China in AI seems plausible in the future, just like its current dependence on China in trade.

2. REAL SECTOR

On the basis of the latest CBI report, during 1404H1 the Iranian economy contracted by 0.6 percent, signaling a considerable economic setback given its 2.7 percent expansion in the same period of 1403. Likewise, the SCI figures on the real sector of the Iranian economy do not hint GDP expansion for the same period - this issuing authority reported negligible GDP growth rate of 0.1 percent for 1404H1.

The difference between the reported GDP growth rates by the CBI and the SCI roots in the various classification of the economic sectors by them. Yet, despite this difference, both authorities have pictured a period of recession in the Iranian economy in 1404H1, mainly due to the downturn in Agriculture and Industry sectors. Persistent droughts, energy crisis, international sanctions, capital flight due to uncertainties in the economy and finally Government intervention in pricing have altogether served as drivers of Iran's economic recession in the time span under discussion.

During 1404H1, the value-added of the Agriculture sector at constant 1400 prices stood 2.9 percent below that of 1403H1. This sector decreased the GDP growth rate of 1404H1 by 0.4 percentage point. During the period under discussion, on the basis the CBI books, the Agriculture sector formed 15.2 percent of GDP at current prices, indicating 0.4 percentage point fall from the same period of 1403. As for the same sector, the SCI has reported 3.0 percent contraction in 1404H1, far close to the reported rate by the CBI. On the basis of the Ministry of Agriculture Jihad, the fall in production of wheat, barley, pistachio as well as dates has been the major driver of the contraction in the Agriculture sector which itself roots in climate changes, mismanagement of water resources, rise in the cost of raw materials due to volatile exchange rates, lack of access to the up-to-date irrigation technology and insufficient investment in that regard.

On the basis of the CBI report, the Oil sector of the Iranian economy kept on expanding during 1404H1 to register 1.1 percent growth rate, despite the international sanctions. Slowing down in its growth rate, the Oil sector contributed to the GDP growth rate of 1404H1 by only 0.1 percentage point. The share of the Oil sector that accounted for 13.8 percent of GDP at current prices in 1396 decreased to 8.4 percent in 1404H1. Moreover, the SCI reported 1.8 percent expansion for the same sector (Extraction of Oil and Natural Gas in SCI books) during 1404H1.

The CBI report suggests that the Industries and Mining as another major sector of the Iranian economy contracted by 3.4 percent in 1404H1, down 5.2 percentage points from that of 1403H1. The share of this sector in GDP at current prices that was 29.2 percent in 1403H1, fell to 26.6 percent in 1404H1. An examination of Industries and Mining developments in 1404H1 by its subsectors reveals 4.6 percent expansion in "Mining", while contractions of 2.9 percent in "Manufacturing", 0.1 percent in "Electricity, Gas, Steam, and Air Conditioning Supply", 2.6 percent in "Water Supply, Sewerage, Waste Management and Remediation Activities" and 12.9 percent in "Construction". Accordingly, out of the negative 1.1 percentage points of the Industries and Mining sector share in GDP growth rate, negative 0.6 percentage point is attributed to "Constriction". The nominal private investment in "Construction" in urban areas in 1404H1 grew by 18.7 percent compared to 1403H1, however, in real terms (at constant 1400 prices) this element has in fact contracted by 17.7 percent. It seems that in addition to the supply side adverse effects including energy supply crisis on private construction, the demand side problems also ought to be taken in to consideration.

Given that in the SCI books the Industries sector encompasses "Extraction of Oil and Natural Gas" (Oil sector in CBI books), the 0.3 percent expansion of this sector is considerably owed to the expansion of "Extraction of Oil and Natural Gas". Accordingly, by excluding this component, the expansion in Industries sector in SCI report turns to 0.9 percent contraction which complies more with the corresponding rate in the CBI report. As for the Construction subsector, the SCI reported 0.8 percent contraction, far below the corresponding contraction in the CBI report.

On the basis of the CBI, in 1404H1 the Services sector formed 49.8 percent of GDP at current prices, up from the 48.7 percent of 1403H1. Given the base year of 1400,

the Services sector expanded by 1.8 percent, 0.7 percentage point below the 2.5 percent of 1403H1. In the same period, 0.8 percentage point of GDP growth rate was attributed to the Services sector. Among the subsectors of Services, "Financial and Insurance Activities" enjoyed the highest expansion of 12.0 percent in 1404H1 to contribute by 0.3 percentage point to the GDP growth rate. Other subsectors of Services including "Human Health and Social Work Activities", "Information and Communication", "Education" and "Art, Entertainment, and Recreation", respectively, expanded by 11.0 percent, 9.6 percent, 8.5 percent and 7.5 percent in 1404H1, while "Accommodation and Food Services Activities" and "Wholesale and Retail Trade, Repair of Motor Vehicles/Cycles" contracted by 2.7 percent and 1.4 percent, respectively. The SCI report suggests 0.5 percent expansion for the Services sector in 1404H1 at constant 1400 prices, far different from that of the CBI report regarding the same sector. In Table 1, the details of GDP growth rate by major subsectors of the economy in 1404H1 are presented, based on the CBI.

Table 1. Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent- percentage point)

	1403						1404			Share in Growth of 1404H1
	Q1	Q2	H1	Q3	Q4	Total	Q1	Q2	H1	
Agriculture	3.0	3.6	3.4	4.1	2.8	3.6	-2.5	-3.1	-2.9	-0.4
Oil	7.5	6.1	6.8	0.1	4.6	4.6	0.1	2.1	1.1	0.1
Industries and Mining	2.7	0.9	1.8	4.0	2.0	2.4	-6.5	-0.4	-3.4	-1.1
Services	2.2	2.8	2.5	4.4	3.9	3.3	1.1	2.5	1.8	0.8
Non-oil GDP (at basic prices)	**2.5**	**2.3**	**2.4**	**4.2**	**3.1**	**3.0**	**-2.2**	**0.4**	**-0.8**	**-**
GDP (at basic prices)	**2.9**	**2.6**	**2.7**	**3.9**	**3.2**	**3.1**	**-2.0**	**0.5**	**-0.6**	**-0.6**

Source: Central Bank of Iran

On the demand side of the economy and according to the CBI, during 1404H1, 1.4 percent growth rate was experienced in Private Consumption Expenditures, 1.1 percent in Government Consumption Expenditures, negative 11.1 percent in Gross Fixed Capital Formation, 0.7 percent in Exports of Goods and Services and finally negative 13.4 percent in Imports of Goods and Services. All in all, the GDP growth rate at market prices contracted by 0.7 percent in 1404H1. Note that the severe contraction of the Gross Fixed Capital Formation roots in various factors among those, uncertainties in the economy as well as the cap on the growth rate of banks' balance sheets are of highest importance. The international sanctions also have not left enough room for capital inflow.

The SCI report on GDP from the expenditure side also reveals that during 1404H1 and compared to the same period of its preceding year, negative 1.2 percent growth rate was experienced in Private Consumption Expenditures, 2.1 percent in Government Consumption Expenditures, negative 3.4 percent in Gross Fixed Capital Formation, negative 0.5 percent in Exports of Goods and Services and finally negative 30.6 percent in Imports of Good and services. On the basis of the SCI books, the GDP growth rate in 1404H1 at market prices registered negative 0.3 percent. Table 2 present details of GDP growth rate from the expenditure side at constant 1400 prices on the basis of the CBI data.

Table 2. GDP Growth Rates from the Expenditure Side at Constant 1400 Prices (percent)

	1403						1404		
	Q1	Q2	H1	Q3	Q4	Year	Q1	Q2	H1
Private Consumption Expenditures	**1.5**	**2.5**	**2.0**	**6.3**	**3.8**	**3.5**	**2.0**	**0.8**	**1.4**
Government Consumption Expenditures	**-2.8**	**5.0**	**1.2**	**8.5**	**4.1**	**3.8**	**2.1**	**0.2**	**1.1**
Gross Fixed Capital Formation	**2.2**	**3.6**	**3.0**	**4.4**	**4.5**	**3.8**	**-13.9**	**-9.1**	**-11.1**
Machinery	0.1	4.8	2.8	6.4	5.4	4.7	-14.6	-11.2	-12.6
Construction	4.2	2.4	3.2	1.6	3.7	3.0	-14.0	-7.6	-10.5
Other	-1.6	4.7	1.7	7.3	3.8	3.5	1.0	2.2	1.7
Net Exports of Goods and Services									
Exports of Goods and Services	11.2	4.1	7.5	5.9	4.3	6.0	-5.5	6.7	0.7
Imports of Goods and Services	0.8	3.4	2.2	-2.6	9.2	2.7	-11.8	-14.8	-13.4
GDP at Market Prices	**3.9**	**3.5**	**3.7**	**4.2**	**3.1**	**3.7**	**-2.2**	**0.6**	**-0.7**

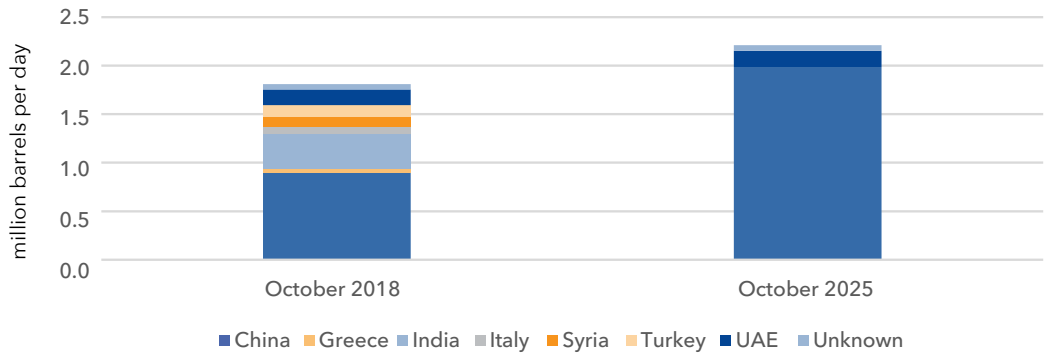
Source: Central Bank of Iran

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, Tanker Trackers[3] website estimated Iran's oil exports at around 2.2 million barrels per day (mbpd) for Oct 2025, indicating 52.4 percent rise from Oct 2024. However, this rise in exports should not be considered an improvement in Iran's market share and could be solely referred to as a temporary rise in its exports given the current circumstances. Precisely speaking, much of the 52.4 percent rise in Iran's oil exports is attributable to substantial price discounts.

Various types of sanctions including banking, financial as well as technical have caused Iran's oil exports to take an extraordinary structure. Accordingly, Iran does not export its oil in line with market rules and in a sense, the country exports its oil in a very costly, risky and vaguer manner. Unlike previous years, Iran has lost much of its parties in the oil market and inevitably much of its exports of oil is destined for China. On the basis of Tanker Trackers, as a comparison, share of China in Iran's oil exports registered 89.7 percent in Oct 2025 which is far above the 49.7 percent share in Oct 2018. As for other trade parties of Iran, share of UAE in Iran's oil exports has fallen from 8.9 percent in Oct 2018 to 7.6 percent in Oct 2025 and other parties including Greece, India, Italy and Turkey have altogether lost their shares in the same regard in Oct 2025.

Graph 1. Iran's Oil Exports in Octobers of 2018 and 2025



Source: TankerTrackers website

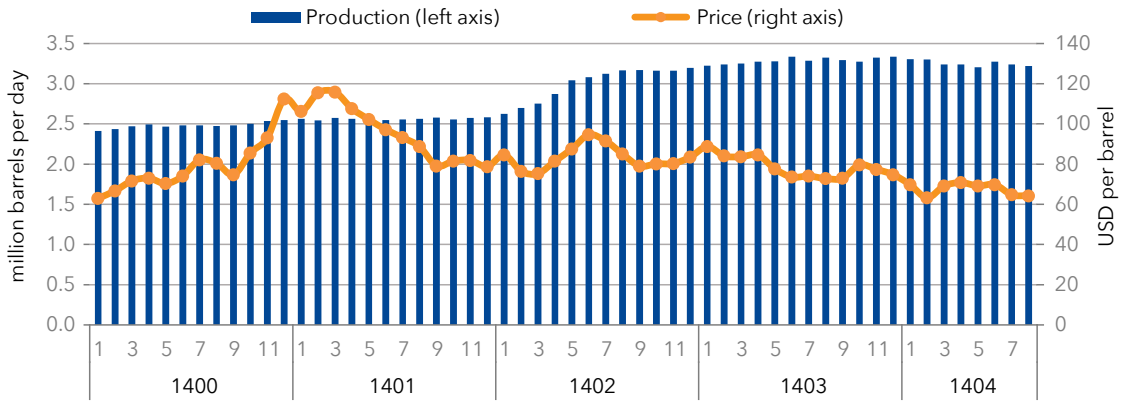
3. Tanker Trackers is an independent online service that monitors and reports on the shipment of crude oil and gas condensates across different regions. The website uses daily satellite data, coastal imagery, and AIS (Automatic Identification System) information to produce its analyses and reports on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

Another feature of Iran's oil exports is using vague and unofficial channels, i.e., Iran's oil exports is largely conducted through intermediaries, complex contracts and circumventing the sanctions. For instance, the US Treasury Department report suggests that ship-to-ship oil transfer, disabling ship tracking systems, changing the flag and ownership of tankers and using intermediaries and shell companies are among the practices that Iran uses for exports of oil. Yet, although such practices have contributed to Iran's oil exports, they have also entailed higher transaction costs, higher risk and lower transparency. Offering considerable discounts on oil price by Iran is another issue that is worth to mention. According to Reuters, in Dec 2025, USD8 to USD10 discount has been offered on each oil barrel, above the USD3 per barrel in Mar 2025. The triggering of Snapback Mechanism in Aug 2025 could be considered a major driver of offering such discounts. On the basis of Vortexa[2], the crude oil stock in Shandong province, China has considerably risen in Aug 2025 which is mostly attributed to Iran's oil and could be translated to more bargaining from Chinese refineries for price discount on Iran's oil.

