بانک خاورمیانه
Middle East Bank

RECENT ECONOMIC DEVELOPMENTS IN IRAN

A QUARTERLY REPORT

Spring 1405
2026Q2

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Disclaimer

Economic Research Department, Middle East Bank

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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 fourth quarter of 1404" indicates the percentage change in oil revenues between the fourth quarter of 1403 and the fourth quarter of 1404.

- Iran follows the Persian Calendar, a solar calendar in which years start on the first day of spring and end on the last day of winter. The four quarters of the year correspond exactly to the four seasons. This report covers the year 1404 that starts on March 21, 2025 and ends on March 20, 2026 and spring of 1405 that starts on March 21, 2026 and ends on June 21, 2026. The first quarter of 1405 (referred to as 1405Q1), spring of 1405, roughly corresponds to the second quarter of 2026 in the Gregorian Calendar (2026Q2).

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

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

1404Q4= 12/22/2025- 03/20/2026, roughly 2026Q1

1405Q1= 03/21/2026- 06/21/2026, roughly 2026Q2

CONTENTS

IRAN'S ECONOMY AT A GLANCE

	1403Q4	1403	1404Q1	1404Q2	1404Q3	1404Q4	1404	1405Q1
Labor Force Participation & Unemployment Rates (percent)								
Participation (15 Years and Over)	40.1	41.0	41.2	40.8	40.7	39.7	40.6	-
Unemployment (15 Years and Over)	7.8	7.6	7.3	7.4	7.8	7.6	7.5	-
Unemployment (Youth Aged 15-24)	21.0	20.1	19.7	19.0	21.5	21.2	20.3	-
Real Growth Rates of GDP and Its Subsectors at Constant 1400 Prices (percent)								
Gross Domestic Product (GDP)	3.2	3.1	-2.4	0.3	2.5	-3.6	-0.7	-
Industries and Mining	2.0	2.4	-7.0	0.0	1.0	-6.7	-3.2	-
Oil	4.6	4.6	0.1	2.1	8.9	1.7	3.1	-
Agriculture	2.8	3.6	-4.1	-4.3	-3.9	-3.8	-4.2	-
Services	3.9	3.3	0.9	2.1	4.1	-2.2	1.2	-
Non-oil GDP	3.1	3.0	-2.6	0.1	2.0	-4.1	-1.1	-
Gross Fixed Capital Formation (at market prices)	*4.5*	*3.8*	*-13.9*	*-9.1*	*-13.8*	*-11.6*	*-11.9*	-
Oil (daily average - thousand barrels)								
Production*	3,311	3,286	3,238	3,240	3,224	3,146	3,223	2,534
Point-to-point Inflation Rates (percent)								
Growth Rate of Consumer Price Index (1400=100)	37.4	35.8	40.6	42.0	48.2	59.8	57.7	75.9
Growth Rate of Producer Price Index (1400=100)	33.3	27.6	37.1	44.9	57.5	-	-	-
Balance of Payments (USD million)								
Oil Exports	15,728	65,841	15,225	15,521	13,304	-	-	-
Non-oil Exports	13,466	49,580	10,699	13,323	13,375	-	-	-
Imports of Goods	27,787	88,567	17,263	19,164	19,347	-	-	-
Goods Account (net)	1,407	26,854	8,661	9,681	7,332	-	-	-
Non-oil Goods Account (net)	-12,917	-36,308	-6,262	-5,638	-5,595	-	-	-
Current Account	-2,916	13,232	6,369	5,211	2,319	-	-	-
Capital Account	6,592	-20,714	-8,746	-6,127	-4,312	-	-	-
Change in Foreign Reserves	92	804	965	45	-895	-	-	-
Foreign Exchange Rates (USD/IRR daily average)								
Free Market (bill)	862,096	675,159	883,354	936,730	1,144,261	1,547,804	1,123,327	1,668,976
Secondary Market (remittance)**	669,470	507,183	691,774	697,147	710,858	1,253,321	834,780	1,434,290
Monetary and Credit Aggregates (end of period - IRR trillion)								
Monetary Base (M0)	13,594	13,594	14,444	16,124	18,258	21,959	21,959	-
CBI Claims on Banks	11,702	11,702	7,315	9,378	12,645	6,449	6,449	-
CBI Claims on Public Sector (net)	-3,546	-3,546	-1,026	-551	-619	-3,066	-3,066	-
CBI Net Foreign Assets	31,886	31,886	33,591	34,552	36,342	61,418	61,418	-
Liquidity (M2)	101,660	101,660	110,588	124,087	135,345	155,812	155,812	-
Money (M1)	26,317	26,317	26,496	30,303	33,854	39,948	39,948	-
Sight Deposits	24,526	24,526	24,581	28,151	31,624	37,134	37,134	-
Non-sight Deposits (quasi-money)	75,342	75,342	84,092	93,784	101,409	115,864	115,864	-
M2 Money Multiplier	7.48	7.48	7.66	7.70	7.41	7.10	7.10	-
Government Budget and Fiscal Position (IRR trillion)								
The data in this section is not available								
Tehran Stock Exchange (end of period)								
Overall Index (TEDPIX)	2,710,088	2,710,088	2,984,605	2,540,174	3,898,235	3,713,956	3,713,956	5,125,976
Financial Index	2,311,206	2,311,206	2,810,518	2,574,062	3,391,863	3,087,670	3,087,670	4,483,044
Industrial Index	2,589,606	2,589,606	2,804,554	2,354,195	3,716,400	3,568,386	3,568,386	4,884,799
Market Capitalization (IRR trillion)	120,583	120,583	132,174	114,313	165,792	160,860	160,860	213,177

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
** 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 analyzing the effects of the USA-Israel war against Iran that began in late Feb 2026 on the global economic growth rate, Federal Reserve approach towards interest rate and the impact of these factors on the Iranian economy. The Report proceeds with going over the real sector of the economy including GDP developments with its growth rate in 1404 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 spring 1405 (hereafter referred to as 1405Q1). The labor market indices in 1404Q4 are also covered in Chapter 3.

Chapter 4 covers the developments of various Consumer Price Index (CPI) inflation rates according to the CBI and the SCI in spring 1405. Regarding the Producer Price Index (PPI), the CBI data covered up to 1404Q3 and that of the SCI up to the end of 1404.

In the fifth chapter, the probable developments of the Balance of Payments (BOP) are analyzed. The daily developments of the US Dollar price in the domestic free market and the secondary market are explored in 1405Q1 in chapter 6. In the succeeding chapter, the monetary and credit aggregates are analyzed by Monetary Base (M0), Money (M1), Quasi-money, and Liquidity (M2) in 1404 and a summary of assets and liabilities of the banking system is provided for the same period. The balances of deposits and extended facilities cover till the end of 01/1405 and the data on extended facilities by various sectors of the economy during 1405Q1 are presented in the same chapter.

Chapter 8 of the Report goes over the actual Tax Revenues in the first two months of 1405 and the sales of Government Debt Securities in 1405Q1. The developments of the Iranian capital market indices are investigated in Chapter 9. The Report concludes with going over the future of USA war against Iran in a game-theoretical framework.

1. GLOBAL ECONOMIC DEVELOPMENTS

As a dominant geopolitical event in recent years, the 40-day USA-Israel war against Iran dramatically affected the global economy. As such, in the July 2026 World Economic Outlook of the International Monetary Fund (IMF), the 2026 global economic growth rate is projected at 3.0 percent, down from the 3.5 percent observed in 2025 and 2024.

According to the IMF, the downward projection of global economic growth rate in 2026 is mainly rooted in the military tensions in the Middle East, which was revised upward owing to the accelerated momentum of the global technology cycle, especially the advances in Artificial Intelligence (AI). The War impact varies widely based on countries' exposure to that and their position in the world economy, i.e., energy-importing countries incurred notable losses due to higher oil prices as a result of Hormuz Strait crisis. The impact of the 40-day War on the large economies is also noteworthy, with China and the USA being particularly significant in this regard. As for China's economy, the IMF projected an easing of its growth rate to 4.6 percent in 2026, mainly due to the rise in oil prices. Moreover, in the USA, as the inflation rate remained elevated relative to the Federal Reserve's target inflation rate for the same reason, the Fed pared down its statement to remove cutting bias. All in all, the slowdown in China's economic growth pace as a major trade counterpart of Iran coupled with higher future Fed funds rates and military tensions would altogether serve as the drivers of further contraction of the Iranian economy in 2026. In its report, the IMF projected a 5.4 percent contraction for the Iranian economy in 2026 - the projected rate is revised upward due to the rise in Iran's oil exports in March and April 2026 as a result of the memorandum of understanding between Iran and the USA. That said, given the fragility of the memorandum and the ongoing military tensions in the Persian Gulf, further revision of the IMF projections seems likely.

2. REAL SECTOR

The CBI report on the Iranian national accounts suggests that in the year 1404, the worst economic activity was experienced in winter with a 3.6 percent GDP contraction, far below the 2.5 percent and 3.2 percent expansions in its preceding quarter and winter 1403, respectively. Similarly, the SCI reported a 2.2 percent contraction in Iran's GDP in 1404Q4, slightly lower than that of the CBI. Notwithstanding the discrepancy in the aforementioned reports, which is basically rooted in the different classification of economic activities by those issuing authorities, both of them have expressed a slowdown in the Iranian economy in winter 1404. Moreover, for the year 1404 as a whole, the CBI reported a 0.7 percent GDP contraction, while the SCI reported a 0.2 percent GDP expansion.

The onset of the 40-day War in the last month of winter 1404 made that quarter far different from the other quarters of the year. Despite the fact that only half of the War was in place in 1404 and subsequently much of its impact was expected to appear in the year 1405, it had a significant effect on the economic activities in 1404Q4. In other words, disruptions in the distribution of goods, closure of Hormuz Strait in the late days of 1404, heightened uncertainty and finally partial halt of the economic activities altogether served as the drivers of the GDP contraction in the last quarter of 1404.

In 1404Q4, the value added of "Agriculture, Forestry and Fishing" at constant 1400 prices contracted by 3.8 percent on the basis of the CBI and by 2.6 percent according to the SCI. This contraction - that had started from previous quarters of 1404 - is rooted more in continuous drought, fall in production of key products including wheat, barley, pistachios and dates and inefficient management of water resources than to the War. However, the CBI report suggests a negligible contribution of this sector to the GDP contraction of 1404Q4 due to its small share in the Iranian economy.

The Oil sector as the only sector of the Iranian economy that kept on expanding in 1404Q4, experienced a 1.7 percent growth rate in that quarter and was the sole positive contributor to GDP growth rate by 0.1 percentage point in the same quarter, according to the CBI. On the contrary, a 2.2 percent contraction in the "Extraction of Oil and Gas" was reported by the SCI. It is noteworthy that since the oil exports of Iran in the late months of 1404 was ongoing with lower price discounts, the CBI data regarding the Oil sector appear more realistic than that of the SCI. The oil exports of the country, however, dropped to nearly zero in 1405Q1 as a result of the US naval blockade against Iran.