The developments of global market for energy do not convey bright future for Iran's oil exports. In other words, increasing share of renewable energies, slowing down in global oil demand, more competition between major oil exporters including Saudi Arabia as well as Russia with considerable supply potentials have altogether have left no room for expansion of Iran's oil exports.

Moreover, on the basis of the OPEC reports from the secondary sources as the only available statistical source of reliable data, Iran's oil production in Nov 2025 (roughly corresponding to the 8th month of 1404) averaged 3.2 mbpd, indicating 3.1 percent fall compared to Nov 2024. Nevertheless, 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 1404Q3.

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



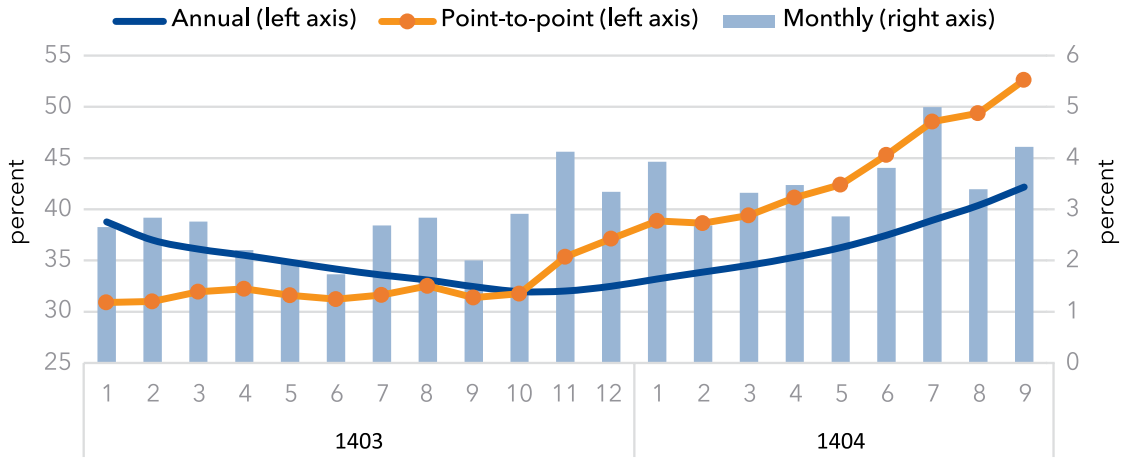
Source: OPEC Monthly Oil Market Reports, production data based on secondary sources
* Note: OPEC data are reported in Gregorian calendar months, which have been approximately converted to Iranian calendar months here.

2. Vortexa is a platform that shares highly detailed oil & gas products flows, produced by hard data, machine learning and state-of-the-art technology.

3. PRICES AND INFLATION

The latest report of the SCI suggests that the upward path of the annual CPI inflation rate extended to 1404Q3. That rate opened 1404Q3 at 38.9 percent and closed that quarter at 42.2 percent. Moreover, the point-to-point CPI inflation rate that had exceeded 40 percent from the beginning of 1404Q2, speeded up and from 48.6 percent in the first month of 1404Q3 reached 52.6 percent in the last month of that quarter. The CBI that had ceased official issuance of CPI from the late 1401, again started to release data on that Index from mid-1404Q3. Despite the different CPIs calculated by both issuing authorities, their indices have followed similar trends. The developments of the CPI inflation rates from the beginning of 1403 to the end of 1404Q3 are shown in Graph 3.

Graph 3. CPI Inflation Rates



Source: Statistical Center of Iran

On the basis of the SCI report, the annual CPI inflation rate that was below 40 percent throughout 1403 reached its low of 32.0 percent in the 11th month of that year and stepped in an upward path from that point on. This rate again surpassed 40 percent in the 8th month of 1404 and ultimately closed 1404Q3 at 42.2 percent. The upward path of the point-to-point CPI inflation rate that had intensified in 1404Q2, extended to its following quarter and that rate opened 1404Q3 at 48.6 percent and closed that at 52.6 percent. From a monthly view point, the CPI Inflation rate took higher values in 1404Q3 than in 1403Q3 and registered 5.0 percent, 3.4 percent and 4.2 percent in 3 consecutive months of 1404Q3.

The CBI report also suggests that the annual CPI inflation rate that had fallen below 40 percent from the last month of 1403Q2 started to rise from the last month of that year. This rate again exceeded 40 percent from the 1st month of 1404Q3 and closed that quarter at 42.4 percent, negligibly different from the corresponding rate reported by the SCI. The point-to-point CPI inflation rate surpassed 40 percent for the 1st month of 1404 and, respectively, registered 47.0 percent, 47.6 percent and 49.9 percent in the 3 consecutive months of 1404Q3. Similar to the SCI, the CBI reported higher monthly inflation rates in 1404Q3 than in 1403Q3 with respective rates of 4.8 percent, 3.4 percent and 3.3 percent.

The rise in the annual and point-to-point CPI inflation rates are considerably attributable to the developments of the monetary aggregates, i.e., from the beginning of 1403, the monthly growth rate of the Liquidity has experienced an upward trend. Precisely speaking, the tight economic conditions coupled with the uncertainties in the Iranian economy has left the CBI with no choice but to leave more room for banks to make loans. An examination of the CPI inflation rates by the 12 groups of the consumption basket of goods and services in the SCI report reveals that in the last month of 1404Q3, the highest annual, point-to-point and monthly inflation rates, respectively, belonged to "Other Goods and Services", "Foods and Beverages" and "Communication" at 54.6 percent, 72.3 percent and 10.1 percent, while the lowest ones at 27.8 percent, 35.8 percent and 0.1 percent belonged to "Communication", "Housing, Water, Electricity, Gas and Other Fuels" and "Education", respectively. The CBI has only released the monthly inflation rates of the various groups of its consumption basket of goods and services. On the basis of the CBI report, in the last month of 1404Q3 the highest monthly inflation rate of 10.6 percent belonged to "Education" and the lowest of 1.5 percent to "Health". Table 3 presents the inflation rates of the 12 main groups of the consumption basket of goods and services in the last month of 1404Q3 based on the SCI report.

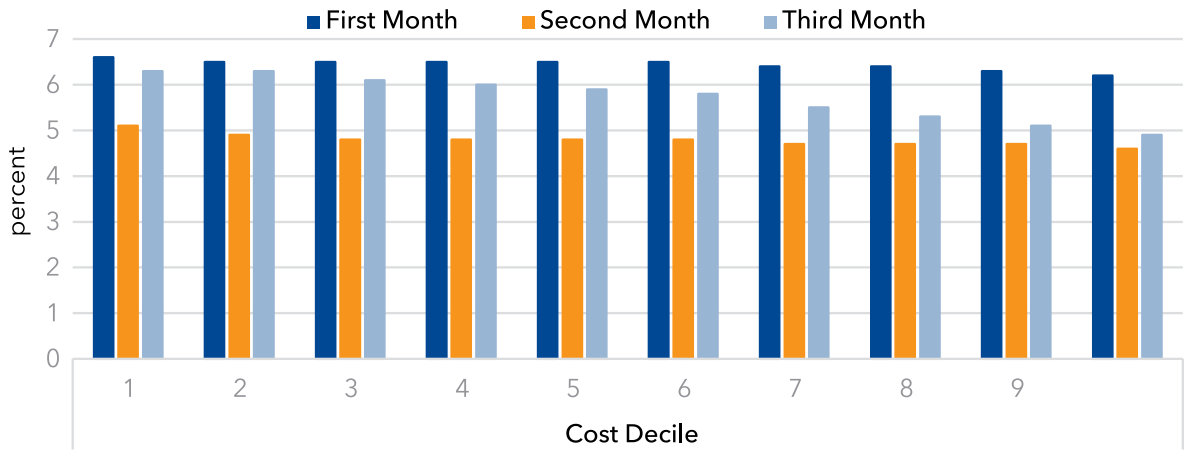
Table 3. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1404Q3 (Percent)

Group	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**4.2**	**52.6**	**42.2**
Housing, Water, Electricity and Other Fuels	36.11	2.5	35.8	36.7
Foods and Beverages	28.82	5.6	72.3	50.1
Transport	8.93	5.8	46.8	35.1
Health	6.68	2.2	50.4	42.6
Clothing and Footwear	4.52	3.8	45.6	36.3
Other Goods and Services	4.42	5.7	69.5	54.6
Household Equipment	4.40	3.6	52.6	41.6
Communication	2.41	10.1	43.1	27.8
Restaurants and Hotels	1.35	3.2	45.7	35.2
Education	0.88	0.1	45.9	38.7
Recreation and Culture	0.87	3.6	49.5	38.6
Tobacco	0.62	3.3	60.4	43.5

Source: Statistical Center of Iran

On the basis of the SCI report on the CPI by various cost deciles, in the 3 consecutive months of 1404Q3 the highest monthly inflation rates in "Foods and Beverages" as well as "Tobacco" have been experienced by the bottom 3 cost deciles, while the lowest rates in these sorts of goods belonged to the top 1 cost decile. Note that during 1404Q3, the gap between the monthly inflation rates in the aforementioned goods between the top and bottom cost deciles has widened. Accordingly, from a monthly view point, the bottom cost deciles have incurred higher inflationary pressure than the top cost deciles in providing their daily basic needs. In Graph 4, the monthly aggregated inflation rates of "Foods and Beverages" as well as "Tobacco" by cost deciles in 1404Q3 are depicted.

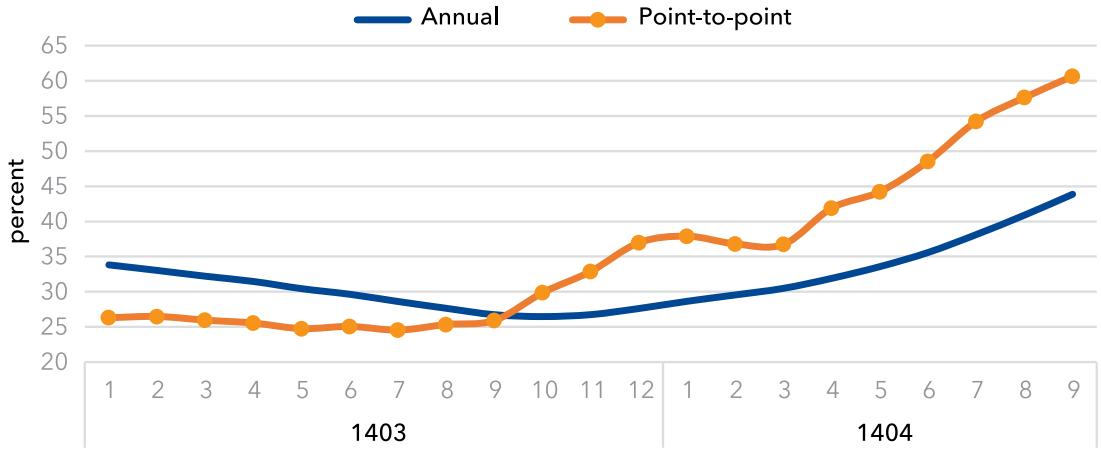
Graph 4. Monthly Aggregated Inflation Rate in Foods and Beverages and Tobacco During 1404Q3



Source: Statistical Center of Iran

The latest report of the SCI on PPI covers till the end of 1404Q2 on a quarterly basis, while the CBI report in the same regard covers till the end of 1404Q3 on a monthly basis. Note that the year 1400 has been used as the base year for PPI calculations by both issuing authorities. The CBI data suggest that the PPI inflation rate as a leading indicator of the CPI inflation rate maintained its upward path that had started from the 11th month of 1403 throughout the first 3 quarters of 1404, while this rise intensified in 1404Q3. The annual PPI inflation rate, respectively, registered 38.1 percent, 40.9 percent and 41.9 percent in the 3 consecutive months of 1404Q3. As for the point-to-point PPI inflation rate, that rate started to rise from the first month of 1404Q2 after a period of decline in its preceding quarter and reached its high of 60.6 percent at the end of 1404Q3. Furthermore, the SCI reported annual PPI inflation rate of 38.5 percent at the end of 1404Q2. Notwithstanding the difference between the PPI inflation rates of the 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 1403 to the end of 1404Q3 on the basis of the CBI report.

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



Source: Central Bank of Iran

4. BALANCE OF PAYMENTS

The CBI estimated BOP - the aggregate of Current Account, Capital Account and Errors and Omissions - at USD965 million for 1404Q1, far different from the USD1.312 billion of the same quarter in its preceding year. In 1404Q1, the current account surplus reached USD5.4 billion, indicating 36.3 percent fall from the USD8.5 billion in 1403Q1. Moreover, the deficit of Net Capital Account that had registered USD7.9 billion in 1403Q1 rose to USD8.9 billion in 1404Q1.

The Current Account itself contains Goods Account, Services Account, Income Account[3], and Current Transfers Account. The contraction in Current Account during 1404Q1 is mainly emanated from the considerable contraction of the Goods Account. In fact, the Goods Account that is the difference of goods exports value and goods imports value, reached USD8.7 billion in 1404Q1, down 24.5 percent from the USD11.5 billion in 1403Q1. The Non-oil Trade Balance deficit in 1404Q1 marked USD6.2 billion, 0.4 percent below that of 1403Q1. As for the Oil Trade Balance surplus, it fell by 16.0 percent to USD14.9 billion in 1404Q1 to serve as the main contributor to the fall in the Goods Account.

The Services Account deficit of USD2.6 billion in 1403Q1 grew by 7.0 percent to USD2.8 billion in 1404Q1. Between the same periods, the deficit of Income Account also grew from USD323 million to USD344 million.

Unlike the improvement in reporting the data on Errors and Omissions in the year 1403, in 1404Q1 the story was far different, i.e., this component of BOP that had reached USD0.7 billion in 1403Q1 surged by 499.4 percent to USD4.5 billion in 1404Q1, accounting for 82.8 percent of the Current Account. This extraordinary rise in the Errors and Omissions in 1404Q1 which roots in various factors is translated to the further ambiguity in data on Iran's trade which makes the BOP reports highly unreliable.

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 and on the other hand, so long as the multiple exchange rate regime is implemented by the CBI, 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 springs of 1403 and 1404 are presented in Table 4.

Table 4. Balance of Payments (USD million)

	1403Q1	1404Q1	Percentage Change
Current Account	**8,502**	**5,412**	**-36.3**
Goods Account	11,493	8,681	-24.5
Exports (FOB)	29,590	25,931	-12.4
Oil	18,036	15,232	-15.5
Non-oil	11,554	10,699	-7.4
Imports (FOB)	18,097	17,250	-4.7
Gas and Oil Products	270	302	11.7
Other Goods	17,827	16,948	-4.9
Services Account	-2,631	-2,815	7.0
Income Account	-323	-344	6.5
Current Transfers Account	-37	-110	194.4
Net Capital Account	**-7,937**	**-8,930**	**12.5**
Errors and Omissions	748	4,483	-
Overall Balance	**1,312**	**965**	**-26.5**

Source: Central Bank of Iran

3. 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 the first 9 months of 1404, Iran's exports of goods reached around 118.9 million tons valued at USD41.2 billion, while its goods imports registered 29.3 million tons valued at USD44.2 billion. In the 9-month period under review, Iran's customs exports expanded by 1.0 percent in weight but in terms of value contracted by 5.8 percent compared to the same period of 1403. Similarly, as for customs imports, it expanded by 2.8 percent in weight and contracted by 15.2 percent in value, translating to lower value of both export and import goods on average. Therefore, the deficit of customs Trade Balance that had registered USD8.3 billion in the first 9 months of 1403 fell to USD2.9 billion in the first 9 months of 1404.

In the Industry sector, the energy supply crisis could be a factor of increase in the weight to value ratio of customs exports in the first 9 months of 1404. Precisely speaking, the idle production capacity as a result of the energy crisis has caused the producers to shift more to selling raw materials than producing. For instance, during the first 7 months of 1404, the exports volume of Iron Ore Concentrate has surged by 82.0 percent compared to the same period of 1403 in expense of lower production of high value-added steel products. The details of Iran's customs trade in the first 9 months of 1403 and 1404 are presented in Table 5.

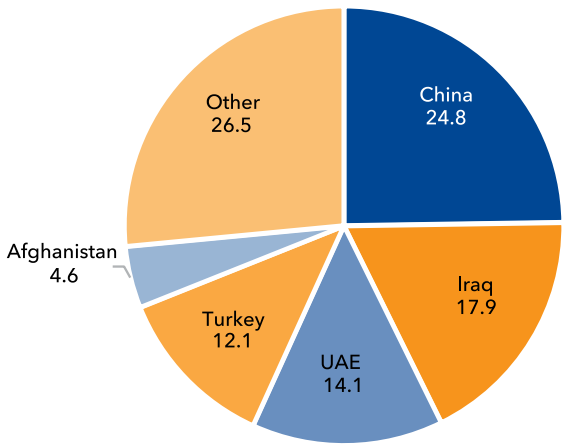
Table 5. Iran's Customs Trade

	First 9 Months of 1403			First 9 Months of 1404			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	117,702	43,772	371.9	118,901	41,243	346.9	1.0	-5.8
Imports	28,540	52,086	1,825.0	29,325	44,151	1,505.6	2.8	-15.2
Customs Trade Balance	**89,162**	**-8,314**	**-**	**89,576**	**-2,908**	**-**	**0.5**	**-65.0**

Source: Islamic Republic of Iran Customs Administration

During the first 9 months of 1404, 73.5 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 USD10.2 billion to constitute 24.8 percent of the total exports of Iran, followed by Iraq at USD7.4 billion with 17.9 percent share, UAE at USD5.8 billion with 14.1 percent share, Turkey at USD5.0 billion with 12.1 percent share and finally Afghanistan at USD1.9 billion with 4.6 percent share in total exports of Iran. The major customs exports destinations of Iran by their share in total customs exports of Iran in the first 9 months of 1404 are shown in Graph 6.

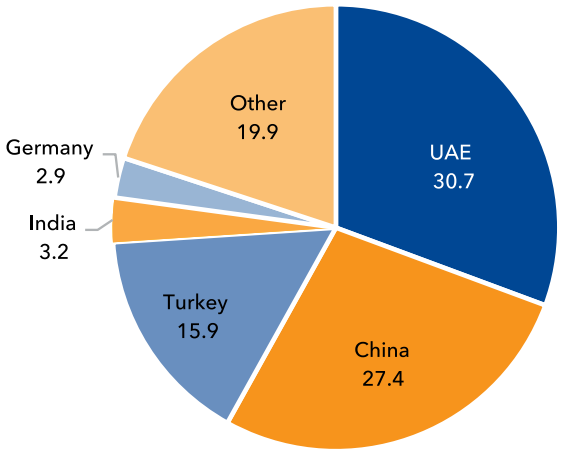
Graph 6. Major Customs Exports Destinations of Iran (first 9 months of 1404 - percent)



Source: Islamic Republic of Iran Customs Administration

With regard to Iran's customs imports, UAE ranked as the top one source, providing USD13.5 billion of Iran's imports with 30.7 percent share in total imports of the country during the first 9 months of 1404. In the same period, the imports from China and Turkey registered USD12.1 billion and USD7.0 billion, respectively, constituting 27.4 percent and 15.9 percent of Iran's total customs imports. Accordingly, UAE, China and Turkey as the top 3 sources of imports have provided 74.0 percent of Iran's import needs, translating to exertion of high risk of concentration on Iran's international trade. India with USD1.4 billion and Germany with USD1.3 billion exports to Iran ranked as 4th and 5th sources of imports of Iran with 3.2 percent and 2.9 percent share in total Iran's customs imports, respectively. In Graph 7, the major sources of Iran's customs imports by their share in total customs imports of the country in the first 9 months of 1404 are depicted.

Graph 7. Major Sources of Customs Imports of Iran (first 9 months of 1404 - percent)

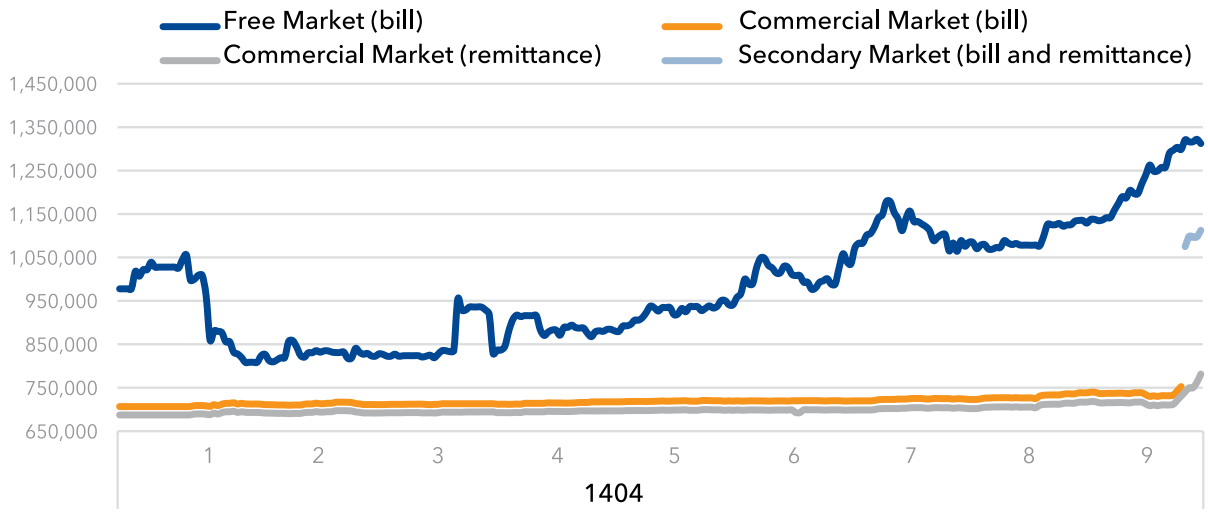


Source: Islamic Republic of Iran Customs Administration

5. FOREIGN EXCHANGE MARKET

During the first 3 quarters of the year 1404, the Iranian free market for foreign exchanges was highly volatile due to political developments, both domestic and international. The USD price in the free market that had surpassed IRR1 million in some periods during 1404, stood above that level throughout 1404Q3. The USD price opened the same quarter at IRR1.035 million and by 26.8 percent rise, closed that at IRR1.312 million after experiencing high fluctuations. The USD/IRR exchange rate averaged 1.144 million in 1404Q3, indicating 22.2 percent rise from its preceding quarter and 69.5 percent rise compared to the same quarter of its preceding year. Graph 8 depicts the developments of the USD/IRR exchange rate in various markets.

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



Source: Central Bank of Iran; Gold, Coin and Currency Information Network
* Due to severe Rial depreciation which resulted in the wider gap between the exchange rates in the free market and in the secondary market, in the late 1404Q3, the Central Bank established another market where the bill exchange rates were close to the rates in the free market

The triggering of Snapback Mechanism in the early 1404Q3 ended up in more depreciation of Rial. The air of pessimism in the country and the adverse effects of the resumption of sanctions and probably the shortage in Iran's foreign reserves were the contributors to the depreciation of Rial. Table 6 presents the USD/IRR bill exchange rates in the free market in 1403 and 1404 on a quarterly basis. The figures of the coefficient of variations in the last column of the Table suggest high volatility in the Iranian free market for exchange rates from 1403Q3 onwards.

Table 6. Nominal 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
1404Q3	1,144,261	1,322,000	1,034,900	73,876	0.06

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

Unlike the free market, the USD/IRR exchange rates in Iran Center for Exchange of Currency and Gold (Secondary Market) were not much volatile in 1404Q3 as in its preceding quarter. The USD/IRR bill exchange rate in that market that had opened 1404Q3 at 723 thousand rose to 753 thousand 5 days before the end of that quarter and stood 73.0 percent below its corresponding rate in the free market. Yet, from that point on, the CBI unveiled the formation of a new market[4] and increased the USD/IRR bill exchange rate in that market to 1.075 million without any notice in advance. However, during the same period, the peg exchange rate system for imports of some essential goods was in place with the official USD/IRR exchange rate of 285 thousand. The changes in the exchange rates in Iran Center for Exchange of Currency and Gold (secondary market) are translated to the CBI failure in implementation of the multiple-exchange rate regime.

A historical examination of the contemporary developments of the Iranian foreign exchange market reveals that in the past 3 decades, 1380s was the only decade during which the managed-float exchange rate regime could be put in effect. Note that the approach towards the developments of the Iranian foreign exchange market taken by various IRI Administrations has been the same, regardless of the availability of foreign reserves, i.e., even in case of abundant foreign reserves, the CBI has sticked to maintaining multiple-exchange rate regime, therefore all IRI Administrations have been distributing economic rents instead of exchange rate unification

In the aftermath of the imposition of the sanctions on the Iranian Oil sector and banking system at the end of 1390, in response to the shortage in the foreign reserves, the then Government again implemented multiple-exchange rate system through introduction of 3 foreign exchange rates of official, commercial, and free-market. In other words, in order to rein in the inflation rate, the USD/IRR exchange rate of 12,260 was set for imports of essential goods. In addition, the USD/IRR exchange rate in the secondary market (for imports of other goods) was above the official rate of 12,260, while was considerably below the same rate in the free market, i.e., the gap between the USD/IRR secondary and free-market exchange rate registered 112 percent in 1391 on average. After the inauguration of the 11th Administration, the official USD/IRR exchange rate of 12,260 was eliminated by the CBI in 1392Q2 and the monetary authority started to release exchange rates on a daily basis and shortly after this exercise, the secondary exchange rate was also eliminated. As a result of the moderate approach of the 11th Administration in Iran's international disputes, especially regarding the nuclear issue of the country, from the beginning of the nuclear talks till the signing of the JCOPA in mid-July 2015 (roughly corresponding to the end of 04/1394), the gap between the CBI USD/IRR exchange rate and that of the free market reached its low. However, notwithstanding lifting much of the sanctions and easier access to foreign reserves, the then Government again lost the opportunity of exchange rate unification. Just one year after the implementation of the JCPOA, the US presidential election campaigns began and eventually Trump won the election by the end of 1395 Due to his tough stance on Iran, the gap between the CBI and free-market USD/IRR exchange rate widened and as the likelihood of the unilateral US withdrawal from the JCPOA increased, the IRI Administration fixed the USD price at IRR42,000 in a surprising action and banned any transaction at other prices, an action that resulted in formation of black market for foreign currencies.