Much of the downward pressure on the GDP growth rate in 1404Q4 was exerted through the "Industries and Mining" sector. On the basis of the CBI, the aforementioned sector contracted by 6.7 percent, reducing the GDP growth rate of 1404Q4 by 2.6 percentage points. Among the various subsectors of the Industries and Mining, the "Manufacturing" as well as "Construction" by 7.6 percent and 7.4 percent contractions, respectively, were the main drivers of the GDP downturn of 1404Q4. The "Mining" subsector recorded a positive growth rate of 0.6 percent in the same quarter, while "Electricity, Gas, Steam and Air Conditioning Supply" and "Water supply, Sewerage, Waste Management and Remediation Activities" experienced negative growth rates of 2.7 percent and 7.9 percent, respectively. Additionally, the SCI reported a 1.9 percent contraction for the "Industries and Mining" sector in 1404Q4, with a 4.2 percent contraction in "Manufacturing" as its subsector. The ongoing energy crisis, administered pricing, downward shift in the demand side and the onset of War in the late 1404Q4 are altogether referred to as the main drivers of the GDP contraction in winter 1404.

According to the CBI, the "Services" expanded in all quarters of the year 1404, but in the winter. In that quarter, the "Services" contracted by 2.2 percent to decrease the GDP growth rate by 1.1 percentage points, serving as the second driver of the GDP contraction of 1404Q4 following the "Industries and Mining". The role of the 40-day War in this regard is crystal clear. An examination of Services by its various subsectors reveals that "Accommodation and Food Services Activities", "Transportation and Storage", and "Wholesale and Retail Trade, Repair of Motor Vehicles/Cycles" incurred the most severe contractions of 20.3 percent, 7.3 percent and 7.1 percent in the last quarter of 1404. In contrast, "Human Health and Social Work Activities", "Financial and Insurance Activities" and finally "Education" kept on expanding at 9.0 percent, 1.7 percent and 4.9 percent, respectively.

Moreover, the SCI presents a similar account, i.e., the Services contracted by 2.6 percent and among itssubsectors, "Wholesale and Retail, Hotel and Restaurant" contracted by 5.8 percent and "Transportation, Storage and Communication" by 6.9 percent. The GDP growth rate in 1404 at constant 1400 prices is shown in Table 1.

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

	1404					Share in Growth of Q4
	Q1	Q2	Q3	Q4	Total	
Agriculture	-4.1	-4.3	-3.9	-3.8	-4.2	0.0
Oil	0.1	2.1	8.9	1.7	3.1	0.1
Industries and Mining	-7.0	0.0	1.0	-6.7	-3.2	-2.6
Services	0.9	2.1	4.1	-2.2	1.2	-1.1
Non-oil GDP (at basic prices)	**-2.6**	**0.1**	**2.0**	**-4.1**	**-1.1**	-
GDP (at basic prices)	**-2.4**	**0.3**	**2.5**	**-3.6**	**-0.7**	**-3.6**

Source: Central Bank of Iran

The GDP from the expenditure side in the CBI books reveals a slowdown in the Consumption Expenditures in 1404Q4. In that quarter, the Private Consumption Expenditures contracted by 2.5 percent and Government Consumption Expenditures by 1.7 percent. However, the most severe contraction took place in Gross Fixed Capital Formation at 11.6 percent. This component of GDP experienced a 20.1 percent contraction in Machinery and 2.8 percent in Construction. The remarkable contraction in Gross Fixed Capital Formation in Machinery should be analyzed in light of the uncertainties arising from the 40-Day War, imports restrictions and limited room for banks to extend facilities. In 1404Q4 the Exports and Imports of Goods and Services fell by 13.4 percent and 28.2 percent, respectively, causing the GDP at constant market prices to fall by 3.9 percent. Even though the fall in imports represents the disruption in trade due to the War, it is more rooted in foreign reserves limitations and the exchange rate unification policy of the CBI than any other factor.

The SCI data in the same regard in 1404Q4 reveal 4.8 percent contraction in Private Consumption Expenditures, 1.4 percent expansion in Government Consumption Expenditures, 2.0 percent contraction in Gross Fixed Capital Formation[1],13.5 percent fall in exports and 27.6 percent slump in imports that altogether resulted in 2.6 percent GDP contraction in that quarter at constant prices. Comparing the two issuing authorities, they show similar trends regarding Iran's international trade in the period under review, while regarding Gross Fixed Capital Formation and Consumption Expenditures their stories are far different. In Table 2, GDP growth rate from the expenditure side in 1400 is presented on the basis of the CBI data at constant 1400 prices.

The GDP price deflator for 1404 equals 50.2 percent, translating to a high and persistent inflation rate in the Iranian economy. Among various economic sectors, the Oil sector experienced the highest price deflator at 61.5 percent. All in all, winter 1404 was the worst quarter of the year in terms of economic activity and the economic slowdown in that quarter was fueled by two sources: First, persistence of the structural problems (including drought, energy crisis, sanctions, uncertainties and administered pricing) and second, the shocks exerted to the economy towards the end of the year, when the 40-day War began. As the War was extended to the year 1405, its adverse effects would be reflected in the real sector data for the early quarters of 1405.

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

	1404				
	Q1	Q2	Q3	Q4	Total
Private Consumption Expenditures	**2.1**	**1.0**	**0.4**	**-2.5**	**0.2**
Government Consumption Expenditures	**2.1**	**0.2**	**2.1**	**-1.7**	**0.5**
Gross Fixed Capital Formation	**-13.9**	**-9.1**	**-13.8**	**-11.6**	**-11.9**
Machinery	-14.6	-11.1	-2.2	-20.1	-12.2
Construction	-14.0	-7.6	-31.0	-2.8	-12.3
Net Exports of Goods and Services					
Exports of Goods and Services	-5.5	6.7	-2.8	-13.4	-4.9
Imports of Goods and Services	-11.8	-14.8	-10.6	-28.2	-16.6
GDP at Market Prices	**-2.6**	**0.4**	**2.1**	**-3.9**	**-0.9**

Source: Central Bank of Iran

1. 7.8 percent contraction in machinery while 3.5 percent expansion in construction.

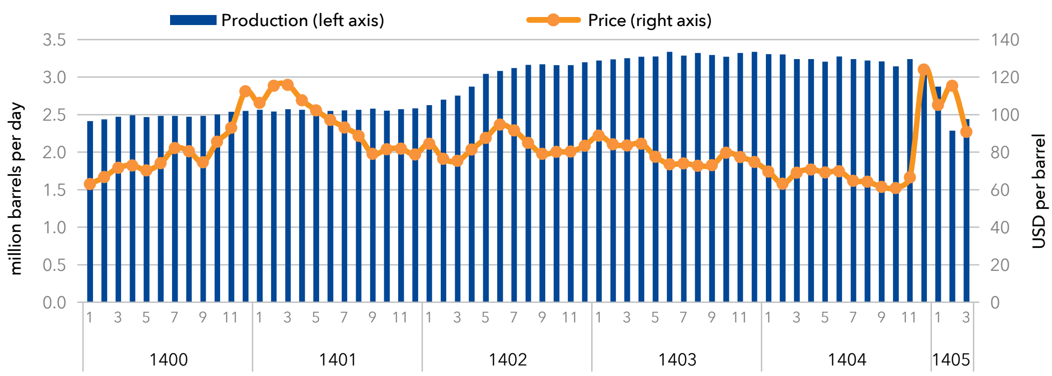
2-1. Oil

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[2] website estimated Iran's oil exports at around 1.0 million and 0.1 million barrels per day (mbpd), respectively, for April and May 2026 (roughly corresponding to the 1st and 2nd months of 1405), indicating a 38.6 percent and a 95.1 percent contraction from the corresponding months of 2025. According to the same source, in June 2026, Iran's oil exports escalated to 1.7 mbpd. All in all, during 1405Q1, Iran's oil exports experienced three distinct phases: the continuation of oil exports during the wartime, the severe fall in oil exports due to the naval blockade of Iran and a surge in oil exports in the aftermath of signing of the memorandum of understanding between Iran and the US.

Thanks to the diplomatic efforts of Pakistan, the new USA-Israel war against Iran which had started in late 1404, stopped after 40 days. Shortly after the ceasefire, a new round of talks took place in Pakistan. However, since the talks did not result in an agreement, the US enforced a naval blockade on Iran that lasted about 45 days, serving as the dominant driver of the fall in Iran's oil exports. In the late 1405Q1, a memorandum of understanding was signed between Iran and the US, the most crucial clause of which was the lifting of the naval blockade. According to Tanker Trackers, since June 15, 2026, Iran has exported around 50 million barrels of crude oil in just two weeks. This data is consistent with the exports of 40 million barrels of crude oil at a higher price claimed by one of the Islamic Republic authorities.

Moreover, on the basis of OPEC reports from secondary sources as the only available statistical source of reliable data, Iran's oil production in June 2026 (roughly corresponding to the 3rd month of 1405) averaged 2.4 mbpd, indicating a 24.7 percent fall compared to June 2025. This severe fall was directly driven by the 40-day War as well as the naval blockade of Iran by the US. The damage to the oil-sector infrastructure in conjunction with the disruption of oil-export flow caused Iran's oil production to fall. In other words, storage limitations made it uneconomical to produce oil at pre-war levels. Graph 1 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 the 3rd month of 1405.

Graph 1. 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.

According to the OPEC reports, the price of Iran's crude oil averaged USD115.4 and USD90.8 a barrel in May and June 2026 (roughly corresponding to the 2nd and 3rd months of 1405), respectively, up 82.4 percent and 31.3 percent from those of the same months of 2025. These price rises took place in the war era and closure of Hormuz Strait, as a portion of Middle East oil supply was lost. Moreover, as the shortage in the global supply of oil left less room for bargaining, the price gap between Iran's crude oil and benchmark crudes like Brent narrowed, enabling Iran to sell its oil with smaller discounts.

2. 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.

3. LABOR MARKET

The latest report of the SCI on the Iranian labor market suggests that in 1404Q4, the unemployment rate of the population aged 15 and above registered 7.6 percent, 0.2 percentage point below those of 1403Q4 and 1404Q3, while in the same quarter, the labor force participation rate fell by 0.4 percentage point compared to 1403Q4. Regarding the employment rate as well as the rate of underemployment (working less than 44 hours a week), in 1404Q4 the former contracted by 0.4 percentage point, while the latter expanded by 0.5 percentage point to 8.2 percent from 1403Q4.