4. It seems that this market has been established previously but with a narrow range of transactions with exchange rates relatively close to those of the free market.

From a historical view point, this action was just like that of the year 1391 in implementation of multiple-exchange rate regime and only the official USD/IRR exchange rate for imports of essential goods was increased to IRR42,000 from IRR12,260. Eventually, in the aftermath of the US withdrawal from the JCPOA in mid-1397Q1, the depreciation of Rial speeded up and the gap between the official and free-market USD/IRR exchange rates in 4 consecutive years from 1397 to 1400 registered 187 percent, 207 percent, 445 percent and 518 percent, respectively. In the year 1401, just one year after the new IRI Administration took office, the official USD/IRR exchange rate of 42,000 was eliminated and an online system of foreign currency transactions with the rates close to the market rates was launched. Nevertheless, this did not last long and after one year another shock was exerted to the free market for foreign exchanges. In response to this shock, the CBI fixed the USD/IRR exchange rate for imports of essential goods at 285,000 and renamed the aforementioned online system to Iran Center for Exchange of Currency and Gold, in which 3 exchanges rates of official (IRR285 thousand per USD), remittance rate and bill rate existed. The 2 latter rates that were not fixed, partly followed the market mechanisms albeit under the supervision of the CBI. This exercise was actually a repetition of the CBI's policy of moving from one official exchange rate to a higher one, i.e., departing from USD/IRR exchange rate of 42,000 to 285,000. In the year 1403 and in order to incentivize the exporters to supply their foreign proceeds inside the country, a new market was added to the Center for Exchange of Currency and Gold, known as Commercial Foreign Exchange Market where the rates were close to those in the free market. The newly-added market that was in fact a move towards the exchange rate unification, eventually diverged from its goal due to heated political tensions, imposition of new sanctions on Iran, the 12-day War between Israel and Iran and finally triggering of Snapback Mechanism, again resulting in repetition of CBI policy in increasing the exchange rates. In 1404H2, the CBI gradually eliminated the allocation of foreign currencies at USD official price of IRR285,000 and again launched 2 new markets of bill and remittance. The USD/IRR bill exchange rate in the newly-established market was far above the remittance rate but was still diverging from the bill rate in the free market. This absurd policy of the CBI again failed and lasted less than a month only and made the monetary authority to unify the exchange rates. It is crystal clear that in case of shortage of foreign reserves, any effort for rationing of foreign currencies at cheaper prices as an excuse for reining in the inflation rate is doomed to failure and solely is a source of rent for a group of beneficiaries.

6. MONETARY AND CREDIT AGGREGATES

The CBI preliminary report suggests that the Liquidity with the annual rate of 40.4 percent has expanded to IRR131,845.3 trillion at the end of the 8th month of 1404. The monthly growth rate of Liquidity averaged 3.3 percent during the first 8 months of 1404, far above the 2.2 percent in the same period of 1403, conveying that the CBI has opted for an accommodative approach towards the banks regarding making loans in some periods of 1403 and also the first 8 months of 1404. The Monetary Base also registered IRR17,765.8 trillion at the end of the 8th month of 1404 to stand, respectively, 30.7 percent and 47.5 percent above that of the end of 1403 and the end of the 8th month of 1403. Table 7 presents the developments of Monetary Base and Liquidity at the end of the 8th month of 1404.

Table 7. Liquidity and Monetary Base with Their Components (IRR trillion-percent-percentage points)

	End of Period Balance			Growth Rate at the End of 08/1404 Compared to		Share in M0 Growth Rate at the End of 08/1404 Compared to	
	08/1403	12/1403	08/1404	08/1403	12/1403	08/1403	12/1403
Monetary Base (M0)	**12,046.1**	**13,594.3**	**17,765.8**	**47.5**	**30.7**	**47.5**	**30.7**
CBI Foreign Assets (net)	22,781.5	31,885.8	34,081.8	49.6	6.9	93.8	16.1
CBI Claims on Public Sector (net)*	-873.9	-3,545.5	-1,016.8	-16.4	-71.3	-1.2	18.6
CBI Claims on Public Sector	5,705.9	6,803.9	9,602.2	68.3	41.1	32.3	20.6
Public Sector Deposits with CBI	6,579.8	10,349.4	10,619.0	61.4	2.6	-33.5	-2.0
CBI Claims on Banks	7,322.5	11,701.9	11,929.8	62.9	1.9	38.3	1.7
Other Assets (net)*	-17,184.0	-26,447.9	-27,229.0	-58.5	3.0	-83.4	-5.7
Balance of Implementation of Monetary Policy	2,939.0	4,039.9	3,629.8	23.5	-10.2	5.7	-3.0
Liquidity (M2)	**93,922.1**	**101,659.5**	**131,845.3**	**40.4**	**29.7**	**Share in Liquidity at the End of**	
						12/1403	**08/1404**
Money (M1)	**22,503.8**	**26,317.3**	**31,878.8**	**41.7**	**21.1**	**25.9**	**24.2**
Notes and Coins with the Public	1,480.2	1,791.3	2,205.1	49.0	23.1	1.8	1.7
Sight Deposits	21,023.6	24,526.0	29,673.7	41.1	21.0	24.1	22.5
Checks (net)	579.1	634.3	875.8	51.2	38.1	0.6	0.7
Quasi-Money	**71,418.3**	**75,342.2**	**99,966.5**	**40.0**	**32.7**	**74.1**	**75.8**
Interest-free Saving Deposits	9,877.2	11,500.5	16,015.2	62.1	39.3	11.3	12.1
Short Term Deposits	19,322.9	21,193.9	26,655.4	37.9	25.8	20.8	20.2
One-year Deposits	14,726.3	15,851.9	24,615.3	67.2	55.3	15.6	18.7
Two-year Deposits	3,637.8	2,820.2	2,287.9	-37.1	-18.9	2.8	1.7
Three-year Deposits	21,086.6	20,746.8	26,592.4	26.1	28.2	20.4	20.7
Four-Year Deposits	317.2	280.6	277.3	-12.6	-1.2	0.3	0.2
Five-year Deposits	65.0	63.7	60.3	-7.2	-5.3	0.1	0.0
Miscellaneous Deposits	2,385.3	2,884.6	3,462.7	45.2	20.0	2.8	2.6
M2 Money Multiplier	**7.797**	**7.478**	**7.421**	**-4.8**	**-0.8**	**-**	**-**

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 first 8 months of 1404 reveals that this monetary aggregate has expanded by 3.3 percent per month on average, with the highest growth rate of 4.7 percent in the 4th month of 1404 and the lowest of 2.0 percent in the 2nd month of the year. 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 the remainder of 1404Q3 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 was below 30.0 percent from the last month of 1402Q1 to the first month of 1404, exceeded that figure from that point on. Following its upward trend, in the first 2 months of 1404Q3, that rate registered 38.7 percent and 40.4 percent, respectively.

An examination of the Liquidity by its components, Money and Quasi-money, reveals that at the end of the 8th month of 1404, Money has grown by 21.1 percent and Quasi-money by 32.7 percent compared to the end of 1403, causing the share of Quasi-money in Liquidity to rise by 1.7 percentage points to 75.8 percent during the first 8 months of 1404. Among the components of Quasi-money, the one-year deposits expanded by 55.3 percent and three-year deposits by 28.2 percent, while the two-year deposits contracted at the end of the 8th month of 1404 compared to the end of 1403. The higher expansion of the one-year deposits than other types of deposits throughout the first 8 months of 1404 is translated to shorter investment horizon of investors, i.e., due to uncertainties in the Iranian economy, the highly-liquid assets are more welcomed by the investors in comparison with higher-return investments.

The Money (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits altogether formed 56.5 percent of the Liquidity at the end of the 8th month of 1404, below the 58.0 percent share at the end of 1403. Given the rise in CPI inflation rate in 1404Q3 and the further depreciation of IRR, the post-war uncertainties and further Rial depreciation, the higher share of Money in Liquidity in the remainder of the year 1404 seems plausible.

The latest CBI data suggests that the average annual growth rate of Monetary Base during the first 8 months of 1404 has been above that of the same period of 1403. This rate that opened 1404Q1 at 25.9 percent rose to 47.5 percent at the end of the 8th month of 1404. Going over the Monetary Base components indicates that at the end of the 8th month of 1404, Net CBI Claims on the Public Sector has served as the main contributor to the 8-month expansion of the Monetary Base with 18.6 percentage points share. From the end of 1403 to the end of the 8th month of 1404, the CBI claims on the Public Sector expanded by 41.1 percent and the Public Sector Deposits with the CBI by 2.6 percent, making the Net CBI Claims on the Public Sector as the main factor of increase in the Monetary Base. Moreover, at the end of the 8th month of 1404, the Net CBI Foreign Assets rose by 6.9 percent compared to the end of 1403, constituting 16.1 percentage points of the 8-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 2.4 percent in terms of USD from USD46.4 billion at the end of 1403 to USD47.5 billion at the end of the 8th month of 1404.

The CBI Claims on banks with 1.9 percent expansion at the end of the 8th month of 1404 from the end of 1403 was the third factor of increase in Monetary Base, constituting 1.7 percentage points of the Monetary Base growth rate in the 8-month period under discussion. At the end of the 8th month of 1404, the CBI Net Other Assets that generally takes negative values, grew by 3.0 percent from the end of 1403 to serve as the only factor of decrease in the Monetary Base during the period under discussion with negative 5.7 percentage points share in the 8-month growth rate of that monetary aggregate. At the end of the 8th month of 1404, the Balance of the Implementation of the Monetary Policy as a positive subgroup of the CBI Net Other Assets contracted by 10.2 percent from the end of 1403, translating to contractionary monetary policy of that authority during the 8-month period under discussion.

The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of the 8th month of 1404, their Assets (Liabilities) less below the line items have grown by 22.8 percent from the end of 1403. On the Assets side, Claims on Non-public Sector, Other Assets and Foreign Assets, respectively, were the top 3 contributors to the 8-month growth rates of the Assets. Moreover, on the Liabilities side, Deposits of Non-public Sector, Other Liabilities and Foreign Liabilities were the top 3 drivers of the 8-month expansion of the Liabilities. A summary of Assets and Liabilities of the banks and non-bank credit institutions is presented in Table 8.

Table 8. 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 08/1404			08/1404 Percentage Change Compared to	
	08/1403	12/1403	08/1404	Public Commercial	Public Specialized	Non-public	08/1403	12/1403
Assets (excluding below the line Items)	**183,684.3**	**224,087.0**	**275,250.9**	**63,037.5**	**41,234.9**	**170,978.5**	**49.8**	**22.8**
Foreign Assets	39,438.1	60,891.1	70,741.1	10,495.8	18,340.7	41,904.6	79.4	16.2
Notes and Coins	407.2	400.1	493.1	216.1	24.6	252.4	21.1	23.2
Deposits with the CBI	10,158.7	11,402.9	15,067.6	3,749.6	1,065.2	10,252.8	48.3	32.1
Claims on Public Sector	13,091.5	13,168.2	16,913.9	7,334.5	3,415.0	6,164.4	29.2	28.4
Claims on Non-public Sector	77,639.3	88,301.2	107,180.2	21,282.5	13,861.1	72,036.6	38.0	21.4
Other	42,949.5	49,923.5	64,855.0	19,959.0	4,528.3	40,367.7	51.0	29.9
Liabilities (excluding below the line Items)	**183,684.3**	**224,087.0**	**275,250.9**	**63,037.5**	**41,234.9**	**170,978.5**	**49.8**	**22.8**
Deposits of Non-public Sector	92,441.9	99,868.2	129,640.2	32,179.3	12,044.6	85,416.3	40.2	29.8
Debt to CBI	7,322.5	11,701.9	11,929.8	4,654.7	1,659.7	5,615.4	62.9	1.9
Deposits of Public Sector	889.1	867.9	1,156.5	493.0	482.9	180.6	30.1	33.3
Capital Account	3,906.6	6,904.6	10,966.2	4,659.6	1,002.6	5,304.0	180.7	58.8
Foreign Liabilities	33,114.0	49,083.3	57,054.8	9,246.2	15,749.6	32,059.0	72.3	16.2
Other	46,010.2	55,661.1	64,503.4	11,804.7	10,295.5	42,403.2	40.2	15.9

Source: Central Bank of Iran

At the end of the 8th month of 1404, the balance of extended facilities by banks and non-bank credit institutions registered IRR128.837.0 trillion, up 46.0 percent from the IRR88,235.1 trillion at the end of the same point in 1403. The balance of deposits also grew by 47.7 percent to IRR170,822.4 trillion in the same period. Accordingly, the ratio of extended facilities to deposits less the legal reserves reached 82.7 percent at the end of the 8th month of 1404, down 0.9 percentage point from that of the same point in 1403. The balance of extended facilities and deposits of the banks at the end of the 8th month of 1404 are presented in Table 9.