The 40-day War and heightened uncertainties in the Iranian economy did not result in an immediate and significant rise in the unemployment rate – at least in 1404Q4 - but instead ended up in a fall in the labor force participation rate and the employment rate. Precisely speaking, the decline in labor force participation rate indicated that part of the population at working age were not willing to seek a job and might have left the labor market temporarily or permanently. Furthermore, the fall in the employment rate showed that the share of employed people in the total population at working age has fallen and new job opportunities have been limited. Accordingly, under such circumstances, a decline in the unemployment rate does not necessarily translate to the improvement in the labor market, i.e., it is rooted in the fall in the active population.

In 1404Q4, the unemployment rate of males stood at 6.2 percent and that of females at 15.0 percent, indicating 0.3 percentage point fall in the former, while 0.8 percentage point rise in the latter from 1403Q4. During the period under review, 57.1 thousand individuals were added to the employed population, the number of males rose by 290.8 thousand, while that of the females fell by 233.7 thousand. Hence, as the rise in employed males was in proportion to the total increase in the male working age population, the employment ratio of males at working age registered 63.0 percent in 1404Q4, up 0.1 percentage point from the same quarter of its preceding year. As for females, the employment ratio in 1404Q4 dropped by 0.9 percentage point to 10.4 percent compared to 1403Q4. Subsequently, the total employment ratio reached 36.6 percent in 1404Q4, indicating 0.4 percentage point fall from 1403Q4.

Out of the 2.0 million unemployed population in 1404Q4, 1.3 million aged 18 to 35. Accordingly, the unemployment rate for this age group registered 15.1 percent in that quarter, indicating 0.3 percentage point rise from 1403Q4. In the same quarter, 732.8 thousand individuals with higher education were unemployed, translating to an unemployment rate of 10.0 percent in this group in total with 0.7 percentage point fall from 1403Q4, notwithstanding the undesirable conditions of the Iranian labor market. An examination of the population with higher education by gender reveals an unemployment rate of 6.9 percent among males (0.7 percentage point below that of 1403Q4) and 17.5 percent among females (0.2 percentage point below that of 1403Q4). In winter 1404, around 36.6 percent of the total unemployed population of the country had higher education, indicating 2.3 percentage points fall from 1403Q4. In the same quarter, males and females, respectively, constituted 48.4 percent and 51.6 percent of the 732.8 thousand unemployed population with higher education.

In 1404Q4 and compared to the same quarter of its preceding year, 825.5 thousand individuals, including 402.9 thousand males and 422.6 thousand females were added to the total working age population. In the same period, only 15.5 thousand individuals were added to the active population, mainly due to the 231.5-thousand fall in female active population compared to 1403Q4. In the same period, 247.0 thousand individuals were added to the male active population. Subsequently, out of the total population at working age in 1404Q4, 39.7 percent were active, 0.4 percentage point below that of 1403Q4. This small rate of participation is mainly attributed to the female population of the country, in the sense that out of the 33.3 million females aged 15 and above, only 4.1 million were able and willing to work in 1404Q4. In other words, the female participation rate in that quarter registered 12.2 percent only. Out of the 4.1 million females who were willing to work, only 3.5 million succeeded in finding a job.

In 1404Q4, out of 24.4 million employed population, 54.2 percent participated in the Services Sector, 32.5 percent in the Industry Sector, and the remaining 13.2 percent in the Agriculture Sector. In the same quarter, 2.0 million of the employed population (8.2 percent) were underemployed - up 0.5 percentage point from that of 1403Q4 - i.e., they have worked less than 44 hours a week due to various reasons. Table 3 presents the major labor market indices in winters of 1403 and 1404.

Table 3. Major Labor Market Indices by Gender for the Population Aged 15 and Above

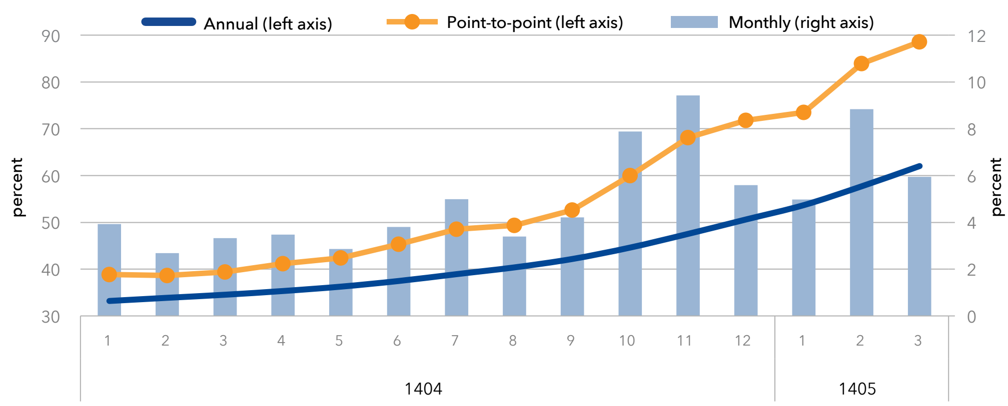
		1403Q4			1404Q4		
		Total	**Male**	**Female**	**Total**	**Male**	**Female**
Labor Force Participation	Rate (percent)	40.1	67.3	13.1	39.7	67.2	12.2
	Number (million)	26.3	22.0	4.3	26.4	22.3	4.1
Employment	Rate (percent)	37.0	62.9	11.3	36.6	63.0	10.4
	Number (million)	24.3	20.6	3.7	24.4	20.9	3.5
Unemployment	Rate (percent)	7.8	6.5	14.2	7.6	6.2	15.0
	Number (million)	2.0	1.4	0.6	2.0	1.4	0.6
Unemployment of Population Aged 18 to 35	Rate (percent)	14.8	12.1	25.2	15.1	12.4	25.9
	Number (million)	1.4	0.9	0.5	1.3	0.9	0.4
Unemployment of Population with Higher Education	Rate (percent)	10.7	7.6	17.7	10.0	6.9	17.5
	Number (million)	0.8	0.4	0.4	0.7	0.4	0.4
Share of Underemployment (percent)		7.7	8.4	4.3	8.2	8.9	4.0
Population Aged 15 and Over (million)		65.6	32.8	32.9	66.5	33.2	33.3

Source: Statistical Center of Iran

4. PRICES AND INFLATION

On the basis of the SCI report, in the year 1405 and following its upward path that had started in 1404, the annual CPI inflation rate kept on rising, from 53.7 percent in the first month of 1405Q1 to 62.0 percent at the end of that quarter, indicating a significant rise. Similarly, the upward trend of the point-to-point CPI inflation rate accelerated, rising from 73.5 percent in the first month of 1405Q1 to 88.6 percent in the last month of the same quarter. Although the CPI inflation rates calculated by the CBI slightly differ from those of the SCI, they have followed similar trends during 1405Q1. Graph 2 depicts the developments of the CPI inflation rates from the beginning of 1404 to the end of 1405Q1 based on the SCI data.

Graph 2. CPI Inflation Rates (1400=100)



Source: Statistical Center of Iran

According to the SCI, the annual CPI inflation rate entered a persistent upward path from the end of 1403 and eventually closed the year 1404 at 50.6 percent. But shortly after three months, that rate climbed by 11.4 percentage points to close 1405Q1 at 62.0 percent. Note that the steeper upward path of the point-to-point CPI inflation rate in 1405Q1 signals higher annual CPI inflation rates in the months ahead. In the three consecutive months of 1405Q1, the monthly inflation rates registered 5.0 percent, 8.8 percent and 5.9 percent, altogether above the corresponding rates in 1404Q1.

Moreover, the CBI report also shows an upward path for the annual CPI inflation rate in 1405Q1, like the previous year. Based on this reporting authority, the annual CPI inflation rate reached 50.6 percent, 53.9 percent and 57.7 percent in the three consecutive months of 1405Q1. As for the point-to-point CPI inflation rate, 67.1 percent, 77.2 percent and 83.1 percent were recorded, respectively, for the same months. All in all, the annual and point-to-point CPI inflation rates calculated by the CBI are slightly below those of the SCI. The highest monthly price rise also took place in the 2nd month of 1405Q1 at 8.5 percent.

The rise in the CPI inflation rates - especially the point-to-point rate - in 1404Q4 and 1405Q1 is attributable to various factors including exchange rate unification in early winter 1404, developments in monetary aggregates (particularly the rise in share of M1 in liquidity) and finally the headwinds faced by the banking system due to the 40-day War. On the basis of M2 statistics, the monthly growth rate of this key monetary aggregate has been increasing since the beginning of 1403 and has surpassed 6 percent in the last month of 1404. Precisely speaking, the CBI has taken an accommodative approach towards banks in extending facilities in order to protect the domestic economy. The CBI Claims on the Public sector - which likely increased to finance the War - also ought to be referred to as another driver of the rise in CPI inflation rates in the period under discussion.

An examination of CPI inflation rate by the twelve groups of the consumption basket of goods and services of the Iranian households in the SCI report reveals that in the last month of 1405Q1, "Tobacco" has experienced the highest point-to-point and annual inflation rates of 173.8 percent and 95.4 percent, respectively. In the same period, in "Housing, Water, Electricity and Other Fuels", the lowest point-to-point and annual inflation rates were realized at 35.9 percent and 35.5 percent, respectively. At the end of 1405Q1, the highest and lowest monthly inflation rates, respectively, belonged to "Hotel and Restaurant" and "Education" at 9.8 percent and 1.6 percent. Going over the CPI inflation rates by the weights assigned to each group of the consumption basket indicates that in "Foods and Beverages", 3-digit inflation rates were experienced throughout 1405Q1, just like in the last two months of 1404. This signals high inflationary pressure on Iranian households in providing their basic needs, especially the low-income groups.

The CBI solely reports the monthly inflation rates of the twelve groups of the consumption basket. Accordingly, in its report, the highest monthly inflation rate of 10.0 percent was recorded for "Household Equipment", while the lowest monthly inflation rate of 0.8 percent belonged to "Education".

Table 4 presents the inflation rates of the twelve main groups of the consumption basket of goods and services in the last month of 1405Q1 based on the SCI classification.

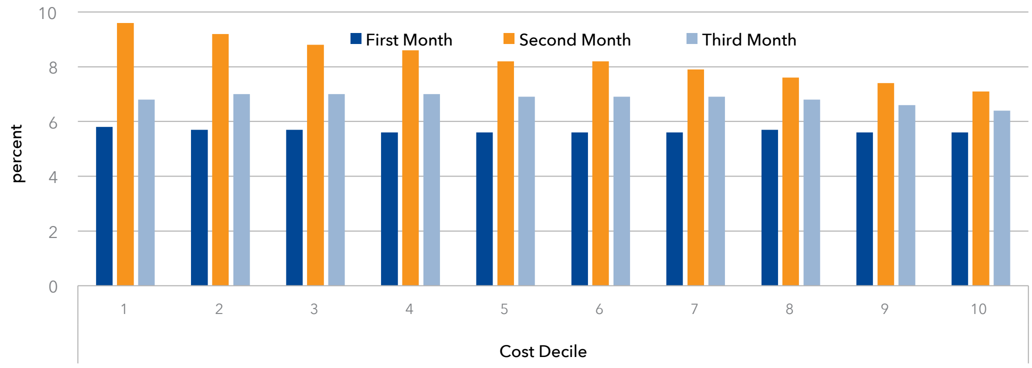
Table 4. Inflation Rates of the Consumption Basket of Goods and Services at the End of 1405Q1 (1400=100)

Group	Base Year (1400) Weight	Inflation Rate		
		Monthly	Point-to-point	Annual
Overall	**100.00**	**5.9**	**88.6**	**62.0**
Housing, Water, Electricity and Other Fuels	36.11	3.2	35.9	35.5
Foods and Beverages	28.82	6.8	133.9	90.7
Transport	8.93	5.7	103.1	59.6
Health	6.68	9.4	81.4	56.8
Clothing and Footwear	4.52	7.9	82.2	52.6
Other Goods and Services	4.42	2.9	97.9	76.6
Household Equipment	4.40	9.7	111.1	66.4
Communication	2.41	3.7	88.2	49.9
Restaurants and Hotels	1.35	9.8	97.4	58.5
Education	0.88	1.6	48.4	44.0
Recreation and Culture	0.87	8.6	90.4	56.9
Tobacco	0.62	6.3	173.8	95.4

Source: Statistical Center of Iran

According to the SCI report on the CPI by various cost deciles, in the first two months of 1405Q1, the highest monthly inflation rates in "Foods, Beverages and Tobacco" have been experienced by the bottom three cost deciles, and in the last month of the same quarter belonged to the 2nd to 4th deciles. Accordingly, from a monthly viewpoint, the bottom cost deciles have incurred higher inflationary pressure than the top cost deciles in providing their daily basic needs. In Graph 3, the monthly aggregated inflation rates of "Foods, Beverages and Tobacco" by cost deciles in 1405Q1 are depicted.

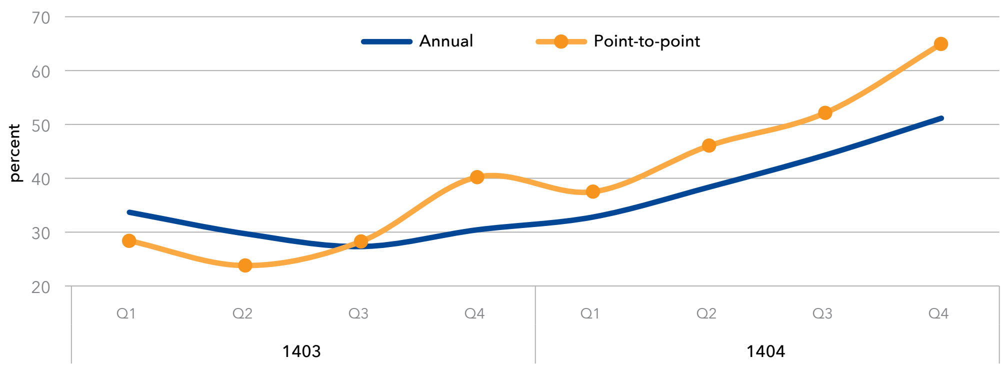
Graph 3. Monthly Inflation Rate in Foods, Beverages and Tobacco During 1405Q1(1400=100)



Source: Statistical Center of Iran

The latest report of the SCI on PPI covers data up to the end of 1404 and that of the CBI on the same index covers data up to the end of 1404Q3. The report of the former is on a quarterly basis, while that of the latter is 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 registered 38.1 percent, 40.9 percent and 41.9 percent in the three consecutive months of 1404Q3, respectively. 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 51.2 percent at the end of 1404Q4. Notwithstanding the difference between the PPI inflation rates of both issuing authorities, they have followed similar trends. Graph 4 depicts the developments of the annual and point-to-point PPI inflation rates in 1403 and 1404 on the basis of the SCI report.

Graph 4. Annual and Point-to-point PPI Inflation Rates (1400=100)



Source: Statistical Center of Iran

5. BALANCE OF PAYMENTS

As the CBI and the Islamic Republic of Iran Customs Administration (IRICA) were yet to publish data on Iran's BOP and customs trade for 1405Q1 while preparing this Quarterly Report, unofficial sources have been used in that regard. The prolonged military tensions, frequent violations of the memorandum of understanding between Iran and the US, and the CBI foreign exchange policy all have exerted systematic risks to the Iranian economy. Hence, under such circumstances, capital flight might have intensified.

Regarding the Current Account, especially the Goods Account as one of its components, the shortage in foreign reserves and the rise in exchange rates have limited imports, although the naval blockade of Iran is also a determining factor. On the basis of some official sources, in 1405Q1, the foreign exchange allocated to production and commerce sectors for imports of raw materials amounted to only 40 percent of the foreign exchange allocated in springs of 1403 and 1404. This reduction in the allocation of foreign exchange served as a double-edged sword. In other words, it reined in the BOP deficit and partly preserved the foreign reserves from further decline, but adversely affected the real sector of the economy. As an example, the fall in allocation of foreign exchange for imports was a key factor for a 51 percent fall in the production of passenger cars in 1405Q1 compared to 1404Q1.

During 1405Q1, part of maritime transportation was replaced by road transportation and 140.4 million tons of goods were transported throughout the country via roads. The hazardous situation of maritime transportation in the Persian Gulf shifted exports away from the south toward the eastern borders of Iran. In this regard, some unofficial sources suggest that exports through customs terminals of South Khorasan province reached 740 thousand tons valued at USD130 million, indicating 74 percent and 53 percent rise in weight and value, respectively.

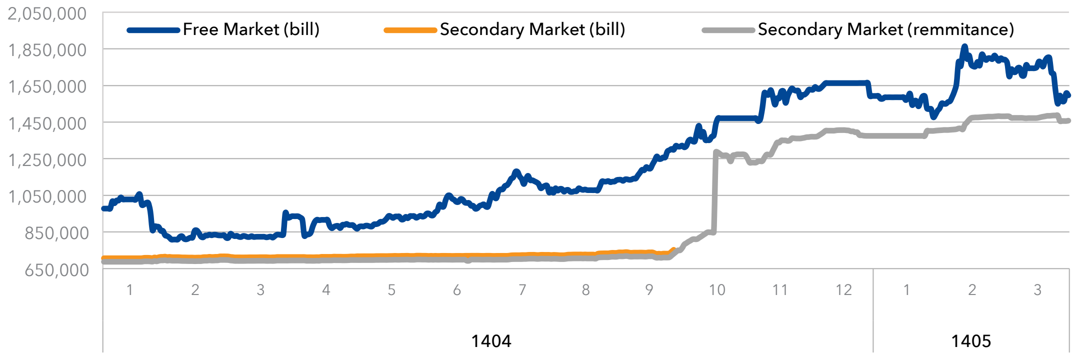
According to the latest official data, in the first nine months of 1404, the net deficit of the Capital Account grew by 35.9 percent, which is expected to have worsened in winter 1404 and spring 1405. The heightened uncertainties in the aftermath of the 40-day War have tempted economic agents to rush into conversion of their Rial assets to safer assets. As such, it estimated that between USD30 billion and USD70 billion foreign currencies notes are held by households.[3] Such a large volume of unrecorded foreign assets coupled with clandestine transactions to circumvent sanctions reflects the inefficiency of the country's official financial network. Hence, the "Errors and Omissions" as a BOP component is expected to take large values in 1405. Under such circumstances, the lack of foreign reserves for imports of raw materials acts as a major obstacle to production.

3. Tejaratnews, July 26, 2026, reference no. 1303345

6. FOREIGN EXCHANGE MARKET

The Iranian foreign exchange market opened the year 1405 while the USA-Israel War against Iran was still ongoing. The USD price that registered IRR1.593 million at the beginning of 1405, was hovering around that figure till the ceasefire on the 18th day of that year. In 1405Q1, the USD/IRR exchange rate averaged 1.670 million to stand 88.9 percent above its average in 1404Q1. The USD/IRR exchange rate was highly volatile during 1405Q1, mainly because of the air of pessimism about the durability of the ceasefire on the one hand and the severe disruption in trade flows in the Persian Gulf on the other hand. Graph 5 depicts the developments in the USD price in various markets in the year 1404 and 1405Q1.

Graph 5. USD/IRR Exchange Rates in Various Markets



Source: Gold, Coin and Currency Information Networks
*In the last days of 1404Q3, the USD/IRR bill exchange rate in the secondary market was increased to a level close to the free-market rate. In only two weeks, after the exchange rate unification was implemented, the USD/IRR bill and remittance exchange rates in the secondary market converged.

During the first two weeks of 1405, the USD price in the Iranian FX market was not that volatile due to low activity of markets in the new year holidays. Shortly after the holidays ended, on the 18th day of the new year the warring parties announced a ceasefire in response to Pakistan's efforts to put an end to the War. In advance of the Pakistan Talks, the USD/IRR exchange rate slightly declined, however, it did not last long and as the Talks failed, the US imposed a naval blockade on Iran's access through the Strait of Hormuz as a reciprocal action to the closure of the Strait by Iran. The naval blockade coupled with the limited tensions between the warring parties resulted in severe fluctuations in USD/IRR exchange rate. In addition, the news about the increasing odds of ceasefire violation speeded up the IRR depreciation and caused the USD price to reach its high of IRR1.864 million in mid-spring. From that point onwards and as a result of the drafting of a memorandum of understanding between Iran and the US, the IRR depreciation began to subside and once the memorandum was signed by both presidents in the last days of 1405Q1, the USD price in the Iranian FX market diminished to IRR1.600 million at the end of that quarter. Table 5 presents the quarterly developments of USD/IRR bill exchange rate in the free market in 1404 and 1405Q1.