Table 9. Balances of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	08/1403	08/1404	Percentage Change
Extended Facilities	88,235.1	128,837.0	46.0
Deposits	115,689.2	170,822.4	47.7
Deposits Less the Required Reserves	105,256.0	155,787.3	48.0
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	83.8	82.7	-

Source: Central Bank of Iran

During the first 8 months of 1404, IRR62,984.7 trillion facilities has been extended to various sectors of the economy by the banking system, indicating 42.8 percent rise compared to the same period of its preceding year. Out of the total extended facilities in the period under discussion, 75.4 percent, equivalent to IRR47,468.2 trillion is attributed to the businesses (individuals and legal entities) and the remaining 24.6 percent at IRR15,516.5 trillion to the final consumers (households). Going over the extended facilities by various sectors of the economy reveals that during the 8-month period under discussion, Industries and Mining sector had the highest share of 42.1 percent in total extended facilities to the businesses, followed by Services sector at 37.1 percent. Among various types of extended facilities, in the same period, 82.7 percent of the extended facilities to businesses and 62.3 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by the type of recipients in the first 8 months of 1404 are shown in Table 10.

Table 10. Extended Facilities by Type of Recipients in the First 8 Months of 1404 (IRR trillion-percent)

	Sector of the Economy	Amount	Share in Businesses
Businesses	Agriculture	2,454.5	5.2
	Industries and Mining	19,979.1	42.1
	Housing and Construction	1,695.8	3.6
	Commerce	5,707.4	12.0
	Services	17,626.9	37.1
	Miscellaneous	4.4	0.0
			Share in Total
	All Sectors	**47,468.2**	**75.4**
Final Consumers (households)		**15,516.5**	**24.6**
Total		**62,984.7**	**100.0**

Source: Central Bank of Iran

7. FISCAL POLICY

7-1. Budget Bill of the Year 1405

The Budget Bill of 1405 (1405 Bill for short) was proposed to the IRI Parliament right on time in the beginning of 1404Q4 by the IRI Administration. The proposed figure for Total Government Budget in 1405 Bill stands 28.0 percent above the legislated figure in the Budget Law of 1404 (1404 Law for short). The Budget of State-owned Companies as well as Government General Budget as the main components of the Total Government Budget, respectively, grew by 39.5 percent and 10.6 percent in 1405 Bill compared to the corresponding figures in 1404 Law. The Government General Budget itself, consists of General Sources as well as Dedicated Revenues. The Dedicated Revenues that are obtained by some government organizations has experienced 71.5 surge in 1405 Bill compared to 1404 Law. These sorts of revenues are spent in the same organizations, i.e., they are not directed to the Treasury and could not be redistributed by that. Contrary to the Dedicated Revenues, General Sources are directly in the hands of Government and the Treasury. The General Sources per se consists of General Revenues (taxes and proceeds from state-owned properties), Disposal of Non-financial Assets (mainly proceeds from oil exports and disposal of state-owned properties), and Disposal of Financial Assets (mainly sales of debt securities and withdrawal from the National Development Fund - NDF). The Treasury spends these sources to cover General Uses including Current Expenditures (compensation of employees, payments to the pension funds, and subsidies), Acquisition of Non-financial Assets (development expenditures), and Acquisition of Financial Assets (settlement of unpaid obligations from previous years such as principal repayment of matured Government Debt Securities). The proposed General Sources in 1405 Bill shows 5.3 percent rise compared to its corresponding figure in 1404 Law. An overview of the 1405 Budget Bill is presented in Table 11.

Table 11. An Overview of 1405 Budget Bill (IRR trillion-percent)

Sources					Uses				
	1403 Budget Law	1404 Budget Law	1405 Budget Bill	1405 Budget Bill Growth to 1404 Budget Law		1403 Budget Law	1404 Budget Law	1405 Budget Bill	1405 Budget Bill Growth to 1404 Budget Law
General Revenues	15,983.0	24,464.6	34,014.6	39.0	Current Expenditures	18,787.4	33,558.6	40,174.0	19.7
Disposal of Non-financial Assets	6,445.6	9,300.0	2,751.0	-70.4	Acquisition of Non-financial Assets	4,000.0	6,006.0	6,006.0	0.0
Disposal of financial Assets	3,191.8	15,800.0	15,434.5	-2.3	Acquisition of financial Assets	2,833.0	10.000.0	6,020.0	-39.8
General Sources	**25,620.4**	**49,564.6**	**52,200.0**	**5.3**	**General Uses**	**25,620.4**	**49,564.6**	**52,200.0**	**5.3**
Dedicated Revenues	2,751.0	4,280.0	7,340.0	71.5	From Dedicated Revenues	2,751.0	4,280.0	7,340.0	71.5
Sources of General Government Budget	**28,371.4**	**53,844.6**	**59,540.0**	**10.6**	**Uses of General Government Budget**	**28,371.4**	**53,844.6**	**59,540.0**	**10.6**
Sources of State-owned Companies	37,415.7	63,773.8	88,966.3	39.5	Uses of State-owned Companies	37,145.7	63,773.8	88,966.3	39.5
Sources of Total Government Budget	**64,587.1**	**112,795.3**	**144,414.2**	**28.0**	**Uses of Total Government Budget**	**64,587.1**	**112,795.3**	**144,414.2**	**28.0**

Source: Budget Laws of 1403 and 1404 and Budget Bill of 1405

In 1405 Bill, the share of NDF in proceeds from oil exports is proposed 51 percent and also the Government is allowed to withdraw 31 percentage points of that as a loan. Accordingly, given the assumptions of the Bill, the 51-percent share of NDF in oil exports proceeds equals EUR11.2 billion and in terms of IRR equals 9,715.4 trillion (1EUR=IRR870.0 thousand). Accordingly, that 31-percentage point Government Borrowing from NDF equals 6.8 billion in EUR and 5,900.0 trillion in IRR and is classified as a subgroup of the Disposal of Financial Assets. On the basis of the assumptions of 1405 Bill, daily exports of oil and natural gas condensates is estimated 1.450 million barrels at EUR46.5 per barrel. Note that in 1405 Bill, 1.772 mbpd oil is considered for the total exports, of which, 727 thousand barrels per day is aimed for financing off-budget affairs, such as military affairs. In addition, the estimated figure for natural gas exports is 16 billion cube meters during 1405 at EUR0.26 per cube meter. The assumptions for estimation of oil revenues in 1405 Bill are presented in Table 12

Table 12. Estimated Oil Revenues in Budget Bill of 1405*

Assumptions	1403 Budget Law	1404 Budget Bill	1404 Budget Law	1405 Budget Bill	1405 Budget Bill to 1404 Budget Law Percentage Change
Oil and Gas Condensates Exports (1000 barrels a day)	1,350.0	1,250.0	1,250.0	1,045.0	-16.4
Oil Price per Barrel (USD)	71.0	63.3	63.3	54.0	-14.7
Share of National Petroleum Company in Exports of Oil and Gas Condensates (percent)	14.5	14.5	14.5	14.5	0.0
Share of National Gas Company in Net Exports of Natural Gas (percent)	14.5	14.5	14.5	14.5	0.0
Share of NDF in Exports of Oil and Gas Condensates and Net Gas Exports (percent)	45.0	48.0	48.0	51.0	6.3
Government Share in Exports of Oil and Gas Condensates (percent)	40.5	37.5	37.5	34.5	-8.0
Government Share in Net Exports of Natural Gas (percent)	40.5	37.5	37.5	34.5	-8.0
USD/IRR Exchange Rate in the Budget for Imports of Essential Goods (IRR1000)	285.0	385.0	411.8	300.0	-27.0
Foreign Currencies Aiming for Imports of Essential Goods at Discretionary Rate (USD billion)	15.0	12.1	12.1	8.8	-27.6
Net Exports of Natural Gas (USD billion)	3.5	5.3	5.3	4.8	-9.4
Total Revenues from Exports of Crude Oil and Gas Condensates (USD billion)	35.0	28.9	28.9	20.6	-28.7
Share of NDF in Total Revenues in Foreign Currencies (USD billion)	17.3	16.4	16.4	13.0	-21.0
Share of National Petroleum Company in Oil Exports and Domestic Sales of Feedstock (USD billion)	5.3	4.4	4.2	3.0	-28.9
Share of National Gas Company from Proceeds of Net Gas Exports (USD billion)	0.5	0.8	0.8	0.7	-13.0
Share of Government in Total Proceeds of Oil and Gas Condensates Exports (USD billion)	14.2	10.8	10.8	7.1	-34.2
Government Share in Total Proceeds from Net Exports of Gas (USD billion)	1.4	2.0	2.0	1.7	-17.2
Total Oil Revenues (Government share-IRR trillion)	**5,065.7**	**5,090.0**	**5,395.0**	**2,633.8**	**-51.2**

Source: 1404 and 1405 Budget Bills and 1403 and 1404 Budget Laws with their assumptions based on the IRI Parliament Research Center
* In the Budget Bill of 1405, the foreign proceeds are reported in EUR, however in order to make them comparable with the Bills of preceding years, they have been converted to USD by the EUR/USD exchange rate specified in the Budget Bill of 1405.

In 1405 Bill, the share of Government in Petrodollars (EUR7.6 billion equivalent to USD8.8 billion) is planned to be spent for imports of essential goods at the EUR/IRR exchange rate of 348,000 (USD/IRR exchange rate of 300,000). This proposal, nevertheless, contradicts with the recent Government exchange rate policy – exchange rate unification - which undoubtedly would be changed by the IRI Parliament while being passed. Given the assumptions in 1405 Bill, the Government share in Petrodollars is estimated IRR2,633.8 trillion, indicating 51.2 percent fall compared to 1404 Law. The 3-percentage point rise in the share of NDF in Petrodollars, estimated 16.4 percent fall in oil exports, 14.7 percent fall in oil prices and finally 27.0 percent fall in the exchange rate used for conversion of foreign proceeds to IRR compared to 1404 Law are the major drivers of the fall in Oil Revenues in 1405.

In 1405 Bill, sales of Government Properties as well as Disposal of Development Plans are proposed IRR117.1 trillion, considerably small compared to the Bills of previous years and 96.4 percent below that of 1404 Law. Given the weak realization of this source in the first 8 months of 1404 (IRR43.4 trillion), the fall in proposed figure for this source could be considered an effort to get rid of overestimation in that regard. All in all, in 1405 Bill, IRR2,751.0 trillion is proposed for the Disposal of Non-financial Assets, 70.4 percent below the legislated figure in 1404 Law. The share of this source in General Sources of 1405 Bill is estimated 5.3 percent, indicating 13.5 percentage points fall from the approved figure in 1404 Law. The proposed figure for Acquisition of Non-financial Assets in 1405 Bill remained the same as the legislated figure in 1404 Law at IRR6,006.0 trillion, accounting for 11.5 percent of the General Uses and 0.6 percentage point below the corresponding share in 1404 Law. Accordingly, unlike its preceding years, the Net Disposal of Non-financial Assets in 1405 Bill faces a deficit of IRR3,255.0 trillion.

In 1405 Bill, 56.7 percent is proposed for the share of Tax Revenues in General Sources (including customs duties), 14.7 percentage points above that of the legislated figure of 1404 Law. The Tax Revenues in 1405 Bill totaled IRR29,611.0 trillion (7.8 percent of this figure belongs to imports tax) to stand 42.1 percent above the corresponding figure in 1404 Law. In 1405 Bill, the Direct Tax and Tax on Goods and Services grew by 50.0 percent in aggregate, compared to 1404 Law, while Tax on Imports fell by 12.5 percent compared to 1404 Law to IRR2,311.0 trillion. On the basis of the assumptions in 1405 Bill, 13.0 percent of the Tax on Imports (IRR300.0 trillion) is attributed to imports of passenger cars. It seems that in estimation of Imports Tax it is assumed that in 1405, EUR7.6 billion essential goods and EUR43.7 billion other goods (except vehicles) be imported, 1 percent tariff rate for the former and 5 percent on average for the latter. Moreover, among the components of the Direct Tax, the proposed Corporate Tax in 1405 Bill accounts for 40.0 percent of the Total Tax Revenues and 46.1 percent above the approved figure in 1404 Law. The proposed Tax on Non-public Legal Entities with 86.3 percent share in Corporate Tax in total stands 55.1 percent above the approved figure in 1404 Law at IRR10,218.0 trillion, probably serving as a driver of further downturn in the private sector. The Income Tax that forms 15.0 percent of the Total Tax Revenues in 1405 Bill, stands 39.7 percent above the corresponding figure in 1404 Law. Among the major components of Income Tax, the proposed Tax on Professions and Tax on Private sector Employees with respective shares of 37.7 percent and 42.4 percent in Income Tax are increased by 37.3 percent and 64.5 percent compared to their corresponding figures in 1404 Law. The 89.5 percent rise in Wealth Tax in 1405 Bill compared to 1404 Law mainly roots in the 471.4 percent rise in Stamp Duty and 67.8 rise in Tax on Share Transfers. These 2 sources account for 68.4 percent of the Wealth Tax in 1405 Bill.