Table 5. Nominal USD/IRR Bill Exchange Rates in the Free Market

	Average	Maximum	Minimum	Standard Deviation	Coefficient of Variation
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
1404Q4	1,547,804	1,663,400	1,319,500	107,734	0.07
1405Q1	1,668,976	1,864,100	1,476,800	105,311	0.06

Source: Gold, Coin and Currency Information Networks and research calculations

Unlike the free market, the USD/IRR exchange rate in Iran Center for Exchange of Currency and Gold (secondary market) increased slightly and from 1.290 million on the 15th day of 1404Q4 (when the exchange rate unification was implemented) reached 1.460 million at the end of 1405Q1. The gap between the USD price in the free market and the secondary market which had registered 62.0 percent a day prior to the exchange rate unification, fell to 12.0 percent once the CBI implemented it, however, as expected, the CBI policy was not that effective and due to the onset of the 40 day War, the gap between the USD/IRR exchange rates in the free market and the secondary market began to widen again, reaching 30.0 percent in mid-1405Q1. In response to the air of optimism generated by drafting of a memorandum of understanding between Iran and the US, the USD price in the free market entered a downward path and once the memorandum was signed by the US and IRI Presidents, the gap between the free-market and official USD/IRR exchange rates fell to 7.5 percent and eventually closed 1405Q1 at 9.5 percent. All in all, the significant influence of political interactions between Iran and the West on the gap between the aforementioned rates seems obvious. Hence, the success of the exchange rate unification - which is translated to vanishing that gap calls for reaching a robust and durable agreement between Iran and the US, lifting the sanctions and releasing part of Iran's foreign assets.

7. MONEY MARKET

7-1. Monetary Aggregates

According to the latest preliminary CBI data that covered up to the end of 1404, M2 closed the year 1404 at IRR155,812.2 trillion, indicating 53.3 percent rise from that of the end of 1403. Meanwhile, the CBI governor also announced a 52.0 percent growth rate for the same variable in the 2nd month of 1405. Table 6 presents the developments of Monetary Base and Liquidity at the end of 1404.

Table 6. Liquidity and Monetary Base with Their Components (IRR trillion-percent-percentage points)

	End of Period Balance			Annual Growth Rate at the End of		Share in M0 Annual Growth Rate at the End of	
	12/1402	12/1403	12/1404	12/1403	12/1404	12/1403	12/1404
Monetary Base (M0)	**10,921.3**	**13,594.3**	**21,959.3**	**24.5**	**61.5**	**24.5**	**61.5**
CBI Foreign Assets (net)	18,537.1	31,885.8	61,418.0	72.0	92.6	122.2	217.2
CBI Claims on Public Sector (net)*	-1,786.8	-3,545.5	-3,065.5	98.4	-13.5	-16.1	3.5
CBI Claims on Public Sector	4,742.8	6,803.9	10,497.3	43.5	54.3	18.9	27.2
Public Sector Deposits with CBI	6,529.6	10,349.4	13,562.8	58.5	31.0	-35.0	-23.7
CBI Claims on Banks	7,713.5	11,701.9	6,449.0	51.7	-44.9	36.5	-38.6
Other Assets (net)*	-13,542.5	-26,447.9	-42,842.2	95.3	62.0	-118.1	-120.6
Balance of Implementation of Monetary Policy	20,040.0	4,039.9	6,012.5	98.0	48.8	18.3	14.5
						Share in Liquidity at the End of	
Liquidity (M2)	**78,774.5**	**101,659.5**	**155,812.2**	**29.1**	**53.3**	**12/1403**	**12/1404**
Money (M1)	**19,146.4**	**26,317.3**	**39,948.4**	**37.5**	**51.8**	**25.9**	**25.6**
Notes and Coins with the Public	1,468.8	1,791.3	2,814.7	22.0	57.1	1.8	1.8
Sight Deposits	17,677.6	24,526.0	37,133.7	38.7	51.4	24.1	23.8
Checks (net)	522.6	634.3	1,308.2	21.4	106.2	0.6	0.8
Quasi-Money	**59,628.1**	**75,342.2**	**115,863.8**	**26.4**	**53.8**	**74.1**	**74.4**
Interest-free Saving Deposits	7,603.5	11,500.5	19,480.6	51.3	69.4	11.3	12.5
Short Term Deposits	16,865.4	21,193.9	34,363.1	25.7	62.1	20.8	22.1
One-year Deposits	14,508.7	15,851.9	27,708.8	9.3	74.8	15.6	17.8
Two-year Deposits	4,183.5	2,820.2	1,671.0	-32.6	-40.7	2.8	18.1
Three-year Deposits	14,382.9	20,746.8	28,224.9	44.2	36.0	20.4	1.1
Four-Year Deposits	3.6	280.6	312.9	-	11.5	0.3	0.2
Five-year Deposits	65.2	63.7	58.3	-2.3	-8.5	0.1	0.0
Miscellaneous Deposits	2,015.3	2,884.6	4,044.2	43.1	40.2	2.8	2.6
M2 Money Multiplier	**7.213**	**7.478**	**7.095**	-	-	-	-

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 Liquidity in the year 1404 reveal that this monetary aggregate has expanded by 3.6 percent per month on average, with the highest growth rates of 6.4 percent, 4.7 percent and 4.5 percent, respectively, in the last, fourth and tenth months of 1404. 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. Hence, the Liquidity growth rate speeded up in 1404Q4 as expected. This state should have persisted in 1405Q1, which could be also justified by the upward path of the point-to-point CPI inflation rate in that quarter. Given the outbreak of the second USA-Israel war against Iran in the last days of 1404 - a war that lasted longer than the 12-day War - much higher M2 growth rates in 1405 are plausible.

An examination of M2 components reveals that shares of Money (notes and coins with the public and sight deposits) as well as short-term deposits in M2 that had been continuously increasing during 1404Q3 and the first two months of 1404Q4, slightly fell in the last month of 1404 due to the slowdown in economic activities once the 40-day War started. The persistent rise in the shares of these two components in M2 was mostly driven by the effects of the triggering of the Snapback Mechanism that led to a rise in the price of USD and other commodities. Moreover, bearing the cyberattacks on some large Iranian banks in mind, once the new war was ignited, the depositors rushed to the banks to redeem notes from their accounts, causing the banks' resources to decrease. Given that banks' assets (loans for instance) are long-term and their liabilities (deposits for instance) are short-term, the rise in note withdrawals would result in balance sheet mismatch that forces the banks to borrow from the Central Bank. The rise in the ratio of notes and coins with the public to the total deposits in the last month of 1404 verifies this claim. In response to the rise in this ratio, the banks aggressively limited the daily cash withdrawals.

The Money (notes and coins in circulation and sight deposits), interest-free saving deposits, and short-term deposits altogether formed a significant portion (60.2 percent) of M2 at the end of 1404. The increasing path of the CPI inflation rate in 1404Q4 and further depreciation of IRR is consistent with this 60.2 percent share.

The latest CBI data suggest that the average annual growth rate of Monetary Base during 1404 has been above that of 1403. This rate that opened 1404Q1 at 25.9 percent, rose to 61.5 percent at the end of 1404. A review of the Monetary Base components indicates that at the end of 1404, the Net CBI Foreign Assets rose by 92.6 percent compared to the end of 1403, constituting 217.2 percentage points of the annual growth rate of Monetary Base as the main factor of increase in that monetary aggregate. Reconverting this component of M0 to USD using the USD/IRR remittance exchange rate in the official market (buy rate), it has not only failed to increase, but has also fallen slightly by 3.7 percent. Accordingly, much of the rise in its IRR-denominated figure is due to the increase in the USD/IRR exchange rate for conversion in the aftermath of the exchange rate unification from mid-winter 1404. Moreover, the Net CBI Claims on the Public Sector has served as another contributor to the annual expansion of the Monetary Base with 3.5 percentage points share. From the end of 1403 to the end of 1404, the CBI Claims on the Public Sector expanded by 54.3 percent and the Public Sector Deposits with the CBI by 31.0 percent, making the Net CBI Claims on the Public Sector a factor of increase in the Monetary Base. Taking into consideration the outbreak of the second USA-Israel war against Iran in the late 1404, further rise in the CBI Claims on the Public Sector in the early 1405 should have occurred.

The CBI Claims on Banks with an annual contraction of 44.9 percent at the end of 1404 were a factor decreasing the Monetary Base, constituting a negative 38.6 percentage points of the M0 growth rate in the year 1404. Note that this sharp contraction in M0 stems from the dissolution of one of the largest private banks whose debt to the CBI was transferred to CBI other assets. At the end of 1404, the CBI Net Other Assets that generally takes negative values, grew by 62.0 percent[4] compared to the end of 1403 to serve as another factor of decrease in the Monetary Base during the period under discussion with negative 120.6 percentage points share in the annual growth rate of that monetary aggregate. At the end of 1404, the Balance of the Implementation of the Monetary Policy as a positive subgroup of the CBI Net Other Assets expanded by 48.8 percent from the end of 1403, translating to expansionary monetary policy of that authority in that regard during the period under discussion.

The aggregated balance sheet of the banks and non-bank credit institutions reveals that at the end of 1404, their Assets (Liabilities) less below the line items have experienced annual expansion of 53.7 percent. On the Assets side, Foreign Assets, Claims on Non-public Sector and Other Assets, respectively, were the top three contributors to the annual growth rates of the Assets. Moreover, on the Liabilities side, Deposits of Non-public Sector, Other Liabilities and Foreign Liabilities were the top three drivers of the annual expansion of the Liabilities. A summary of Assets and Liabilities of the banks and non-bank credit institutions is presented in Table 7.

4. mainly aiming for elimination of the effect of the rise in USD/IRR exchange rate used for conversion of Net Foreign Assets and the transfer of the dissolved private bank to this component of M0

Table 7. 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 12/1404			Annual Change at the End of 12/1404 (percent)
	12/1403	12/1404	Public Commercial	Public Specialized	Non-public	
Assets (excluding below the line Items)	**224,087.0**	**344,520.9**	**83,474.4**	**45.663.2**	**215,383.3**	**53.7**
Foreign Assets	60,891.1	104,224.6	18,103.9	18,971.8	67,148.9	71.2
Notes and Coins	400.1	772.8	351.1	29.0	392.3	93.2
Deposits with the CBI	11,402.9	18,371.8	4,619.0	1,291.5	12,461.3	61.1
Claims on Public Sector	13,168.2	17,786.6	8,383.7	2,862.7	6,540.2	35.1
Claims on Non-public Sector	88,301.2	121,105.8	25,431.9	15,600.2	80,073.7	37.2
Other	49,923.5	82,259.3	26,584.4	6,908.0	48,766.9	64.8
Liabilities (excluding below the line Items)	**224,087.0**	**344,520.9**	**83,474.4**	**45,663.2**	**215,383.3**	**53.7**
Deposits of Non-public Sector	99,868.2	152,997.5	35,884.3	14,602.4	102,510.8	53.2
Debt to CBI	11,701.9	6,449.0	4,389.1	1,146.2	913.7	-44.9
Deposits of Public Sector	867.9	1,573.1	949.4	414.3	209.4	81.3
Capital Account	6,904.6	17,923.4	4,008.4	1,391.1	12,523.9	159.6
Foreign Liabilities	49,083.3	79,248.1	11,894.8	15,898.9	51,454.4	61.5
Other	55,661.1	86,329.8	26,348.4	12,210.3	47,771.1	55.1

Source: Central Bank of Iran

At the end of the first month of 1405, the balance of extended facilities by banks and non-bank credit institutions registered IRR156,123.7 trillion, up 40.2 percent from the IRR111,366.8 trillion at the end of the same point in 1404. The balance of deposits also grew by 52.2 percent to IRR217,514.6 trillion in the same period. Accordingly, the ratio of extended facilities to deposits less the legal reserves reached 78.0 percent at the end of the first month of 1405, down 7.0 percentage points from that of the same point in 1404. The balance of extended facilities and deposits of the banks at the end of the 1st month of 1405 are presented in Table 8.