In 1405 Bill, Tax on Goods and Services with 33.7 percent share in total Tax Revenues grew by 56.7 percent compared to 1404 Law. The Value-added Tax (4 out of 12 percent tax rate as the share of Government) in 1405 Bill was also proposed 26.6 percent above the corresponding figure in 1404 Law. In addition, the 2-percentage point rise in the Value-added Tax rate (from 10 to 12 percent) is planned to be considered a source of financing Government direct cash subsidies to Iranian citizens and is estimated IRR1,700.0 trillion. Adding up the sources from this 2-percenatge point rise in Value-added Tax ratio and another uses financed by Value-added Tax (such as 2-percentage point aiming for healthcare), the share of Government in Value-added Tax rate increases from 4 to 8 percentage points, equaling IRR8,516.0 trillion and 58.2 percent above that in 1404 Law and constituting 85.4 percent of the Tax on Goods and Services and 28.8 percent of the Total Tax Revenues. In 1405 Bill, IRR252 trillion (2.5 percent of the Tax on Goods and Services) is proposed for Tax on sales of oil products, up 215.0 percent from the IRR80 trillion in 1404 Law.

Regarding the Uses of Budget, IRR40,174.0 trillion is proposed for the Current Expenditures with 77.0 percent share in General Uses in 1405 Bill, up 19.7 percent from that in 1404 Law.

In the proposed Bill, IRR10,196.3 trillion is considered for Compensation of Employees, forming 25.4 percent of the Current Expenditures. Another 39.9 percent of the Current Expenditures in 1405 Bill is attributed to Pension Funds at IRR16,040.4 trillion. The 2 aforementioned sorts of expenditures total IRR26,236.7 trillion, accounting for 65.3 percent of the Government Expenditures in 1405 Bill. For interest payments of the previously-issued Securities, IRR3,340.0 trillion, equivalent to 8.3 percent of the Current Expenditures is proposed in 1405 Bill. All in all, in 1405 Bill, the Operating Balance Deficit is estimated IRR6,159.4 trillion, signaling that much of the Current Expenditures would not be financed through General Revenues in the year 1405.

Same as usual, in 1405 Bill, part of the budget deficit is planned to be financed through Disposal of Financial Assets. In that regard, issuance of IRR9,400.0 trillion Government Debt Securities has been proposed in 1405 Bill, up 16.0 percent from the corresponding figure in 1404 Law. In 1405 Bill, Issuance of Government Debt Securities accounts for 60.9 percent of the Disposal of Financial Assets and 18.0 percent of the General Sources, respectively, indicating 9.6 percentage points and 1.7 percentage points rises from the corresponding figures in 1404 Law. In addition, IRR100.6 trillion is proposed for Disposal of State-owned Companies, showing 95.3 percent fall from the legislated figure in 1404 Law. This large decrease aims to get rid of the overestimations in this source of Budget in previous Laws, hence, the proposed figure for Disposal of State-owned Companies in 1405 seems to be fully realized given the realization of this sources in the first 8 months of 1404. Borrowing 31 percentage points of the 51 percent share of NDF in petrodollars in 1405 would result in adding up IRR5,900.0 trillion to the Disposal of Financial Assets. All in all, the Disposal of Financial Assets in 1405 Bill is IRR15,434.5 trillion, 2.3 percent below that of 1404 Law and constituting 29.6 percent of the General Sources of 1405 Bill. The Acquisition of Financial Assets is estimated IRR6,020.0 trillion in 1405 Bill, 39.8 percent below the approved figure in 1404 Law. Out of this figure, around 75 percent (IRR4,460.0 trillion) is planned to be spent for principal repayment of matured previously-issued Securities, constituting 8.5 percent of General Uses in 1405 Bill and 3.3 percent above the approved figure in 1404 Law. Accordingly, IRR9,414.5 trillion surplus is estimated for the Net Disposal of Financial Assets. Table 13 presents the main figures of 1405 Bill.

Table 13. Main Figures of Budget Bill of 1405 (IRR trillion-percent)

	1404 Budget Law	1405 Budget Bill	Share in Total General Sources in 1405 Budget Bill	Growth of 1405 Bill Compared to 1404 Law		1404 Budget Law	1405 Budget Bill	Share in Total General Uses in 1405 Budget Bill	Growth of 1405 Bill Compared to 1404 Law
Revenues (general)	**24,464.6**	**34,014.6**	**65.2**	**39.0**	**Expenditures (current)**	**33,558.6**	**40,174.0**	**77.0**	**19.7**
Tax revenues	20,840.0	29,611.0	56.7	42.1	Compensation of Employees	8,558.1	10,196.3	19.5	19.1
Proceeds from State-owned Properties	1,810.0	2,283.9	4.4	26.2	Goods and Services	3,053.2	2,804.1	5.4	-8.2
Proceeds from Sales of Goods and Services	606.0	832.5	1.6	37.4	Fees and Interest Payments on Debt Securities	2,308.4	3,340.0	6.4	44.7
Proceeds of Crimes and Damage Fines and Miscellaneous	1,208.6	1,287.2	2.5	6.5	Subsidy	3,202.0	1,774.6	3.4	-44.6
					Grants	399.0	321.2	0.6	-19.5
					Social Welfare	11,258.8	16,040.4	30.7	42.5
					Other	4,779.1	5,697.3	10.9	19.2
Operating Balance						-9,094.0	-6,159.4	-	-
Disposal of Non-financial Assets	**9,300.0**	**2,751.0**	**5.3**	**-70.4**	**Acquisition of Non-financial Assets**	**6,006.0**	**6,006.0**	**11.5**	**0.0**
Proceeds from Crude Oils and Oil Products	5,395.0	2,633.8	5.0	-51.2	Construction	4,238.8	4,994.1	9.6	17.8
Proceeds from Disposal of Government Properties and Others	3,255.0	117.1	0.2	-96.4	Machinery and Equipment	930.5	881.2	1.7	-5.3
					Other fixed Assets	26.2	23.7	0.0	-9.6
					Precious Items	0.8	0.7	0.0	-9.6
					Land	54.6	49.3	0.1	-9.6
					Other Unproduced Assets	755.2	56.9	0.1	-92.5
Net Disposal of Non-financial Assets						3,294.0	3,255.0	-	-
Disposal of Financial Assets	**15,800.0**	**15,434.5**	**29.6**	**-2.3**	**Acquisition of Financial Assets**	**10,000.0**	**6,020.0**	**11.5**	**-39.8**
Sales of Islamic Debt Securities	8,100.0	9,400.0	18.0	16.0	Related to Disposal of Stocks	61.0	50.0	0.1	-17.2
Disposal of State-owned Companies	2,150.0	100.6	0.2	-95.3	Principal Repayment of Islamic debt Securities	4,316.3	4,460.0	8.5	3.3
Withdrawal from NDF	5,410.0	5,900.0	11.3	9.1	Principal Repayment of Bank Loans	116.0	117.7	0.2	1.5
Other	140.0	33.9	0.1	-75.8	Unpaid Obligations from Previous Years	2,685.7	1,143.0	2.2	-57.4
					Repayment of Foreign Loans Principals	317.6	248.1	0.5	-21.9
					Investments, International Cultural and Economic Aids	2,503.4	0.7	0.0	-100.0
Net Disposal of Financial Assets						5,800.0	9,414.5	-	-

Source: Budget Bill of 1405 and Budget Law of 1404

Note that 1405 Bill was initially criticized by the IRI Parliament on some grounds including rise in salaries, Value-added Tax ratio, allocation of direct cash subsidies and Mandatory Facilities which caused the Government to adjust the Bill figures in those regards. Given the adjustments to the Bill as well as the recent exchange rate policy of the Government that was enforced in early 1404Q4, some components of 1405 Bill would change considerably and Tax Revenues, Proceeds from Oil Exports in the Budget Sources and Compensation of Employees on the Budget Uses are as such.

7-2. Government Fiscal Performance

As no official data on the realization of 1404 Law targets was published while preparing this Report, the data from the IRI Parliament Research Center and some unofficial sources have been used in that regard.

Accordingly, during the first 8 months of 1404, the actual General Sources and the actual General Uses amounted to IRR22,448.6 trillion and IRR24,791.4 trillion, respectively, indicating 64.8 percent and 75.0 percent realization ratios in the period under discussion. This 10.2 percentage points difference between the realization ratios of General Sources and Uses resulted in IRR2,342.7 trillion Overall Budget Deficit in the first 8 months of 1404 that should have financed through some sources such as withdrawal from State-owned companies accounts with the Treasury and the Revolving Fund of the Treasury (financed by the CBI), which should be repaid by the end of the year.

During the first 8 months of 1404, the actual General Revenues (various type of taxes, etc.) registered IRR13,246.7 trillion, accounting for 61.6 percent of the approved figure in 1404 Law for the period under review. Given the IRR19,349.4 trillion actual Current Expenditures, the Operating Balance Deficit in the first 8 months of 1404 reached IRR6,102.7 trillion.

During the 8-month period under review, the actual Disposal of Non-financial Assets reached IRR2,085.4 trillion, indicating 33.2 percent realization rate. As for the oil revenues, 50.0 percent of the legislated figure for the first 8 months of 1404 was realized at IRR2,015.0 trillion. In the same period, IRR43.4 trillion of Government Properties was disposed, accounting for only 2.0 percent realization rate in that period and translating to the Government failure in that regard. The actual acquisition of Non-financial Assets reached IRR3,282.4 trillion to account for 82.0 percent of the legislated figure for the first 8 months of 1404. Accordingly, the Net Disposal of Non-financial Assets faced a deficit of IRR1,224.0 trillion in the period under review which in conjunction with the Operating Balance Deficit was covered through the IRR4,984.0 trillion-surplus of the net Disposal of Financial Assets. During the first 8 months of 1404, aiming for financing budget deficit, IRR3,932.1 trillion Government Debt Securities was issued to account for 72.8 percent of the legislated figure of 1404 Law. During the same period, actual disposal of State-owned Companies registered IRR95.8 trillion and 85.0 percent of the legislated figure for the first 8 months of 1404. The actual withdrawal from the NDF registered IRR3,065.7 trillion during the same period. Note that in 1404 Law, the government is entitled the right to borrow 28 percentage points out of 48 percent share of the NDF in petrodollars. During the period under discussion, the Acquisition of Financial Assets by 32.4 percent realization ratio registered IRR2,159.6 trillion, of which, 80.5 percent (IRR1,738.8 trillion) is attributed to the principal repayment of matured Government Debt Securities. In Table 14, the Government fiscal performance in the first 8 months of 1404 is presented.

Table 14. Government Fiscal Performance in the First 8 Months of 1404 (IRR trillion-percent)

	1404 Budget Law	Approved for the First 8 Months of 1404	Realized in the First 8 Months of 1404	Realization Ratio in the First 8 Months of 1404	Share in Estimated performance of General Sources and Uses in 1403
Sources	**49,564.5**	**33,043.0**	**22,448.6**	**67.9**	**100.0**
General Revenues	**24,464.5**	**16,309.7**	**13,246.7**	**81.2**	**59.0**
Tax Revenues	20,840.0	13,893.3	11,000.0	79.2	49.0
Corporations	8,098.8	5,399.2	4,810.0	89.1	21.4
Income	3,191.3	2,127.6	1,750.0	82.3	7.8
Wealth	546.2	364.2	**260.0**	**71.4**	**1.2**
Goods and Services	6,363.6	4,242.4	3,500.0	82.5	15.6
Imports	2,640.0	1,760.0	680.0	38.6	3.0
Other Revenues	3,624.6	2,416.4	2,246.7	93.0	10.0
Disposal of Non-financial Assets	**9,300.0**	**6,200.0**	**2,058.4**	**33.2**	**9.2**
Oil and Oil Products	6,045.0	4,030.0	2,015.0	50.0	9.0
Properties and Other	3,255.0	2,170.0	43.4	2.0	0.2
Disposal of Financial Assets	**15,800.0**	**10,533.3**	**7,143.5**	**67.8**	**31.8**
Sales of Islamic Debt Securities	8,100.0	5,400.0	3,932.1	72.8	17.5
Disposal of State-owned Companies	2,150.0	1,433.3	95.8	6.7	0.4
Withdrawal From NDF	5,410.0	3,606.7	3,065.7	85.0	13.7
Other	140.0	93.3	50.0	53.6	0.2
Uses	**49,564.6**	**33,043.0**	**24,791.4**	**75.0**	**100.0**
Current Expenditures	**33,558.6**	**22,372.4**	**19,349.4**	**86.5**	**78.0**
Acquisition of Non-financial Assets	**6,006.0**	**4,004.0**	**3,282.4**	**82.0**	**13.2**
Acquisition of Financial Assets	**10,000.0**	**6,666.7**	**2,159.6**	**32.4**	**8.7**
Operating Balance	**-9,094.0**	**-6,062.7**	**-6,102.7**	**100.7**	-
Net Disposal of Non-financial Assets	**3,294.0**	**2,196.0**	**-1,224.0**	-	-
Net Disposal of Financial Asset	**5,800.0**	**3,866.7**	**4,984.0**	**128.9**	-

Source: Budget Law of 1404; Eco-Iran online Tv, Ministry of Economic Affairs and Finance; IRI Parliament Research Center; Research Calculations

In 1404 Law, IRR18,200.0 trillion is legislated for Tax Revenues (excluding customs duties), of which, 35.0 percent belongs 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 legislated figure for Tax Revenues for the first 7 months of 1404 equals IRR10,616.6 trillion, seven twelfth of the total. The Iranian National Tax Administration report suggests that 80.5 percent of the legislated figure for Tax Revenues in the first 7 months of 1404 has been realized.