Table 8. Balance of Extended Facilities and Deposits in IRR and Foreign Currencies (end of period-IRR trillion)

	01/1404	01/1405	Percentage Change
Extended Facilities	111,366.8	156,123.7	40.2
Deposits	142,920.1	217,514.6	52.2
Deposits Less the Required Reserves	130,984.1	199,309.6	52.2
Ratio of Extended Facilities to Deposits Less the Required Reserves (percent)	85.0	78.0	-

Source: Central Bank of Iran

During the first quarter of 1405, IRR29,409.8 trillion facilities were extended to various sectors of the economy by the banking system, indicating 74.0 percent rise compared to the same period of its preceding year. Out of the total extended facilities in the period under discussion, 76.8 percent, equivalent to IRR22,587.2 trillion is attributed to the businesses (individuals and legal entities) and the remaining 23.2 percent at IRR6,822.6 trillion to the final consumers (households). Going over the extended facilities by various sectors of the economy reveals that during 1405Q1, Industries and Mining sector had the highest share of 42.4 percent in total extended facilities to the businesses, followed by Services sector at 34.7 percent. Among various types of extended facilities, in the same period, 84.9 percent of the extended facilities to businesses and 65.2 percent of the total extended facilities were attributed to the Working Capital. The extended facilities by type of recipients in 1405Q1 are shown in Table 9.

Table 9. Extended Facilities by Type of Recipients in 1405Q1 (IRR trillion-percent)

	Sector of the Economy	Amount	Share in Businesses
Businesses	Agriculture	1,237.5	5.5
	Industries and Mining	9,572.7	42.4
	Housing and Construction	622.5	2.8
	Commerce	3,315.1	14.7
	Services	7,836.7	34.7
	Miscellaneous	2.7	0.0
			Share in Total
	All Sectors	**22,587.2**	**76.8**
Final Consumers (households)		**6,822.6**	**23.2**
Total		**29,409.8**	**100.0**

Source: Central Bank of Iran

7-2. Monetary Policy Analysis

The weekly reports of the CBI on the implementation of monetary policy indicate that from the end of the 2nd month of 1405, the banks financing through the discount window has increased at the expense of repurchase agreements (known as repo with longer maturity). Note that in financing through discount window, the discount rate is 24 percent and the maturity is mostly one day, while in the repo, the rate is slightly below the discount rate and the agreement normally takes a week. As the CBI was yet to publish the data on Monetary Aggregates, unofficial sources suggest that the CBI claims on the Public Sector has severely increased in 1405Q1, subsequently a large volume of money has been injected to the banking system. Hence due to the abundance of money in the interbank market, the CBI has limited its open market operations, aiming for offsetting part of the inflationary effect of the rise in CBI Claims on the Public Sector. Under such circumstances, the banks are left with no choice but to raise funds through the interbank market. This CBI exercise can be interpreted as a move towards a revision of the interest rate determination and an effort to adjust the real interest rate. Note that the 16-percentage point difference between the interbank interest rate (24 percent) and the rate of return of the Government Debt Securities (about 40 percent) makes the banks reluctant to lend their excess reserves in the interbank market.

8. FISCAL POLICY

8-1. Government Fiscal Performance

In the Budget Law of 1405 (hereafter 1405 Law for short), the Total Tax Revenues was estimated at IRR28,200.1 trillion (excluding customs duty), of which, 34.6 percent was attributed to the Indirect Tax (tax on goods and services) and 65.4 percent to the Direct Tax (corporate tax, income tax and wealth tax). Accordingly, the legislated figure for the Tax Revenues for the first two months of 1405 equals IRR4,700.0 trillion, two-twelfths of the total. On the basis of the Iranian National Tax Administration (INTA), during the first two months of 1405, 32.4 percent of the legislated figure of this source of 1405 Law was realized.

The actual Tax Revenues in the first two months of 1405 stood 29.5 percent below that of the same period of its preceding year, indicating weak performance of the Government in this regard. However, this fall is rooted in two main reasons. First, the heightened uncertainty due to the military tensions which ended up in lower economic activity and subsequently lower Tax Revenues and second, extension of the tax payment deadline in order to protect businesses during the era of crisis. Subsequently, the realized Tax Revenues deviated more from the legislated figure, translating to exacerbated budget deficit and the necessity of finding other sources of finance for Government Expenditures.

In the first two months of 1405, 31.7 percent of the Direct Taxes was realized. Among the components of this source of budget, the Corporate Tax enjoyed the highest two-month realization ratio at 32.2 percent to register IRR677.6 trillion, indicating 26.5 percent fall from its actual amount in the first two months of 1404. Out of the realized IRR677.6 trillion, 82.2 percent equaling IRR557.0 trillion is attributed to the non-public legal entities. Moreover, the Tax on Public Legal Entities experienced the highest realization ratio among other subgroups of Corporate Tax at 67.3 percent in the same period. This component of Corporate Tax itself, grew by 27.2 percent in the first two months of 1405 compared to the same period of 1404 to account for 9.3 percent of the realized Corporate Tax. During the time span under discussion, Tax on State-owned Companies reached IRR56.4 trillion to realize 43.9 percent of its targeted figure in 1405 Law and formed 8.3 percent of the actual Corporate Tax.

In the first two months of 1405, 31.5 percent of Income Tax was realized at IRR247.0 trillion, down 36.5 percent from the actual level of the same period of 1404. Among the components of this source of budget, the actual Tax on the Public Sector Employees at IRR47.4 trillion had the highest realization ratio of 43.2 percent, forming 19.2 percent of Income Tax, followed by Tax on the Private Sector Employees with 41.6 percent realization ratio and 54.5 percent share in Income Tax. As for the Tax on Professions, this source constituted 20.6 percent of Income Tax with 16.2 percent realization rate. The actual Tax on Professions, however, fell by 53.3 percent compared to that of the first two months of 1404.

The Wealth Tax as a component of the Direct Tax experienced the lowest realization rate in the first two months of 1405 at 27.0 percent to register IRR48.9 trillion, 26.7 percent below its actual level in the same period of 1404. In the same time span, Tax on Transfer of Properties formed 42.0 percent of Wealth Tax to account for 75.5 percent of its legislated figure, enjoying the highest realization rate among the components of Wealth Tax, followed by Tax on Goodwill Transfers with 72.9 percent realization rate and 21.6 percent share in Wealth Tax. The actual Tax on Goodwill Transfers in that period stood 47.6 percent above that of the same period of 1404. Moreover, in the two-month period under review, only 3.9 percent of the targeted Tax on Share Transfers was realized at IRR2.0 trillion, indicating 89.4 percent slump compared to the same period of 1404, mainly due to the closure of the Iranian capital market in the War era.

The actual Tax on Goods and Services accounted for 33.6 percent of its legislated figure and fell by 29.8 percent to IRR547.6 trillion in the first two months of 1405. The Value-added Tax (4-percentage point share of Government in 10 percent Value-added Tax rate) in the period under review accounted for 32.8 percent of its targeted figure at IRR297.2 trillion to form 54.3 percent of the actual Tax on Goods and Services in the period under review. Table 10 presents the figures associated with the Tax Revenues in the first two months of 1405.

Table 10. Tax Revenues in the First Two Months of 1405 (IRR trillion- percent)

	Realized in the First Two Months of 1404	Legislated for the First Two Months of 1405	Realized in the First Two Months of 1405	Point-to-point Percentage Change of the Realized	Realization Ratio in the First Two Months of 1405	Share in Actual Tax Revenues in the First Two Months of 1405
Tax Revenues	**2,157.5**	**4,700.0**	**1,521.1**	**-29.5**	**32.4**	**100.0**
Direct Tax	**1,377.6**	**3,072.5**	**973.5**	**-29.3**	**31.7**	**64.0**
Corporate Tax	922.1	2,106.6	677.6	-26.5	32.2	44.5
Income Tax	388.8	784.8	247.0	-36.5	31.5	16.2
Wealth Tax	66.7	181.1	48.9	-26.7	27.0	3.2
Indirect Tax (on Goods and Services Only)	**779.9**	**1,627.5**	**547.6**	**-29.8**	**33.6**	**36.0**

Source: Budget Law of 1405 and Iranian National Tax Administration

In 1405 Law, IRR10,300.0 trillion was legislated for the issuance of Government Debt Securities, up 27.2 percent from the corresponding figure in 1404 Law. However, the actual Issuance of Government Debt Securities in 1404 registered IRR7,066 trillion. Accordingly, the approved figure of this source of budget in 1405 Law stands 45.8 percent above the realized figure in 1404. In this regard, the CBI in collaboration with the Ministry of Economic Affairs and Finance started to hold weekly auctions of Government Debt Securities in both the money market and the capital market from the late 1405Q1.

By the end of 1405Q1, three rounds of auctions were held and IRR1,280.0 trillion Government Debt Securities were issued. Out of this figure, IRR37.0 trillion were demanded by banks and non-bank credit institutions, of which IRR6.0 trillion (16.2 percent) was confirmed by the Ministry of Economic Affairs and Finance. Moreover, IRR758.6 trillion Government Debt Securities were sold in the capital market. Accordingly, in 1405Q1 the value of Government Debt Securities transactions in auctions registered IRR764.6 trillion (net of price discounts), 90.2 percent above that of 1404Q1. Note that out of the Government Debt Securities issued in 1405Q1 (IRR1,280.0 trillion), IRR177.5 trillion ought to be deducted as a discount from their face value. Also, the unsold IRR337.9 trillion Securities of 1405Q1 were planned to be supplied in other auctions throughout the remainder of the year1405.

The report of the Treasury suggests that during the first quarter of 1405, IRR519.4 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 both issuing authorities indicates that the banks have indirectly purchased IRR513.4 trillion Debt Securities from the capital market instead of direct purchasing from the money market in 1405Q1. All in all, 67.9 percent of the Government Debt Securities has been purchased by banks during the period under discussion. Table 11 depicts the details of auctions of Government Debt Securities held by the CBI during 1405Q1.

Table 11. Government Debt Securities Auctions Held by the CBI in 1405Q1 (IRR trillion-percent)

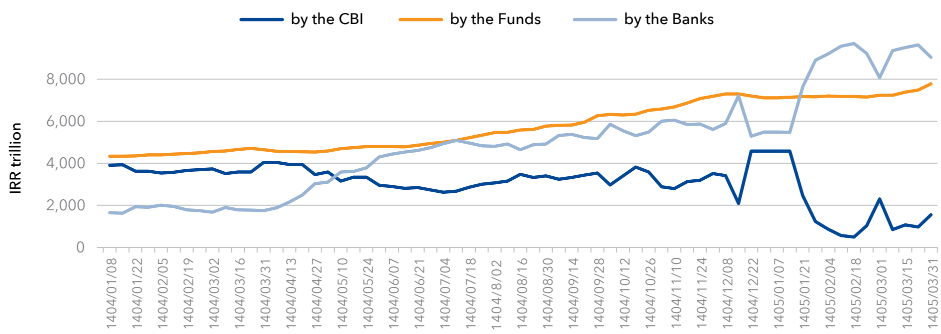
Month	1404					1405					Point-to-point Growth of Trades in Money Market	Point-to-point Growth of Trades in Capital Market	Point-to-point Growth of Total Trades
	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded	Supply	Banks Demand	Traded in Money Market	Traded in Capital Market	Total Traded			
03 (1405Q1 in Total)	750.0	402.1	402.1	0.0	402.1	1,658.7	37.0	6.0	758.6	764.6	-98.5	-	90.2

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 quarter of 1405, IRR650.0 trillion debt securities were disposed through the 2nd method only. Accordingly, during 1405Q1, IRR1,930.0 trillion Government Debt Securities have been issued in total, 157.3 percent above that of the same period of 1403.

From mid-summer 1400 onwards, Over the Counter (OTC) has been in charge of issuing the data on debt market transactions by its players including Government, CBI, banks, Investment Funds, etc. From mid-summer 1400 to the end of 1405Q1, the net accumulated purchase of government debt securities by the CBI and by the Investment Funds registered IRR1,548.4 trillion and IRR7,775.7 trillion, respectively. Note that the CBI is prohibited from purchasing these sorts of securities through the primary market (IPO) and the figure of net purchase attributed to that organization is regarding the secondary market. The banks that were mainly the net 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. The banks demand surged in 1405Q1 and the net purchase of government debt securities from the primary and secondary markets during 1405Q1 by banks and non-bank credit institutions reached IRR3,551.6 trillion. Accordingly, the net accumulated purchase of government debt securities by the banks from mid-summer 1400 to the end of 1405Q1 is estimated around IRR9,030 trillion. Note that the notable upward shift in banks' demand for Government Debt Securities in 1405Q1 could be attributed to much higher rate of return of those securities relative to the other rates of return available in the money market. The CBI has also lessened its net purchase of Debt Securities in the secondary market via limiting money injection in its open market operations. Subsequently, under such circumstances, the share of Government Debt Securities in the banks' assets rises, given the considerably higher rate of return of those securities. It could reflect the crowding out effect in the Iranian economy and harder conditions for private finance. Graph 6 depicts the net accumulated purchase of Government Debt Securities in 1404 and 1405Q1.

Graph 6. Net Accumulated Purchase of Debt Securities



Source: https://www.ifb.ir/

9. CAPITAL MARKET

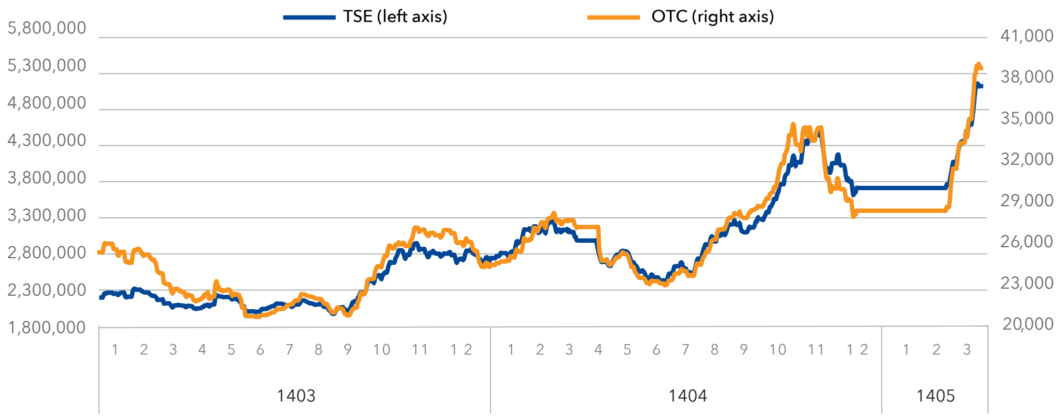
9-1. Rate of Return

In 1405Q1, the Iranian capital market experienced a bullish period thanks to a variety of economic and political circumstances. This market which was closed in the aftermath of the outbreak of the 40-day War in the last month of 1404, shortly resumed its activities amid the wartime in Fixed Income and Mercantile Funds, however, the stock market remained closed until the final days of the second month of 1405.

During the war, the industry sector of the Iranian economy incurred a considerable loss. The petrochemical as well as basic metal industries were as such. For instance, the attacks on two major Iranian steel manufacturers caused their production to fall by 55.9 percent on average. The internet blackout as well as the naval blockade of Iran were the other drivers of the crisis in the Iranian economy that adversely affected the capital market. Subsequently, forming sell walls in the capital market was expected after the reopening of the market, due to heightened uncertainties in the economy and the damage to the infrastructure. Nevertheless, once the stock market was opened in the late 02/1405, contrary to what was expected, a sizeable demand for many symbols was formed. The air of optimism in the economy due to the increasing odds of reaching an agreement, the rise in the official exchange rates that translated to more Rial-denominated proceeds, the fall in stock price of many listed companies and finally government support measures, altogether resulted in the boom in the Iranian capital market. Hence, after a long period of capital outflow, a large amount of net inflow of funds by retail investors at IRR700 trillion materialized during 1405Q1. This capital inflow by the individuals translated to a significant source of financing and an opportunity for portfolio diversification for the corporations.

The TSE and OTC overall indices expanded by 38.0 percent and 36.6 percent at the end of 1405Q1 compared to the end of 1404Q1, respectively. The daily developments of TSE and OTC overall indices from 1403 to the end of 1405Q1 are shown in Graph 7.

Graph 7. TSE and OTC Overall Indices



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

During 1405Q1, among the various types of investments shown in Table 12, the TSE Overall Index ranked first with 38.0 percent rate of return. However, in annual terms the TSE and OTC Overall Indices yielded less than gold-based assets and even the point-to-point CPI inflation rate outpaced their rate of return at the end of spring 1405. The positive political developments can maintain the bullish trend of the market. Otherwise, in the presence of various political risks, no positive real returns would be obtained. Note that the fall in the return of the gold-based assets in 1405Q1 mainly stemmed from the geopolitical events in the Strait of Hormuz and the rise in the CPI inflation rates in the USA and Europe. The rise in the energy price due to the tensions in the Middle East resulted in the upward inflationary expectations in the developed economies and increased the likelihood of taking contractionary measures by the central banks of those countries (rise in interest rates), making investing in gold less appealing. Subsequently, the global three-month return of gold ounce (in USD) fell by 10.7 percent at the end of 1405Q1. The stable USD/IRR exchange rate in that period also resulted in the negative return of investing in gold in Rial terms during the same period. All in all, during 1405Q1, the TSE and OTC outperformed the CPI inflation rate, but in annual terms, in the year ended the last day of 1405Q1, the aforementioned markets incurred negative real rates of return, while investment in gold-based assets as well as FX enjoyed positive real returns.

Table 12. Rate of Returns of Various Investment Types (in IRR) at the End of 1405Q1 (percent)

	Quarterly Return (End of 1405Q1 to End of 1404Q4)	Annual Return (End of 1405Q1 to End of 1404Q1)
TSE Overall Index	38.0	71.7
OTC Overall Index	36.6	42.5
Consumer Price Index (CPI)	21.0	88.6
Fixed Income Funds (weighted average)	8.2	36.8
USD in the Free market	0.2	91.1
18-Karat Gold	-8.4	138.6
Gold Funds (weighted average)	-10.0	140.0
Gold Coin	-13.9	116.3

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

9-2. Market Capitalization

On the basis of the Securities and Exchange Organization of Iran, the market capitalization of the Iranian capital market (TSE, OTC, and Iran Mercantile Exchange) reached IRR213,177 trillion at the end of 1405Q1, up 61.3 percent from that of the end of 1404Q1 and 32.5 percent above that of the end of 1404. During the period under discussion, the highest market capitalization expansion was attributed to the Exchange-traded Funds at 149.6 percent, while the lowest to the Stock market at 56.7 percent. The notable annual expansion of the Exchange-traded Funds at the end of 1405Q1 was highly emanated from the 3-fold expansion of the market capitalization of Commodity Funds in Iran Mercantile Exchange (mainly Gold and Silver Funds). In 1405Q1, Stock Funds enjoyed the highest quarterly expansion in market capitalization at 46.0 percent, while that of the Commodity Funds grew by 4.9 percent only.

At the end of 1405Q1, the TSE, OTC, and Iran Mercantile Exchange, respectively, constituted 74.5 percent, 22.7 percent, and 2.8 percent of the total market capitalization of the Iranian capital market. In Table 13, the market capitalization of the Iranian capital market at the end of springs of 1404 and 1405 are compared.

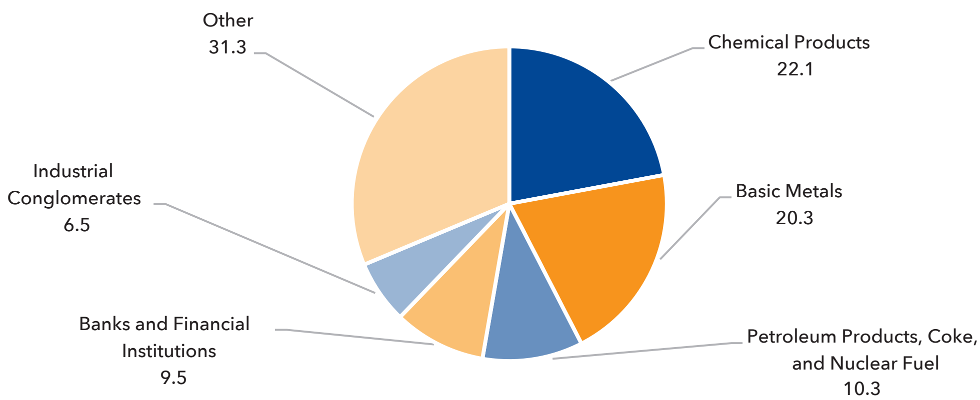
Table 13. Market Capitalization of the Iranian Capital Market by Various Types (IRR trillion)

Market	End of 1404Q1	End of 1405Q1	Percentage Change
Shares	113,991	178,586	56.7
Debt Securities	11,166	17,074	52.9
Exchange-traded Funds*	7,017	17,517	149.6
Total	**132,174**	**213,177**	**61.3**

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

At the end of 1405Q1, the Chemicals industry - mainly including petrochemical producers - with a 22.1 percent share in the market capitalization of the Stock market, ranked as the largest listed industry in terms of market capitalization, followed by Basic Metal industries at 20.3 percent and Petroleum Products, Cokes and Nuclear Fuels at 10.3 percent. The share of banks and credit institutions in total market capitalization of the stock market that had registered 8.3 percent at the end of 1404Q1 rose to 9.5 percent at the end of 1405Q1. During 1405Q1, the Iranian banking industry with 20.0 percent share in value of stocks transactions ranked first in the Iranian capital market. At the end of 1404, the Iranian banking industry had the lowest price to earnings ratio (P/E) among the listed industries. This low ratio as well as the increasing odds of reaching an agreement between Iran and the US made investing in the banking industry stocks attractive to the investors. Graph 8 depicts the top five industries in the Stock Market in terms of market capitalization.