As for Direct Tax, the realization ratio registered 83.2 percent in the first 7 months of 1404 and among its components, Corporate Tax realized the highest realization ratio of 86.2 percent to register IRR4,072.9 trillion (up 40.9 percent from its actual value in the first 7 months of 1403). Out of the actual figure of Corporate Tax in the 7-month period under review, 82.9 percent (equaling IRR3,376.6 trillion) belonged to Tax on Non-public Legal Entities. Moreover, during the same period, 120.9 percent of the legislated figure for Tax on State-owned Companies was realized and its actual level stood 38.3 percent above that of the same period of 1403 at IRR263.9 trillion. This source formed 6.5 percent of Corporate Tax with the highest realization ratio among other components of Corporate Tax. The actual Income Tax in the first 7 months of 1404 accounted for 77.9 percent of its legislated figure to register IRR1,450.0 trillion, standing 20.4 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 532.0 percent, amounting to IRR18.6 trillion.

However, this source of Tax Revenues accounted for only 1.3 percent of the actual Income Tax during the period under discussion.

The Tax on Properties with 6.1 percent share in Actual Income Tax ranked as the 2nd component of Income Tax in terms of realization ratio at 95.3 percent in the same period, followed by Tax on Salary of Private Sector Employees with 42.2 percent share in Actual Income Tax with 91.3 percent realization ratio. The actual Tax on Salary of the Private Sector Employees registered IRR612.4 trillion, up 28.3 percent from that of the same period of 1403. The actual Tax on Salary of Public Sector Employees that formed 17.0 percent of the actual Income Tax in the first 7 months of 1404, accounted for 65.0 percent of its corresponding figure in 1404 Law, equaling IRR246.5 trillion and up 5.8 percent from that of the first 7 months of 1403. In the first 7 months of 1404, 67.6 percent of the legislated figure for Tax on Professions was materialized, up 13.1 percent from that of the same period of 1403 and constituting 33.3 percent of the actual Income Tax in the first 7 months of 1404.

During the 7-month period under discussion, 69.5 percent of the legislated figure for Tax on Wealth was realized at IRR221.3 trillion to stand 51.7 percent above the actual figure of the first 7 months of 1403. In the same period, Tax on Transfer of Properties enjoyed the highest realization ratio of 158.3 percent, constituting 28.6 percent share in the actual Tax on Wealth, followed by Tax on Goodwill Transfer by 14.6 percent share in Tax on Wealth and 146.9 percent realization ratio in the period under discussion. The latter source expanded by 44.7 percent in the first 7 months of 1404 compared to the same period of 1403. Tax on Stamp Duty as another subgroup of Tax on Wealth experienced realization rate of 133.8 percent and formed 14.1 percent of the actual Tax on Wealth in that period and stood 98.1 percent above the realized figure of the first 7 months of 1403. In the same period, 91.2 percent of Tax on Shares Transfers was realized at IRR55.8 trillion, indicating remarkable 110.2 percent rise compared to the same period of 1403.

During the 7-month period under discussion, the actual Tax on Goods and Services amounted to IRR2,804.0 trillion, up 53.7 percent from that of the same period of its preceding year with 75.5 percent realization rate. Among the components of this source of budget, the actual Value-added Tax (4 percentage points out of 10 percent VAT rate as the share of Government) amounted to 72.2 percent of its legislated amount at IRR1,511.3 trillion and formed 53.9 percent of the actual Tax on Goods and Services in the first 7 months of 1403. Table 15 presents the figures associated with Tax Revenues in the first 7 months of 1404.

Table 15. Tax Revenues in the First 7 Months of 1404 (IRR trillion- percent)

	Realized in the First 7 Months of 1403	Legislated for the First 7 Months of 1404*	Realized in the First 7 Months of 1404	Point-to-point Percentage Change of the Realized	Realization Ratio in the First 7 Months of 1404	Share in Actual Tax Revenues in the First 7 Months of 1404
Tax Revenues	**6,065.4**	**10,616.6**	**8,548.2**	**40.9**	**80.5**	**100.0**
Direct Tax	**4,241.0**	**6,904.5**	**5,744.2**	**35.4**	**83.2**	**67.2**
Corporate Tax	2,891.0	4,724.3	4,072.9	40.9	86.2	47.6
Income Tax	1,204.2	1,861.6	1,450.0	20.4	77.9	17.0
Wealth Tax	145.8	318.6	221.3	51.7	69.5	2.6
Indirect Tax (imports excluded)	**1,824.4**	**3,712.1**	**2,804.0**	**53.7**	**75.5**	**32.8**
Tax on Goods and Services	1,824.4	3,712.1	2,804.0	53.7	75.5	32.8

Source: : Budget Law of 1404 and the Iranian National Tax Administration
* The legislated figure for the first 7 months of 1404 is seven twelfth 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 1404Q3, 28 rounds of auctions were held and IRR5,020.0 trillion Government Debt Securities were issued with the accumulated supply of IRR9,483.5 trillion. Out of this supply, IRR1,558.9 trillion Securities were demanded by banks and non-bank credit institutions and IRR1,514.8 trillion of that was confirmed by the Ministry of Economic Affairs and Finance. Moreover, IRR3,170.4 trillion Government Debt Securities were sold in the capital market. Accordingly, during the first 9 months of 1404 the value of Government Debt Securities transactions in auctions registered IRR4,685.2 trillion to stand 77.0 percent above the IRR2,646.4 trillion in the same period of 1403. Out of the Government Debt Securities issued in the first 9 months of 1404 (IRR5,020.0 trillion) 6.7 percent equivalent to IRR334.8 trillion ought to be deducted as the discount in the face value of those securities. So, in fact the Government has raised IRR4,682.2 trillion through Issuing Debt Securities in the first 9 months of 1404.

Based on the Treasury report, during the first 9 months of 1404, IRR3,062.0 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 IRR1,547.2 trillion Debt Securities from the capital market instead of direct purchasing from the money market in the first 9 months of 1404. All in all, 65.4 percent of the Government Debt Securities has been purchased by banks during the period under discussion. Table 16 depicts the details of auctions of Government Debt Securities held by the CBI during the first 9 months of 1404.

Table 16. Government Debt Securities Auctions Held by the CBI in the First 9 Months of 1404 (IRR trillion-percent)

Month	1403					1404							
	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	Point-to-point Growth of Trades in the Money Market	Point-to-point Growth of Trades in the Capital Market	Point-to-point Growth of Total Trades
02	1,048.6	11.9	10.9	10.0	20.9	0.0	0.0	0.0	0.0	0.0	-	-	-
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
07	1,172.5	48.8	22.7	486.1	508.7	1,416.4	115.5	104.5	609.1	713.6	361.4	25.3	40.3
08	862.4	382.8	382.8	0.0	382.8	1,331.3	205.8	189.3	653.4	842.7	-50.5	-	120.1
09	295.9	110.6	110.6	172.9	283.5	1,178.9	34.2	21.4	731.7	753.1	-80.7	323.2	165.6
Total	**7,662.2**	**1,306.8**	**1,279.7**	**1,366.7**	**2,646.4**	**9,483.5**	**1,558.9**	**1,514.8**	**3,170.4**	**4,685.2**	**18.4**	**132.0**	**77.0**

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. During the first 9 months of 1404, IRR620.0 trillion debt securities were disposed through the 2nd method only. Accordingly, during 9-month period under discussion, IRR5,640.0 trillion Government Debt Securities have been issued in total, 113.1 percent above that of the same period of 1403.

From mid-summer 1400 to the end of 1404Q3, the net accumulated purchase of Government Debt Securities by the CBI and by the Investment Funds registered IRR3,171.5 trillion and IRR6,247.1 trillion, respectively. Note that the CBI is prohibited from purchasing those sorts of securities through the primary market (Initial Public Offering, IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. 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 the first 9 months of 1404 and the net purchase of government debt securities from the primary and secondary markets during that period by banks and non-bank credit institutions reached IRR3,877.4 trillion. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1404Q3 is estimated around IRR5,577 trillion.

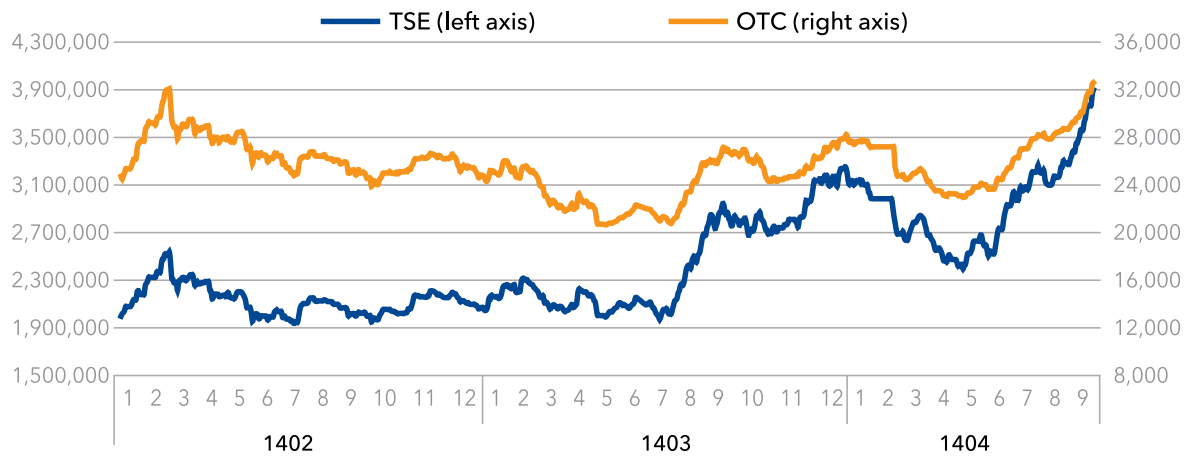
8. CAPITAL MARKET

8-1. Rate of Return

In the early 1404Q2 and right after the cease-fire between Iran and Israel, the Iranian capital market opened and as was expected, a large amount of outflow of private capital took place. i.e., IRR38 trillion private capital quit the Stock market and Stock Funds to register the largest outflow since 1402, signaling heightened uncertainties in the Iranian economy. In the last 2 months of the same quarter the air of pessimism again casted shadow over the Iranian capital market as the odds of resumption of war and triggering of Snapback Mechanism increased. The frequent energy outages also exerted various risks on the production and profitability of the listed companies and finally the TSE and OTC Overall Indices contracted by 14.9 percent and 12.9 percent by the end of 1404Q2 compared to the end of 1404Q1, respectively.

In 1404Q3, the Iranian capital market turned bullish as the rise in exchange rates caused many listed companies to make profit. Precisely speaking, as the pricing of much of the products of listed companies (especially exports-oriented and basic industries) is based on the USD price, any rise in that price results in higher price of the products in IRR and accordingly more profitability of the listed companies, even in case of constant level of production. An examination of the capital market indices reveals that the price-to-earnings ratio (P/E) fell to 4.80 and 4.99, respectively, in the last 2 months of 1404Q2 - the lowest values since 1396. This fall in the P/E ratio, which potentially heralds a Bull Market, made the Iranian capital market highly appealing to investors in 1404Q3 and the net inflow of private capital to the Stock market and Stock Funds registered IRR185 trillion during that quarter, unlike the severe outflow during 1404H1. All in all, the change in investors behavior towards the capital market caused the TSE and OTC Overall Indices to expand by 53.5 percent and 37.7 percent, respectively, at the end of 1404Q3 compared to the end of its preceding quarter. Moreover, the Leveraged Funds yielded 99.8 percent during 1404Q3. The daily developments of TSE and OTC Overall Indices from 1402 to the end of 1404Q3 are shown in Graph 9.

Graph 9. TSE and OTC Overall Indices



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

In the year ended the last day of 1404Q3, among the various types of investments shown in Table 17, 18-Karat Gold ranked 1st with its 179.0 percent rate of return in terms of IRR. From a quarterly view point, during 1404Q3 the TES Overall Index enjoyed the highest return rate of 53.5 percent. Moreover, in the one-year period under review, the notable 66.5 percent rise in global price of gold per ounce was a major driver of the higher return of gold-based assets than the USD rate of return. All in all, during 1404Q3, the TSE and OTC payoffs stood above the point-to-point CPI inflation rate, but in annual terms and in the year ended the last day of 1404Q3 the aforementioned markets incurred negative real rates of return. Accordingly, the market boom in 1404Q3 has not been remarkable enough to offset the bearish path of the capital market in its 3 preceding quarters.