Graph 8. Top Five Industries by Share in Market Capitalization at the End of 1405Q1 (percent)



Source: Securities and Exchange Organization of Iran

9-3. Value of Transactions

The value of transactions in the Iranian capital market (including the Exchange-traded Funds of Iran Mercantile Exchange) totaled IRR127,179 trillion in 1405Q1, down 11.9 percent from that of the same period of 1404. This fall in value is mainly rooted in the closure of the Iranian capital market in the first two months of 1405Q1. Among various segments of the Iranian capital market, in the same period, the highest rise in the value of transactions is attributed to Exchange-traded Funds at 111.0 percent and the highest fall to Debt Market at negative 24.3 percent. Notwithstanding its 8.0 percent share in the total market capitalization of the Iranian capital market at the end of 1405Q1, the Debt Market constituted around 75.5 percent of the total value of transactions of the Iranian capital market. Given that most Debt Securities are traded in the OTC, 90.2 percent of the total value of OTC transactions in 1405Q1 belonged to Debt Securities transactions. Table 14 presents the value of transactions of various types of securities in the Iranian capital market in springs of 1404 and 1405.

Table 14. Value of Transactions in the Iranian Capital Market

Market	1404Q1		1405Q1		Percentage Change In Value of Transactions
	Value of Transactions (IRR trillion)	Share in Total (percent)	Value of Transactions (IRR trillion)	Share in Total (percent)	
Shares	5,004	3.5	4,619	3.6	-7.7
Exchange-traded Funds	12,599	8.7	26,581	20.9	111.0
Debt Securities	126,773	87.8	95,980	75.5	-24.3
Total	**144,376**	**100.0**	**127,179**	**100.0**	**-11.9**

Source: Securities and Exchange Organization of Iran

9-4. Finance

On the basis of the Securities and Exchange Organization of Iran, during 1405Q1, IRR3,018 trillion has been financed (including Debt Securities) via TSE and OTC in total, two times that of 1404Q1, out of which, 26.5 percent was attributed to raising capital (matured claims and cash contributions, or accumulated reserves and profits), 72.6 percent to Issuance of Debt Securities, and only 0.9 percent to Initial Public Offering (IPO). In 1405Q1, 19.6 percent of raising capital itself was financed through matured claims and cash contributions and the remaining 80.4 percent via accumulated reserves and profits. An examination of fundraising through Debt Securities in the same period reveals that 86.2 percent of the funds financed via this method was attributed to Government Debt Securities and the remaining 13.8 percent to Corporate Bonds. Accordingly, 61.0 percent of the total IRR3,018 trillion of finance through TSE and OTC in 1405Q1, equaling IRR1,841 trillion was attributed to the public finance through issuance of Government Debt Securities, below the 65.6 percent in 1404Q1. This figure conveys that the Iranian capital market that was supposed to serve as a source of private finance has been transformed into a source of financing Government's budget deficit. Given that the domestic businesses raised IRR22,587 trillion via the bank facilities (money market) in 1405Q1, the share of the Iranian capital market in financing businesses during the period under review equals 11.8 percent, and should the Government Debts Securities be excluded, that share falls to 5.0 percent only. In Table 15, various types of finance through the TSE and OTC in springs of 1404 and 1405 are presented in detail.

Table 15. Various Types of Finance in TSE and OTC

Type of Finance	1404Q1		1405Q1		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)	197	15.1	800	26.5	306.0
Initial Public Offering	9	0.7	27	0.9	200.8
Issuance of Debt Securities	1,100	84.2	2,191	72.6	99.2
Total	**1,306**	**100.0**	**3,018**	**100.0**	**131.1**

Source: Securities and Exchange Organization of Iran

10. OTHER DEVELOPMENTS

As a complicated geopolitical event, the recent USA-Israel war against Iran (known as the 40-day War) has been investigated through various conceptual frameworks. Given the unpredictable future of the political relations between the warring parties, in a game-theoretical framework three distinct strategies are discussed regarding the actions they might take.

Some observers analyze the 40-day War through the Game of Chicken, a model of conflict for two players in game theory. The principle of the game is that while the ideal outcome is for one player to yield (to avoid the worst outcome if neither yields), players try to avoid it out of pride, not wanting to look like "chickens". When one player yields the conflict is avoided and the game ends. However, applying this game to our case is an oversimplification of the problem as the two players are not equally matched. Another model used for predicting the future is the War of Attrition. In game theory, it is a dynamic timing game in which players choose a time to stop, and fundamentally trade off the strategic gains from outlasting other players and the real costs expended with the passage of time. That said, prolonging such a game highly depends on the social, political and economic state of both warring parties. For instance, the general price levels could serve as a good benchmark in this case. The closure of Hormuz Strait by Iran, followed by US naval blockade of Iran as a reciprocal response caused the inflation rates in both countries to rise.[5]

Finally, the last framework for analyzing the 40-day War is Deterrence Theory. This theory explains how threats of using force by one party can convince another party to refrain from initiating some other course of action. In the case of the 40-day War, it seems that overusing a card such as keeping Hormuz Strait closed can diminish its effectiveness, rendering the opposing party indifferent to the costs.

5 . The USA- Vietnam war is a classic example of War of Attrition. Given the different war methods applied by the USA against Vietnam compared to the methods in its war against Iran, comparing the inflation rates of Iran and Vietnam in pre-war and post-war eras is crucial. During the early period of the USA–Vietnam War, Vietnam's inflation rate remained around 4.5 percent for a considerable period of time, and in the final period of the war it reached a range of 16 to 60 percent. This surge in inflation could be considered as cost imposed to Vietnam. But as for Iran, even before the start of the second U.S.–Israel war against Iran, the point-to-point inflation rate was already experiencing levels close to Vietnam's inflation rate in the final period of the war, and after the war, this rate in Iran increased to around 90 percent.

KEY POINTS

• The slowed-down economic growth rate of China as a major trade partner of Iran in conjunction with the political and military tensions in the Middle East would serve as drivers of weaker performance of the Iranian economy in the current year.

• On the basis of the CBI and SCI reports, the Iranian economy has contracted by 3.6 percent and 2.2 percent in winter 1404, respectively. In annual terms, the former authority reported 0.7 percent GDP contraction for the year 1404 as a whole, while the latter reported a 0.2 percent GDP expansion for the same year.

• Iran's oil exports averaged 1.0 mbpd and 0.1 mbpd in April and May 2026 in a row, indicating a 38.6 percent and a 95.1 percent decline compared to the same months of 2025. In June 2026, Iran's oil exports rose to 1.7 mbpd in response to the signing of a memorandum of understanding between Iran and the US.

• In 1404Q4, the unemployment rate registered 7.6 percent, 0.2 percentage point below that of 1403Q4. In the same quarter, around 36.6 percent of the total unemployed population of the country had higher education, indicating 2.3 percentage points fall from 1403Q4.

• On the basis of the SCI report, in the year 1405 and following its upward path that had started in 1404, the annual CPI inflation rate kept on rising from 50.6 percent in the last month of 1404 to 62.0 percent at the end of 1405Q1. Moreover, 3-digit inflation rates of "Foods and Beverages" during the three consecutive months of 1405Q1 translates to severe fall in welfare level of low-income groups.

• Further exacerbation of the BOP in spring 1405 seems plausible. The shift of Iran's international trade from the south to the east borders of the country signals a change in the pattern of trade.

• The USD price opened 1405 at IRR1.592 million and was hovering around that figure till the ceasefire on the 18th day of that year. In 1405Q1, the USD/IRR exchange rate averaged 1.670 million, standing 88.9 percent above its average in 1404Q1.

• M2 expanded by 3.6 percent per month on average, with the highest growth rates of 6.4 percent, 4.7 percent and 4.5 percent, respectively, in the last, fourth and tenth months of 1404. The uncertainties from the political tensions in 1404 caused the monetary authority to leave more room for the banks to extend facilities, aiming to protect the domestic economy. Hence, the Liquidity growth rate speeded up in 1404Q4 as expected. This state should have also persisted in 1405Q1. Due to the abundance of money in the interbank market, the CBI has limited its open market operations, aiming to offset part of the inflationary effect of the rise in CBI Claims on the Public Sector. Under such circumstances, the banks are left with no choice but to raise funds through the interbank market. This CBI exercise could be translated into a probable move towards a revision of the interest rate determination and an effort to adjust the real interest rate.

• During the first two months of 1405, 32.4 percent of the legislated figure of the Tax Revenues was realized. In 1405Q1, the value of Government Debt Securities transactions in auctions registered IRR764.6 trillion. From mid-summer 1400 to the end of 1405Q1, the net accumulated purchase of debt securities by the CBI, Investment Funds and banks registered IRR1,548.4 trillion, IRR7,775.7 trillion and IRR9,030 trillion, respectively.

• The TSE and OTC Overall Indices expanded by 38.0 percent and 36.6 percent at the end of 1405Q1 compared to the end of 1404Q1, respectively. The air of optimism in the economy due to the increasing odds of reaching an agreement, the rise in the official exchange rates that translated to more Rial-denominated proceeds, the fall in stock prices of much of the listed companies and finally government support measures, altogether resulted in IRR700 trillion capital inflow by individuals during 1405Q1.

• In the military conflict involving the USA and Israel against Iran, some argue that the optimal strategy is resistance, although the majority acknowledge that the military capabilities of the two sides are not balanced. Some, pointing to the Vietnam War, consider a War of Attrition to be a more suitable framework for describing the recent USA-Iran war. Within this framework, the important question is to what extent the current social, political, and economic conditions in Iran and the United States allow for the use of war-of-attrition strategies.

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