Table 17. Quarterly and Annual Returns of Various Investment Types (in IRR) at the End of 1404Q3 (percent)

	Quarterly Return (End of 1404Q3 to End of 1404Q2)	Annual Return (End of 1404Q3 to End of 1403Q3)
TSE Overall Index	53.5	45.4
18-Karat Gold	45.8	179.0
Gold Funds (weighted average)	41.5	166.7
Gold Coin	40.5	164.4
OTC Overall Index	37.7	27.0
USD in the Free market	26.2	72.1
Consumer Price Index (CPI)	13.1	52.6
Fixed Income Funds (weighted average)	7.9	35.1
Bitcoin	4.9	63.0

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

8-2. 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 IRR166,104.9 trillion at the end of 1404Q3, up 41.6 percent from that of the end of 1403Q3. During the period under discussion, the highest market capitalization expansion was attributed to the Exchange-traded Funds at 149.1 percent, while the lowest to the Stock market at 35.5 percent. The notable expansion of the Exchange-traded Funds in 1404Q3 was highly emanated from the expansion in the market capitalization of Commodity Funds in Iran Mercantile Exchange (mainly Gold and Saffron Funds). At the end of 1404Q3, the TSE, OTC, and Iran Mercantile Exchange, respectively, constituted 73.3 percent, 24.1 percent, and 2.6 percent of the total market capitalization of the Iranian capital market. In Table 18, the market capitalization of the Iranian capital market at the end of falls of 1403 and 1404 are compared.

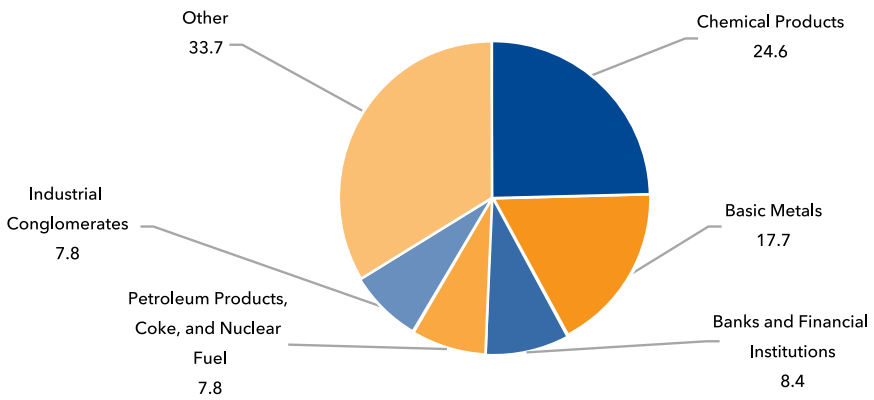
Table 18. Market Capitalization of the Iranian Capital Market by Various Types (IRR trillion)

Market	End of 1403Q3	End of 1404Q3	Percentage Change
Shares	103,256.3	139,866.4	35.5
Debt Securities	9,279.2	14,366.5	54.8
Exchange-traded Funds*	4,765.9	11,872.0	149.1
Total	**117,301.4**	**166,104.9**	**41.6**

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

By the end of 1404Q3, the chemicals industry - mainly including petrochemical producers - with 24.6 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 17.7 percent, banks and credit institutions at 8.4 percent, and Petroleum Products, Cokes and Nuclear Fuels at 7.8 percent. During the first 3 quarters of 1404, the Iranian banking industry with 197.1 percent expansion in value of stocks transactions was classified among the leading industries in the Iranian capital market, However, it was outperformed by the Petroleum Products, Cokes and Nuclear Fuels industries with 290.8 percent expansion in value of transactions. Graph 10 depicts the top five industries in the Stock market in terms of market capitalization.

Graph 10. Top Five Industries by Share in Market Capitalization at the End of 1404Q3 (percent)



Source: Securities and Exchange Organization of Iran

8-3. Value of Transactions

The value of transactions in the Iranian capital market (including the Exchange-traded Funds of Iran Mercantile Exchange) totaled IRR401,534 trillion in the first 3 quarters of 1404, up 168.3 percent from that of the same period of 1403. 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 173.7 percent, while the lowest to the Stock market at 99.8 percent. Notwithstanding its 8.6 percent share in the total market capitalization of the Iranian capital market at the end of 1404Q3, the Debt Market constituted around 84.5 percent of the total value of transactions of the Iranian capital market. This 84.5-percent share is partly due to Open Market Operations of CBI in conjunction with the attractive rate of return of Debt Securities - despite the fact that the Stock market was not that profitable in 1404H1. Given that much of the Debt Securities are traded in the OTC, 94.2 percent of the total value of OTC transactions in the first 3 quarters of 1404 belonged to Debt Securities transactions. Table 19 presents the value of transactions of various types of securities in the Iranian capital market in the first 3 quarters of 1403 and 1404.

Table 19. Value of Transactions in the Iranian Capital Market

Market	First 3 Quarters of 1403		First 3 Quarters of 1404		Percentage Change in Value of Transactions
	Value of Transactions (IRR trillion)	Share in Total (percent)	Value of Transactions (IRR trillion)	Share in Total (percent)	
Exchange-traded Funds	18,136	12.1	47,197	11.8	160.2
Debt Securities	123,928	82.8	339,163	84.5	173.7
Shares	7,594	5.1	15,174	3.8	99.8
Total	**149,658**	**100.0**	**401,534**	**100.0**	**168.3**

Source: Securities and Exchange Organization of Iran

8-4. Finance

On the basis of the Securities and Exchange Organization of Iran, during the first 3 Quarters of 1404, IRR8,532.0 trillion has been financed (including Debt Securities) via TSE and OTC in total, up 46.1 percent from the same period of 1403. Out of that IRR8,532.0 trillion, 22.0 percent was attributed to raising capital (matured claims and cash contributions, or accumulated reserves and profits), 77.3 percent to Issuance of Debt Securities, and only 0.7 percent to Initial Public Offering (IPO). In the first 3 quarters of 1404, 50.2 percent of raising capital itself was financed through matured claims and cash contributions and the remaining 48.8 percent via accumulated reserves and profits. An examination of fund raising through Debt Securities in the same period reveals that 87.6 percent of the funds financed via this method was attributed to Government Debt Securities, 11.8 percent to Corporate Bonds, and the remaining 0.6 percent to Municipal Bonds. Accordingly, 66.6 percent of the total IRR8,532.0 trillion of finance through TSE and OTC in the first 3 quarters of 1404, equaling IRR5,680.0 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 IRR54,114 trillion via the bank facilities (money market) in the first 3 quarters of 1404, the share of the Iranian capital market in financing businesses during the period under review equals 13.6 percent, and should the Government Debts Securities be excluded, that share falls to 5.0 percent only. In Table 20, various types of finance through the TSE and OTC in the first 3 quarters of 1403 and 1404 are presented in detail.

Table 20. Various Types of Finance in TSE and OTC

Type of Finance	First 3 Quarters of 1403		First 3 Quarters of 1404		Percentage Change in Value of Transactions
	Value (IRR trillion)	Share in Total (percent)	Value (IRR trillion)	Share in Total (percent)	
Raising Capital (except for asset revaluation and stock premium)	1,115.7	19.1	1,876.0	22.0	68.2
Initial Public Offering	24.6	0.4	56.6	0.7	129.8
Issuance of Debt Securities	4,700.9	80.5	6,599.4	77.3	40.4
Total	**5,841.2**	**100.0**	**8,532.0**	**100.0**	**46.1**

Source: Securities and Exchange Organization of Iran

9. OTHER DEVELOPMENTS

From the 2nd day of 1404Q4, on which the IRI Administration proposed the Budget Bill of the year 1405, till the 16th day of that quarter, the US Dollar appreciated by 9.1 percent against the national currency. In 1405 Bill, 20 percent rise was proposed for the salary of employees, however, Rial depreciation was not just limited to the aforementioned 2-week period. The USD/IRR exchange rate grew by 60 percent on average in the past 6 months, resulting in uprising of economic agents in the Grand Bazaar of Tehran which quickly spread to the rest of Iran. In response to such circumstances, the IRI Government appointed a new governor for the CBI, eliminated the allocation of USD at official rate for imports of essential goods and finally implemented exchange rate unification and decided to pay subsidies directly to the final consumers. Hence, around 80 million of the Iranian citizens were entitled to directly receive IRR10 million cash subsidy per months which adds up to the Government fiscal burden by IRR9,600 trillion for the year 1405 as a whole.

In order to estimate the benefits obtained by the Government from its recent foreign exchange policy, some assumptions ought to be considered in this section - it is crystal clear that any deviation from these assumptions causes the following estimation to change. As such, in the first 9 months of 1404, USD42.6 billion for imports has been raised through the secondary market, of which USD9.0 billion was attributed to the imports of essential goods at the rate of IRR285,000 per USD. Extending the figure USD9.0 billion to the whole year, it rises to USD12.1 billion in 1404. Moreover, materialization of the same amount for imports of essential goods in 1405 is assumed. Note that this an oversimplification of the case since the rest of the factors that affect the trade volume of goods are considered constant. In our assumption, the USD/IRR exchange rate is considered 1.5 million on average in 1405, albeit in an optimistic scenario. It is also assumed that the cash subsidy is paid to all 80 million recipients and the allocation of USD at official price of IRR285,000 for imports of wheat and pharmaceuticals is also eliminated. Accordingly, if the Government is to maintain allocation of USD at official price of IRR285,000 for imports of essential goods (USD12.1 billion) in 1405, it would result in IRR11,000 trillion fiscal burden. But this one side of the coin, the other side is that as the state-owned companies are on the supply side of the secondary market, thanks to the exchange rate unification they enjoy remarkable profits from supply of foreign currencies to the importers of goods at much higher USD price. By a rough calculation, it seems that the proceeds from the exchange rate unification would considerably surpass the fiscal burden of IRR11,000 trillion, hence part of the benefits from the recent exchange rate policy of the government would remain in the hands of government instead of being allocated to the citizens.

KEY POINTS

• Lack of Commercial and technical ties between Iran and the US as the world leader of the AI inevitably makes Iran dependent of China in that regard, just like its trade with China.

• The CBI report suggests 0.6 percent contraction of the Iranian economy in 1404H1, a notable economic setback given the 2.7 percent expansion of 1403H1. The SCI reported a negligible expansion of 0.1 percent for the same period. This economic recession is attributed to the downturn in Agriculture as well as Industry sectors.

• In October 2025 (roughly corresponding to the 7th month of 1404), Iran's oil exports averaged 2.2 mbpd, up 52.4 percent from October 2024.

• The upward path of the CPI inflation rate speeded up in 1404Q3 and the annual and point-to-point CPI inflation rates closed that quarter at 42.2 percent and 52.6 percent, respectively. Among the 12 major groups of the consumption basket of goods and services, the 72.3 percent point-to-point inflation rate of Foods and Beverages is translated to the severs fall in welfare level of the Iranian households. The CBI report suggests 60.6 percent point-to-point PPI inflation rate at the end of 1404Q3, signaling higher CPI inflation rates in coming months.

• The high volatility of the Iranian free market for foreign exchanges in 1404 caused the USD/IRR exchange rate to rise by 69.5 percent in 1404Q3 compared to the same quarter in its preceding year. The secondary Market for foreign exchange (Quasi-official) experienced harsh and rapid developments in the late 1404Q3 and early 1404Q4 and was broken down to two segments with various exchange rates. However, due to the shortage of foreign reserves, the CBI finally implemented exchange rate unification.

• The latest CBI report on monetary aggregates that covers the first 8 months of 1404 reveals a significant rise in growth rates of Liquidity and Monetary Base in the 8-month period under discussion. The extraordinary state of the Iranian economy especially in the post 12-day War era caused the CBI to opt for an accommodative approach towards the banks regarding making loans. Among the Monetary Base components, all component served as factors of increase in that monetary aggregate (the Net CBI claims on the Public Sector as the main factor) at the end of the 8th month of 1404 compared to the end of 1403 but the Net Other Assets.

• The Total Government Budget reached IRR144,414 trillion in 1405 Bill to stand 28.0 percent above its corresponding figure in 1404 Law. The proposed General Sources and Uses in 1405 Bill stand 5.3 percent only above the approved figures in 1404 Law. The Operating Balance Deficit registered IRR6,159 trillion, signaling that much of Current Expenditures could not be financed through General Revenues in the year 1405.

• During the first 8 month of 1404, the realization ratio of the Government General Uses surpassed that of the Government General Sources by 7.1 percentage points, resulting in Overall Budget Deficit of IRR2,342.7 trillion. The Operating Balance Deficit in the first 8 months of 1404 registered IRR6,102.7 trillion. In fact, in the period under discussion, 86.5 percent of the Current Expenditures was realized, surpassing the 81.2 percent realization ratio of the General Revenues. For financing this deficit as well as Acquisition of Financial Assets, the Government normally opts for Issuance of Debt Securities and withdrawal from the NDF. During the first 9 months of 1404, the Government sold IRR5,020.0 trillion Debt Securities through weekly auctions held by the CBI and given the price discount on face value of those Securities, in effect IRR4,682.2 trillion has been raised by the Government.

• The Iranian capital market experienced considerable development from different aspects in 1404Q3 compared to its preceding quarter. During 1404Q3, the TSE and OTC Overall indices expanded by 53.5 percent and 37.7 percent, respectively, and the aggregated value of the transactions in TSE and OTC grew by 61.5 percent in the same period. Despite the small share of 8.4 percent of banks and credit institutions in market capitalization of the stock market, in the first 9 months of 1404, this segment of the stock market has been pretty appealing to investors with 197 percent rise in value of transactions compared to the same period of 1403.

• The exchange rate crisis left the CBI with no choice but to implement exchange rate unification. Accordingly, to protect the citizens' welfare from the rise in exchange rates, they are entitled to receive direct cash subsidies. Yet, it seems that part of the benefits from the recent exchange rate policy of the government would remain in the hands of government instead of being allocated to the citizens.

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